IPTI Xtracts

Property Tax and Assessment News from Around the World

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Contents

What the Housing Market Slowdown Will Mean for Property Taxes

As quickly as the housing market heated up during the pandemic, it's cooling down. At the beginning of this summer, home prices were nearly 16% higher than the previous year and up nearly 9% from the beginning of this year, according to the CoreLogic Case-Shiller Home Price Index. But in July prices dropped 0.2%—marking the first national decline since 2012. Most experts and local government officials expect the market to slow considerably over the next year. In fact, Fitch Ratings estimates that national home prices during the first half of this year were overvalued by a whopping 12.2%.

But whether or not the home price decline actually shows up in local tax revenue will depend on a number of factors that affect assessed property value. Things like the timing of property assessments, homestead credits and the balance of commercial and residential tax reliance all create separation between market movements and taxable values. In most places, property tax revenue tends to smooth out and mute whatever's happening in the real estate economy. While this can be really annoying for some governments when the market is booming, the revenue stream's unruffled nature usually offers stability for localities during a downturn.

Because of the lag between what happens in the housing market and when assessments are done, most local governments will have a year or two before the current movements may (or may not) affect property values. But that doesn't mean local officials should sit back and wait. For one, says Olu Sonola, head of U.S. regional economics at Fitch, the mortgage market is only just beginning to see the impact of the Federal Reserve's rate-raising.

"From a local government standpoint, you should be paying attention now," he said. "You have to start taking defensive actions and anticipate the severity of the decline."

And many already are, thanks to the more immediate impact that inflation is having on all revenue streams. The National League of Cities' City Fiscal Conditions report released last week noted that even though last year's property tax values rose nearly 6% on paper, inflation essentially negated those gains. And looking ahead, "unprecedented inflation rates over the past several months" have local officials budgeting conservatively and expecting a loss in property tax receipts, according to the report.

Which Places Could Feel the Housing Downturn More?

Local property tax revenues' responsiveness to the housing market varies widely by state. Fitch has looked at that correlation and found that property tax receipts for municipalities in Florida are the most sensitive to home price changes in the nation, largely mirroring price movements (after accounting for the two-year lag). A recent analysis by researchers at Florida Atlantic University and Florida International University found that southwest Florida is the nation's most overvalued housing market. As of the end of August, Cape Coral-Fort Myers buyers were paying an average of 70% above the area's long-term pricing trend. Even though the city has lowered its tax rate for several years in a row, total property tax revenues are climbing thanks to the boom.

The main driver of elevated prices has been strong demand mixed with a shortage of homes for sale, Ken H. Johnson, an economist in FAU's College of Business said in a statement. The destruction by Hurricane Ian has made the situation worse by exacerbating the housing shortage at a time when the state's home insurance market is getting even more expensive. But Johnson does expect demand to continue.

"Several storms hit the state in 2004 and 2005 and more since then, and there was concern existing residents and transplants may choose to go elsewhere, but the state is as popular a destination as ever," he said. "People have short memories when it comes to storms."

Hawaii and Virginia also have a high correlation between property tax revenue and home prices, according to Fitch.

On the other end, home prices in South Dakota, Nebraska, Minnesota and Maryland have the weakest relationship with local property tax revenues.

But aside from the direct relationship, the housing market can have an indirect link to property taxes in how it might influence policymakers' decisions, noted Chris Berry, director of the Center for Municipal Finance at the University of Chicago. With inflation putting strain on constituents, many elected officials may not want to be seen as "raising" property taxes when residents receive their bills reflecting the higher assessment values.

In Chicago, for example, the city several years ago passed a measure that allowed for the total property tax revenue growth rate to be tied to inflation—up to a maximum annual levy increase of 5%. In the previous low interest rate environment, the move was rather benign. But not anymore. Mayor Lori Lightfoot ultimately scrapped any levy increase in next year's budget proposal even though she could have upped total property tax revenue by about $42.7 million.

The Downturn Could Worsen Affordability

Longer term, Berry is concerned about how the housing market movements could potentially create an even bigger housing cost burden for those who can least afford it. That's because during the last market downturn over a decade ago, lower-value properties saw larger relative declines than more expensive ones.

"You have low-value properties going down faster than high value ones, and assessors are slow to catch up," he said. That means that even though the value of those lower priced homes may be falling sharply, the property taxes owners are paying on them lags behind and stays elevated.

"That's my first concern: if we are entering a phase of declining housing market values, are we going to see that same phenomenon?" Berry added, referring to the last time the market fell.

In addition, he pointed out that the rising mortgage rates are likely to discourage current homeowners from selling (and thus taking out a new mortgage). "That worsens this issue of generational equity," he said. "For people who bought a few or ten years ago, if you took out a 30-year mortgage at 3% or less, you're going to sit on that for 30 years."

The Sanctity of Fair and Square Property Taxation

Assessors often need reminding that property owners are entitled to equal, uniform treatment, notes Stephen Grant of Pop Hutcheson PLLC.

Across the country, state constitutions require that property taxes be equally and uniformly assessed. And thank goodness for that.

Without such constitutional guarantees, local taxing authorities would have the unfettered ability to single out individuals, property types, or categories of property owners for taxation by a different standard, possibly taxing them out of existence.

Fairness Trumps Market Value

Generally, taxpayers can challenge their property tax assessments by arguing that the appraised value of their property exceeds its fair market value. However, if a conflict exists between taxation at market value and equal and uniform taxation, equal and uniform taxation must prevail. Various court cases have upheld this principle and underscore its importance. In short, the guarantee of equal and uniform taxation is designed to protect taxpayers and ensure equal treatment of all commercial and residential property owners.

Despite constitutional protections, unequal appraisal by local taxing authorities persists. There are several reasons for this, including data errors and tax officials' willingness to single out recently sold properties to assign value, commonly referred to as "sales chasing."

Tax assessors continue to appraise recently sold property at or near its actual sales price but leave the taxable values of other, similar properties unchanged. A business cannot compete in its respective market if it is being taxed more heavily than its competitors. Compounding the issue, many commercial leases pass through property tax expenses to tenants who ultimately bear the brunt of higher property tax bills.

Further, a property appraised according to the high end of market values may nonetheless be unequally assessed if other comparable properties are valued at the lower end of the market. Over time, the variation created by that practice would result in affected property owners being saddled with higher assessments and potentially higher tax liabilities than similarly situated properties. At the minimum, this practice raises a question of whether properties within a taxing district are being taxed to an equal and uniform standard.

Taxpayer Recourse

When one parcel is unequally appraised compared to similar properties, what recourse do taxpayers have to ensure equitable taxation?

While most state constitutions require that taxation be equal and uniform, only a few states have adopted a statutory remedy to accomplish that goal. Where available, the statutory unequal appraisal provision permits taxpayers to appeal or protest when an assessor has appraised their property using a different standard than those used for other properties. Accordingly, a property owner can seek relief if their property was treated differently from other properties in the same tax base, even when their appraised value does not exceed fair market value.

Texas has what may be the most robust statutory unequal appraisal remedy in the country. The provision states that a property shall be valued for property taxes based upon the median level of appraisal of a reasonable number of comparable properties, appropriately adjusted.

When selecting comparable properties, it is important to consider several factors, including but not limited to the properties' use, competitive set, neighborhood, and size. While the Texas statute does not define what a "reasonable number" of comparable properties is, consideration should be given to the quality and number of comparable properties used.

After selecting a reasonable number of comparable properties, adjustments are then made to the appraised values of the comparable properties to put them on equal footing. The adjustments account for differences between the selected comparable properties and the subject property, such as location, age, and size. When determining what adjustments to make, the focus should be on elements that directly affect the properties' value.

The final step is to compare the median adjusted value per square foot of the comparable properties and see how they correlate to the subject property. If the subject property has a higher value per square foot than the calculated median, then there is an equity issue.

Fair Fights

The equal and uniform remedy serves as a helpful tool for taxpayers when challenging their property's assessed value. For instance, disputing a property's market value may not be viable in some situations, and a taxpayer's only recourse may be to argue that their property has been unequally appraised.

For example, a hypothetical taxpayer purchased a 300,000-square-foot, Class-A office building for $55 million during the prior tax year. The appraisal district subsequently assessed the building for property tax purposes based upon the purchase price, despite assessing other Class-A office buildings of similar size and location at a lower price per square foot.

By engaging in sales chasing, the appraisal district has unfairly appraised the subject property in relation to its competitors. However, if the state had adopted an equal and uniform remedy, then the taxpayer could challenge the property's value on the grounds that it was unequally appraised even if the assessor deemed the sales price to be fair market value for property tax purposes.

Challenging tax values on an equal and uniform basis is an effective remedy. It addresses the practice of sales chasing, counters assessors' tendency to use high sales prices to raise property taxes across an entire market and offers a coherent alternative to simply arguing that an assessment is excessive.

The unequal appraisal remedy is a readily accessible argument, particularly for homeowners, because it provides taxpayers with a more straightforward option than a market value appeal. It enables taxpayers to forego the high cost of procuring expert appraisers by allowing them to instead build an argument by identifying a representative sample of similar properties from the appraisal district's own website.

In sum, if your state has an equal and uniform remedy—use it. If your state does not have an equal and uniform remedy, consider urging lawmakers to adopt one in your state.

These States Have the Highest Property Tax Rates

Of course, you don’t want to choose where to live solely by the size of your property tax bill. But here's data on this factor.

The surge in home prices over the past two years means higher property tax bills for homeowners.

HomeAdvisor, an online marketplace for home services, created a list with each state’s property tax rate and median tax payment now, and projected their payments for one, five and 10 years from now.

For those of you who are renters, property tax rates are the percentage of a home’s assessed value that owners must pay.

Here’s a chart of the 10 states with the highest property tax rates now and the projections for their future.

CALCULATING PROPERTY TAXES OVER TIME

With appreciation, how much will property taxes cost one, five and 10 years into the future?

State	Real Estate Property Tax Rate	Median Property Tax Payment	Property Taxes in1 Year	Property Taxes in 5 Years	Property Taxes in 10 Years
New Jersey	2.47%	$8,488	$9,717	$13,023	$14,608
Illinois	2.24%	$4,529	$5,112	$6,336	$7,373
Connecticut	2.13%	$5,966	$6,825	$8,923	$9,319
New Hampshire	2.13%	$5,797	$6,822	$9,968	$12,308
Vermont	1.90%	$4,392	$5,081	$7,035	$7,760
Wisconsin	1.78%	$3,370	$3,846	$5,335	$6,591
Texas	1.75%	$3,282	$3,955	$5,369	$7,485
New York	1.72%	$5,590	$6,427	$8,720	$10,028
Nebraska	1.68%	$2,762	$3,162	$4,330	$5,405
Rhode Island	1.57%	$4,345	$5,087	$7,332	$9,173

Source: HomeAdvisor

TheStreet

You also might be interested in knowing what portion of your household income goes to property tax payments. Here's a list of the top 10 states.

1. New Jersey: 9.96%

2. New York: 7.86%

3. Connecticut: 7.47%

4. New Hampshire: 7.44%

5. Vermont: 6.92%

6. Illinois: 6.62%

7. Rhode Island: 6.18%

8. Massachusetts: 5.73%

9. Wisconsin: 5.32%

10. Texas 5.14%.

And here's a list of the bottom 10 states.

1. Alabama: 1.17%

2. West Virginia: 1.5%

3. Arkansas: 1.67%

4. South Carolina: 1.75%

5. Louisiana: 1.82%

6. Wyoming: 2.11%

7. Delaware: 2.12%

8. Indiana: 2.13%

9. Hawaii: 2.15%

10. Mississippi: 2.15%

Of course, you don't want to choose where to live solely by the size of your property tax bill. High property taxes can be a sign of a good public-school system, parks and other services that are funded by property taxes.

To Buy or Rent?

Meanwhile, it makes sense that the elevated home prices and surge in mortgage rates this year would create an increase in renters and reduce the number of homeowners.

But the trend was already getting started in the past decade. RentCafe, an apartment-search website, found that among 1,553 Zip codes it analyzed in 50 major cities, 101 switched to renter majority from homeowner majority from 2011 to 2020.

That put the number of renter-majority zip codes at 632, which represents 41% of total Zip codes.

The number of renters rose by 12% between 2011 and 2020, compared with a 4% increase in homeowners, according to the U.S. Census.

If you're a prospective home buyer now, you too might want to stay on the sidelines until mortgage rates retreat and home prices fall to reasonable levels.

The 30-year fixed-rate mortgage averaged a 20-year high of 6.92% in the week ended Oct. 13. And the median existing-home-sale price totaled $389,500 in August, up 7.7% from a year earlier, though down 3.5% from July.

Of course, it may take a year or more for mortgage rates and home prices to return to reasonable levels. So as a prospective buyer, you either have to be patient or pay up.

CALIFORNIA

Taxing Calif. Tribal Lands After They're Returned Adds Insult to Injury

The #LandBack movement seeks to return lands to tribal nations. These lands, with few exceptions, are subject to state property taxes. The Legislature should amend California's tax codes to exempt these lands from property taxes. Doing so would impede the exploitation of Indigenous peoples that has been part of the nation's history since before its independence.

State property taxation was used to acquire Indigenous lands. The 1887 federal Dawes Act authorized the breaking up of Indigenous-held lands into parcels held in trust, and exempt from state property taxes, for a set period. When the exemption ended, many Indigenous people could not pay and forfeited their lands to the state, which then resold them.

Taxpayers may fear that eliminating property taxes would diminish needed revenues to support schools, roads and other public services. A system already exists to offset the loss of local property tax revenue that has provided $10.8 billion to states since 1977.

Under this system, the federal government makes payments in lieu of taxes for nontaxable federal lands, including reservations. Congress could expand the payments to automatically include lands returned to Indigenous nations. This would remove the threat of the repeat of the loss of lands for the inability or failure to pay state property taxes, while ensuring revenues for local governments to provide services.

In 2022, $549.4 million was distributed to 1,900 local governments to compensate for the nontaxable federal lands in their jurisdictions. Revenues generated from commercial activities on public lands fund these payments, eliminating the need for further congressional appropriations.

The #LandBack movement is gaining momentum and has already seen lands returned to tribes. Approximately 14,000 acres have been given back to the Indigenous peoples of California since 1995, when 3,900 acres were returned to the Inter-Tribal Sinkyone Wilderness Council in Mendocino County.

The city of Eureka made international headlines by returning all the parcels it owned on Tuluwat Island to the Wiyot Tribe in two land transfers in 2004 and 2019.

Land transfers had continued, with the most recent in May, when 40 acres above the North Fork of the American River in Placer County were returned to Colfax-Todds Valley Consolidated Tribe.

And, in a first for the San Francisco Bay Area, Oakland will create an easement on five acres within the city limits in Sequoia Point for the Confederated Villages of Lisjan Nation and Sogorea Te' Land Trust. The city will retain the title, with the easement providing exclusive rights for the tribe to use the property for ceremonial and cultural purposes.

Additional land returns could take place throughout the state with the transfer of excess state-owned land to Indigenous nations to fulfill the governor's 2020 Statement of Administration Policy on Native American Ancestral Lands.

Mention of property taxes is missing from the speeches and press releases celebrating land return. Failure to address this important matter makes these feel-good moments fleeting and requires Indigenous nations to pay for the right to care for the lands they have called home since time immemorial.

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COLORADO

Colorado Court of Appeals Clarifies Time Frame for Property Tax Reassessments

The Court Remanded the Case to Determine Whether COVID-19 Was an "Unusual Condition"

After more than two years, it seems that the various COVID-19 public health orders are behind us. But, to borrow a phrase from Karen Carpenter, a recent court of appeals decision shows that pandemic-related property tax issues have only just begun. If the decision remains the law, commercial property owners may have more options to lower their property tax assessments in future years.

In Colorado, property value is assessed every two years, and takes effect on Jan. 1 of odd-numbered years. That assessment carries over to the even-numbered year and can only be reassessed under three circumstances: (1) to correct a clerical error or omission; (2) to correct an incorrect value; or (3) to adjust for an unusual condition affecting the property. Thibodeau v. Denver Cnty. Bd. Of Comm'rs, 2018 COA 124. Traditionally, very few property owners demand reassessment. The COVID-19 pandemic, which significantly reduced revenue generated from many commercial properties, placed a spotlight on this seldom-invoked statute.

In a flurry of lawsuits, property owners across the state are claiming that the COVID-19 pandemic is one of those very circumstances requiring reassessment. The first case to obtain a decision at the Colorado Court of Appeals is MLS Properties, Inc. v. Weld Cnty. Bd. Of Equalization, 2022 COA 117, in which a group of 55 property owners in Weld County alleged that Colorado's property tax assessment statute, C.R.S. § 39-1-104, required the assessor to revalue the plaintiffs' properties because of two unusual conditions: the COVID-19 pandemic and the resulting governmental orders restricting property use. In response, Weld County argued that the pandemic and its associated governmental orders occurred too late to be considered in the 2020 property assessments. The county claimed that the 2019 assessment only carried forward to Jan. 1, 2020, and therefore the pandemic occurred too late in the process to be considered an "unusual condition."

The Court of Appeals' subsequent decision, unless later reversed, will impact future property assessments. First, as a matter of first impression, the court held that the property tax assessment statute requires assessors to consider the unusual conditions that occurred "at any point during the even-numbered calendar year of the reassessment cycle, not just those that are present before January 1 of the even year." This opens up the time frame under which property owners may seek reassessment based on any of the above three circumstances and means that circumstances that occur at any time within the two-year period between assessments are relevant for reassessment. For example, the COVID-19 pandemic, which started impacting Colorado in March 2020, now falls within this time frame.

Second, the court remanded the case so the trial court could hold further proceedings on (1) whether the pandemic was, in fact, an unusual condition and (2) whether the related government orders constituted new regulations "restricting or increasing the use of the land" under C.R.S. § 39-1-104(11)(b)(I). In other words, while the court did not decide whether the COVID-19 pandemic and related orders constitute unusual conditions, the court also opened the door for the trial court to find them to be unusual conditions after presentation of additional evidence.

The deadline to reassess property taxes for 2020 has passed. Nevertheless, considering that the trial court may later determine that COVID-19 and the related government orders are unusual conditions, commercial property owners would be wise to consider how COVID-19 has impacted their revenue and property values for tax years moving forward and whether to file a protest. While the traditional deadline to protest 2022's property taxes has passed for reassessment of 2022 property taxes, other options may be available, such as an abatement proceeding.

FLORIDA

DeSantis announces a special session to address property tax relief after Hurricane Ian

The properties affected includes real property, homes or businesses destroyed or rendered uninhabitable by Ian's impacts.

An executive order signed by Gov. Ron DeSantis Thursday will extend the deadline for property taxes on homes and businesses in the 26 FEMA-designed counties affected by Hurricane Ian.

DeSantis also announced the Florida Legislature will hold a special session before the end of the year to consider the property tax relief.

"I do not have the ability as governor to eliminate property tax obligations, so this will delay that payment date," DeSantis said in front of a damaged Sanibel Island restaurant. "I want to give us time so the Legislature can come in sometime after the election but before the end of the year to provide rebates for the affected homeowners or property owners."

The properties affected include real property, homes or businesses destroyed or rendered uninhabitable by Ian's impacts.

"We want to make sure we are doing all we can to clear the burdens that folks are dealing with," DeSantis said. "The debris is there, we can't put that back together ... but we can make it easier for people to get back on their feet."

DeSantis said there will be a formal announcement on the session dates later.

Counties eligible for FEMA Individual Assistance include Brevard, Charlotte, Collier, DeSoto, Flagler, Glades, Hardee, Hendry, Highlands, Hillsborough, Lake, Lee, Manatee, Monroe, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Sarasota, Seminole, St. Johns and Volusia.

DeSantis said the session could also address other issues related to the hurricane, including property insurance and helping local governments to pay for essential services.

ILLINOIS

Illinois Dept. of Revenue Releases Final 2021 Cook County Equalization Factor

On Tuesday, the Illinois Department of Revenue released the final 2021 Cook County equalization factor. The factor (sometimes referred to as the multiplier) for 2021 is 3.0027. The tentative factor released in June was 2.7297 so the final factor represents a 10% increase over what the Department projected and is about 7% lower than the 2020 final factor of 3.2234.

The equalization factor arrives as Cook County taxing districts are looking at one of the latest 2nd installment due dates in recent history, most likely the end of December. The Cook County Board of Review, which is the last stage of assessment review, just closed for the 2021 assessment cycle on October 7th – a historically late closing date.

Cook County equalization factors for the past 13 years (since 2009 when the Classification Ordinance was amended to change the levels of assessment for all classes of property to either 10% or 25%) are set forth in the table below.

Tax Year - Final Multiplier

2009 - 3.3701

2010 - 3.3000

2011 - 2.9706

2012 - 2.8056

2013 - 2.6621

2014 - 2.7253

2015 - 2.6685

2016 - 2.8032

2017 - 2.9627

2018 - 2.9109

2019 - 2.9160

2020 - 3.2234

2021 - 3.0027

The Property Tax Code requires the Department to issue a multiplier that, when applied to the assessed value of all property in a county (except for specially assessed property such as farmland), will result in the aggregate assessed value of all property in the County being 33.33% of the property's fair cash value. This equalization of assessed values is accomplished by comparing recorded sales prices to assessed values for the three prior years, and it is done to implement property tax limitations and certain state funding programs fairly.

Lightfoot's election-year budget aims to boost spending on police and progressive measures without raising property taxes

Mayor Lori Lightfoot's 2023 budget includes an increase in funding for the Chicago Police Department, boosted spending for abortion services and no property tax hike — all moves aimed at avoiding negative attention and addressing voter concerns leading into next year's election.

The mayor cast her $16.4 billion spending plan — the fourth and final one she will present City Council before the February elections — as a "stability budget" aimed at reducing debt and shoring up historically underfunded pensions. It also boosts already high spending on police at a time when Chicago residents are concerned about violent crime.

"Over the last three-and-a-half years, our city, our government and our people have faced unprecedented challenges. Our entire way of life has changed and we are still finding our way to our new normal," Lightfoot said. "As we continue to put the pandemic in the rearview mirror, our city is as strong and resilient as ever before and our future is very bright."

Lightfoot's budget is aimed toward ensuring a smooth passage and as little political turmoil as possible. To that end, Lightfoot abandoned a $42.7 million property tax hike tied to inflation she promised to pursue earlier this summer. The decision to drop the tax hike follows political convention that urges politicians to avoid higher taxes during election years and clears the way for a much easier budget process, though Lightfoot may still face pressure from progressive aldermen and others who want to appear independent of the mayor as they head into the 2023 elections.

Under Lightfoot's spending plan, the city would provide $3.1 million for reproductive health care, an additional $10 million for homelessness and related services, and $13.5 million for public safety.

The city's police budget would rise to $1.94 billion from $1.88 billion this year.

Lightfoot also touted what she said is better financial planning as the city increased its annual pension contributions by $1 billion over the past three years and increased its funding ratios. Chicago also reduced its total outstanding debt by $377 million, she said, through more active cash flow management.

One of the biggest "new investments" Lightfoot outlined in her speech is a new pension policy, which the mayor described as "prepaying future pension obligations." She proposes spending $242 million in additional contributions to all four of the city's pension funds, ending the practice of "essentially making the minimum monthly payment on our pension credit card," she said in prepared remarks.

The payment "will prevent the pension funds from having to sell assets in this very difficult market," she said in her remarks. Assuming current market performance continues, the payment would shave $2 billion off of future pension contributions. Overall, pension payments will cost $2.7 billion in the 2023 budget, up from $2.3 billion last year.

This is the first year the city will begin using casino revenues to supplement pension payments: The city's chosen casino operator, Bally's, has given the city an upfront $40 million payment that will go toward pension contributions as it works to open a temporary and permanent casino. Otherwise, pensions are largely paid through property tax revenues. In 2023, $1.4 billion in property tax revenues will go toward pensions.

In 2021, Lightfoot pushed the City Council to agree to link annual property tax increases to the consumer price index, arguing that it would spare residents the Chicago political yo-yo of mayors jacking up taxes right after getting elected and then refusing to raise them at all when the next election looms and they don't want to anger voters.

The inflation-linked property tax increase for the 2023 budget was set to be about $85.5 million as inflation jumped well above the 5% ceiling on Lightfoot's plan tying taxes to the annual increase in the Consumer Price Index. But Lightfoot in August announced she would lower that to 2.5% with Chicagoans struggling to make ends meet.

Lightfoot's administration last week said revenue for 2022 will come in $134 million above what was projected, "due to improving revenue projections and expected cost savings," giving the mayor cover to drop her property tax hike.

Amusement taxes are coming in stronger than expected as concerts and other live events move toward pre-pandemic levels. Transaction taxes for property sales are also higher than anticipated, according to the city. So is the amount of money coming in from the state for personal income taxes and corporate income taxes in lieu of property tax.

Initial projections by city officials estimated the 2023 gap would be $867 million. In May, however, Lightfoot budget director Susie Park said finance officials had cut that number by more than $500 million. The city used various funds, including federal COVID-19 relief dollars, "structural solutions" and increased revenues to narrow the gap to about $306 million, Park said.

The sunny year-end numbers for 2021 were finalized in the city's annual comprehensive financial report released in late July. The city ended 2021 with a total fund balance of $679.1 million, more than double what it was the year before. Expenses were $107.2 million lower than expected, thanks to COVID grants that could be transferred and "overall operational efficiencies," the report said.

This year's budget calls for the largest TIF surplus in the past 10 budgets: $395 million. Of that, the city's corporate fund will receive $98.3 million, while $218.4 million will go to Chicago Public Schools.

The mayor declared a $304 million TIF surplus in her 2021 budget as well.

Last year, Lightfoot announced the city's shortfall would be $733 million, dubbing her proposed spending plan for 2022 as the city's COVID-19 "recovery budget." That shortfall represented 5.7% of the previous year's total budget. Throughout last year's forecast speech, Lightfoot highlighted a more promising business environment and the beginning of a bounce-back in key city revenues.

Lightfoot closed that gap — and part of the previous year's gap — with a portion of the $1.9 billion in COVID-19 federal relief money Chicago received, a one-time source of revenue.

The $3.1 million Lightfoot pledged for "reproductive and sexual health access and education" includes abortion care access and builds on the $500,000 she pledged earlier this year when the U.S. Supreme Court overturned Roe v. Wade, ending constitutional protections for abortion.

"Chicago stands as a safe haven for those seeking care across the county. And our status requires resources," Lightfoot said in her budget remarks. "This investment is the result of consultations with reproductive health providers across the City and the increased needs that they are facing on a daily basis."

On policing, Lightfoot's budget includes more than $100 million "for additional public safety investments," according to her remarks, including the replacement of police vehicles and helicopters, "new technologies for police officers" and $36 million to fulfill obligations of the federal consent decree.

The Chicago Police Department has two helicopters that "are currently operational," according to its website, and are designed to help ground units.

The department's head count is not slated to increase much in Lightfoot's proposal. This year's budget allowed for 14,102 full-time positions; the recommendation for next year is 14,132.

Police Department spending has been a key sticking point in previous budgets, with some of Chicago's most progressive aldermen pushing for the city to steer more dollars toward violence prevention and non-police response to crises.

Lightfoot faced criticism from some conservative aldermen in 2020 after she made small cuts to the Police Department's budget.

Advocates to increase funding for those experiencing homelessness rallied and testified ahead of Lightfoot's budget address, describing the estimated 65,000 Chicagoans experiencing homelessness as equal to the city's "51st Ward."

Led by the Chicago Coalition for the Homeless, advocates are pressing council to pass the so-called Bring Chicago Home proposal to provide housing and wraparound services to an estimated 12,000 people over the next 10 years. The group is hoping to fund services through an increase in a tax on real estate sales, something the mayor has supported in the past, but has not pursued in recent years.

Lightfoot's 2023 budget proposal includes "over $200 million in investments for homeless prevention," according to her remarks, to fund increased shelter capacity and rapid rehousing.

The budget has provoked some of Lightfoot's most contentious fights with aldermen. Lightfoot's first spending plan passed the City Council 39-11, with much of the opposition coming from progressive aldermen who argued it doesn't go far enough toward addressing the mayor's campaign promises on issues including the reopening of mental health clinics.

Lightfoot responded by launching a website that shamed Chicago aldermen who voted against her first budget, which she said was a civic tool for the public despite criticism that it was petty and bullying.

In 2020, Lightfoot struggled to generate support for her budget, which was opposed by some aldermen because it made modest cuts to the police budget and by others who objected to a $94 million property tax hike. The mayor threatened not to help aldermen with projects in their wards if they voted against the budget, telling them, "Don't come to me for s---" if they don't support her budget.

The mayor had a far easier time getting last year's budget through council in large part because it was buoyed by an influx of $1.9 billion in federal COVID-19 relief funds. That allowed her to spend significantly on anti-violence programs, affordable housing and mental health initiatives and other community projects lots of aldermen like.

The city's gross property tax levy has grown an average of $78 million per year since Lightfoot's first budget, from $1.53 billion in her 2020 budget to $1.71 billion this year. The city has historically opted to let the levy rise to capture new properties that are built and as tax increment financing, or TIF, districts expire. Over the length of former Mayor Rahm Emanuel's time in office, the levy rose by an average of $80 million. That includes the massive multiyear property tax hike he pushed through in 2015.

This year's budget is unlikely to provoke as drawn out a battle as the 2020 spending plan. Budget committee chair Ald. Pat Dowell, 3rd, told reporters after the mayor's speech that Lightfoot has a "fairly easy budget" to sell to City Council, citing the removal of the property tax increase as well as investments in homelessness and public safety.

Dowell also said she approved of the mayor's plan to pay $242 million extra toward pension obligations — despite possible "tension" from some aldermen who may want to use it for social services.

"This advanced pension payment is a novel idea and makes sense," Dowell said. "You should always try, when you have your own credit cards, to pay down a little quicker or put down more than the minimum."

Lightfoot's budget also garnered a nod from Laurence Msall, president of the Civic Federation, who said the lack of levy hikes and extra investment in police were "very exciting." He did warn that some of programs funded by federal American Rescue Plan Act dollars will have to be cut if no alternative revenue streams are identified, but overall, the city's recovery exceeded expectations and allowed for the proposed "wise investment" of making additional pension payments.

"A lot of our major concerns seem to be addressed very positively in this budget," Msall said. "The economy has come back stronger than anyone would have predicted. … The trend is stronger revenue growth than even the expenditure growth of the city."

Frequent Lightfoot critic and 2023 mayoral candidate Ald. Raymond Lopez, 15th, brushed off the investments, saying that none of the city's recent increases in so-called anti-violence programming have successfully curbed crime. Chicago saw a historic spike in violence following the onset of the COVID-19 pandemic, but the first half of 2022 saw a modest drop in shootings and homicides.

"This is $16 billion in fiction that we heard today," Lopez said. "It's meant to be inspiring on the cusp of her hopeful reelection, but there are many things in this budget that are just wrong. And it's a continuation of bloated smoke-and-mirrors budgeting that we've seen over the last two-and-a-half years."

Another mayoral hopeful, 4th Ward Ald. Sophia King, had a more tempered outlook and praised the proposed increased pension commitment as well as the plans to establish an environmental justice office. King did not say one way or the other where she landed on the overall budget but said "the devil is always in the details."

Ald. Jeanette Taylor, 20th, said services for the homeless are a top priority in this budget, and said the mayor should live up to her 2019 campaign promise to increase the real estate transfer tax to fund services for the homeless.

"Just do it. We got a big homeless problem, if nothing else. I don't care about trees, I ain't worried about public safety if I ain't got a roof over my head. That's where I am," Taylor told the Tribune.

After the speech, Lightfoot addressed the Tribune's editorial board, where she was asked if the one-year pause on inflation-adjusted property tax hikes was tied to smoothing her re-election bid.

"Is this just an election year gimmick? No. It's not," Lightfoot said. "It's what I firmly believe that we have to do to make sure that we reverse decades of political decisions instead of fiscally prudent decisions."

By contrast, Ald. Roderick Sawyer, 6th, who is also running for mayor, criticized Lightfoot for delaying the property tax increase, saying that the move was a political move aimed at avoiding a hard choice. Referring to the tax increase, Sawyer said "occasional, responsible, modest increases in property taxes is a fiscally responsible thing to do. And I don't want to start backing off of things that we promised to do in order to create holidays that got us in this situation in the first place."

Expect future Chicago property tax hikes without pension reform

Chicago Mayor Lori Lightfoot earmarked $442 million to help pay down Chicago's $46.9 billion pension debt. The Civic Federation said stop-gap measures will only delay future property tax hikes unless there's statewide pension reform.

Mayor Lori Lightfoot's $242 million pension prepayment plan and projected $200 million in new casino revenues will not be enough to stop future Chicago property tax hikes driven by pension debt, the Civic Federation warned.

Laurence Msall, president of the Civic Federation, said Oct. 4 routine property tax hikes in Chicago and other municipalities will continue until Springfield lawmakers consolidate and reform Illinois' worst-in-the-nation pension debt.

Chicago currently owes $46.9 billion to the city's eight public retirement funds, more pension debt than any other large U.S. city and worse than 45 states.

Msall said lawmakers' inaction on pension reform has now forced local governments to choose between raising property taxes to improve core services or meet funding requirements for municipal workers' retirements.

"It is not sustainable to have 25% – and in some cases, even more of your operating budget – going into your pension and pension-related debt," Msall said.

Pension reform begins with the General Assembly, which he said dictates through state law "who the members are, what their contribution levels must be and what benefits" those retired city employees receive.

Msall said if Springfield politicians could put an amendment on the ballot this November to "prevent Illinois from ever being a right-to-work state," then those same lawmakers could introduce an amendment for constitutional pension reform. His "right to work" comment was referring to Amendment 1, found at the top of the Nov. 8 ballot.

Passing Amendment 1 would lead to higher property taxes in Illinois, with the increase conservatively estimated at $2,149 for the typical household during the next four years.

That estimate is based on the long-run average growth rate of Illinois property tax bills. But Amendment 1 would likely accelerate that growth, expanding the bargaining power of government union bosses to negotiate over a near-endless array of subjects, ultimately forcing residents to pay the bill for costly contract concessions that carry more weight than state law.

Until lawmakers reform Illinois' nation-leading pension debt, residents' property taxes will continue to rise. Approving Amendment 1 would guarantee Springfield lawmakers face greater obstacles to passing the pension amendment that would let them curb pension debt and taxes.

AMENDMENT 1 COULD LOCK IN $1.8B COMMERCIAL PROPERTY TAX HIKE

Statewide commercial property tax extensions are on pace to total $11.3 billion by 2026. Amendment 1's expansion of government union power would likely accelerate that $1.8 billion increase.

It won't just be households who pay higher property tax bills if voters OK Amendment 1: property taxes on commercial real estate have been increasing even faster.

If property tax increases continue at their recent rate, commercial property owners will shell out an additional $1.8 billion in annual property taxes by 2026, with the bulk of the increase – $1.6 billion – occurring in Cook County.

Statewide, commercial property tax extensions can be expected to hit a total of $11.3 billion during the next four years. The figure is estimated to be $7.9 billion in Cook County.

For individual commercial properties across Cook County, property tax hikes will vary widely by region. Commercial properties on the South Side of Chicago could pay an estimated additional $10,179 in property taxes by 2026. Properties in central Chicago could pay nearly $100,000 in higher property taxes during the next four years.

The increase in property taxes could wind up being much worse if Amendment 1 is passed on Nov. 8. The measure at the top of the ballot would allow government unions to make demands outside the normal scope of bargaining, strike if their demands are not met, thwart simple, pro-taxpayer reforms, crowd out government services for special interest causes and exacerbate corruption in Illinois.

Amendment 1 is a referendum on taxes in Illinois more than anything else. If property taxes simply continue to rise at their historical rates, businesses across the state will be asked to pay $1.8 billion in higher property taxes annually by 2026. Should government union bosses exercise new powers granted through Amendment 1, the tax hike on Illinoisans could wind up being far more costly.

That endless loop of unlimited union demands, higher government costs and rising taxes is likely why no other state has a similar amendment.

Illinois businesses already face challenges from a looming unemployment tax hike, property tax hikes, the nation's third-highest number of regulations and the potential for a recession. Its business tax climate ranking dropped 10 places in five years as neighboring states rose or held steady. Amendment 1 could make a bad business climate worse.

The proposal threatens to hurt homeowners as well. Property taxes have been rising for decades in Illinois and without significant property tax or pension reform, property taxes can be expected to continue to rise. Currently, property taxes are on pace to rise by $2,149 for the typical homeowner during the next four years. Again, empowering government unions to make greater demands would likely accelerate those tax hikes.

Illinois voters have a decision to make before Nov. 8: either they can vote to fund the never-ending demands of government union bosses, or they can send a message by saying "no" to more tax increases in Illinois.

Cook County property tax bills still haven't been sent. What does it mean for taxpayers?

The second installment of Cook County property taxes are usually due by August, but those bills have not even been sent out to taxpayers yet.

The county says the bills will go out by the end of the year... but what does that mean for you?

"I'm still waiting on my bill, today is my first day hearing this," Terencia Caldwell told the I-Team. She said she's budgeting for her property taxes. She and other Cook County residents are still waiting for their second installment bills to arrive. They're already about four months late.

"Where is it? It's not in my hands. It's not in my mailbox. I haven't received it," Cook County resident Carol Stenson told the I-Team.

The county said second installment bills will come before the end of the year. Then, just a few months later, the first installment of 2023 will be due.

This won't impact homeowners who pay taxes as part of their mortgage, but other taxpayers will need to save and juggle their budgets.

So what's going on? The Cook County Assessor's office, which assesses the amounts due, directed the I-Team to Cook County President Toni Preckwinkle's office.

No one there would talk on camera, only saying, "We are working with all the independently elected offices in the property tax system to ensure the tax bills are sent and collected as soon as possible."

The statement added that: "We remain confident that their commitment to a due date of 2022, before the end of the year, will be realized."

The Cook County president's office added that it will continue to support government entities which rely on the money, "so they can fulfill their duties to Cook County residents."

Still, some taxpayers wish they had more of a break between bills.

Stenson said: "It's kind of hard when you only have one salary to live off, you know, it's gonna be hard."

The I-Team asked the Cook County president's office about payment plan options for residents, but officials didn't respond.

However, tax experts say if you can, you should pay the second installment by the end of the year in full, so you can write it off on your 2022 federal tax income taxes and get a bigger refund.

Cook Co. treasurer says Chicago, suburbs losing tens of millions of dollars through tax law loophole

Cook County Treasurer Maria Pappas said nearly $300 million have been drained out of Cook County and Chicago through a tax sale law loophole.

Cook County Treasurer Maria Pappas said millions of dollars are being drained out of minority communities by a loophole in a law that is currently on the books.

The treasurer and her team said the loophole took $280 million from schools, parks, police and other government agencies. And while all of Cook County is affected, the hardest hit area in the south suburbs.

"This is so egregious," Pappas said.

Here's how it works. If a property owner is delinquent on their property taxes, investors can buy those taxes so the county gets paid. It's then up to the property owner to pay back the investor, plus interest.

But if the owner doesn't pay back, the investor ends up getting the property.

According to the treasurer's study, about 1,600 times a year investors use a loophole in the law known as "sale in error," which allows them to get out of buying those homes, many of them vacant and unwanted. The investor then gets a full refund on those taxes plus up to 36% interest back.

"That's a great deal for them," said Pappas. "This is one of the best investments you can make which is why hedge funds are so closely looking at Cook County and its tax sale."

And that money, which goes back into the pockets of investors, is oftentimes taken away from communities in need.

"The interest money gets syphoned away from the governments. That's money that's used for police, fire protection and schools," Pappas said.

In one example in her study, an investor paid the delinquent property taxes on an uninhabitable Harvey home. In this case, the Cook County Assessor's website incorrectly stated the home did not have an attic. The investor used that mistake to challenge the tax purchase and earned more than $17,000 in interest.

"That money eventually comes from the property owners in Harvey. They have to pay that money back and it sends Harvey's taxes into disarray," said Todd Lighty, Deputy Director of Research.

According to the treasurer's study, in the last seven years Harvey has lost $14 million because of the "sale in error" loophole. Chicago has lost $85 million. And the hardest hit municipality after Chicago is Calumet City, which has lost $16 million

The total amount these investors drained from Chicago and Cook County's south suburbs is nearly $280 million.

"The treasurer's office work on this has exposed a real fatal flaw in a policy in Illinois that doesn't exist in other states," said Ralph Martire, Executive Director of the Center for Tax and Budget Accountability after reading the report. "Over time, you know, that will increase the property tax bills for folks to make up for this difference, because now your local municipality, your school district has got to make up that differential somehow."

The study also found that other county agencies, including the treasurer's office, made listing mistakes, allowing investors to take advantage of the "sale in error" law.

The treasurer's office says it's working with the Cook County President's Office, the Assessor's Office and other agencies to get legislators to change the law.

The I-Team reached out to Speaker of the House Chris Welch to see if he or other legislators' would consider laws to close this loophole. We heard back from Rep. Kam Buckner who gave the I-Team this statement: "House Democrats are reviewing Treasurer Pappas' study and will consider potential legislative solutions. Democrats prioritized closing tax loopholes in 2021 that allowed the wealthy to profit while everyday Illinoisans struggled. We will approach new issues with the same resolve."

Chicago Mayor Nixes Property Tax Hike in Budget Proposal

Lightfoot initially sought 2.5% increase entirely for pensions

Chicago Mayor Lori Lightfoot abandoned a property tax increase in her 2023 budget proposal because revenue is rising more than expected, offering a reprieve to households that were facing a 2.5% hike in a year of red-hot inflation.

"As a result of this strong improvement in revenues, we have determined it is important to give our taxpayers some additional relief," Lightfoot said in an emailed statement on Thursday. The budget "that I will propose to city council on Monday will not include a CPI increase on the property tax levy."

Chicago expects to post a $128 million budget gap next year, the lowest in recent memory, with revenue forecast to be $200 million higher than earlier projections, according to the statement. In a Twitter post last month, the city's Office of Budget and Management indicated that recreation and business tax receipts are expected to beat 2022 levels.

The improved fiscal picture allows the city to avoid levying a property tax increase during a period of high inflation, Lightfoot said. She had initially proposed a 2.5% increase for 2023, which is half what Chicago could enact under a 2020 ordinance that ties property taxes to inflation with a cap of 5%.

"In the recent past, the decision to not increase property taxes would have almost certainly meant spending cuts, increases to other taxes and fees, or extracting savings from debt refinancings," said Justin Marlowe, a public finance research professor at the University of Chicago, in an email. "In FY23 the Mayor has the luxury of not making those trade-offs."

Chicago residents already pay one of the highest property tax rates in the country, with the Windy City ranking the 13th highest in the nation and Illinois second among US states. And many residents don't directly see the benefit of their payments, as more than 80% of property taxes went toward city employee pensions in the 2022 fiscal year, according to an analysis from the watchdog Civic Federation.

That share, which has nearly doubled since 2013, makes Chicago "unique" among US cities, Marlowe said. The entire $42.7 million levy that would have come from a 2.5% hike in 2023 was slated for pensions.

Chicago's public pensions are chronically underfunded, which has contributed to its lower credit rating. As of last year, the city's pension for firefighters was funded at about 21%, municipal employees at 23%, police at 24% and laborers at 46%, according to Chicago's annual financial report.

Lightfoot recognized those challenges and committed to "never" shrinking from its obligations. The coming fiscal year will mark the second that Chicago makes its statutorily required pension contribution – a signal to taxpayers, business leaders and investors that City Hall takes its fiscal responsibilities seriously, Marlowe said.

“Our pension obligations are real and continue to grow in the out years,” she said. “We will use all tools at our disposal, including the CPI, in future years, as necessary to meet those obligations.”

MICHIGAN

Detroiters ripped off by overinflated property assessments may see relief

Michigan Attorney General Dana Nessel has agreed to weigh in

Michigan Attorney General Dana Nessel has agreed to explore whether the city of Detroit can legally provide cash compensation or property tax credits to tens of thousands of Detroiters who were illegally overtaxed by overinflated property assessments.

Activists recently met with Nessel to urge her to issue an opinion on the legality of the potential remedies after Mayor Mike Duggan’s administration claimed state law prohibits the city from compensating residents with cash payments or property tax credits.

"This was a huge win for overtaxed Detroit homeowners,” state Rep. Cynthia Johnson, D-Detroit, said of Nessel taking up the issue. “They should not have to fight their city to honestly interpret state law, but when they do, the attorney general should step in.”

Homeowners were overtaxed by more than $600 million. The property tax assessments resulted in an as many as 100,000 Detroiters, most of them Black, losing their homes to foreclosure between 2010 and 2016.

Duggan has admitted that many homeowners received excessive tax bills because their property was assessed at more than 50% of their market value, the limit set by the Michigan Constitution.

The Coalition for Property Tax Justice, a group of advocates for impacted homeowners, along with the ACLU of Michigan, National Lawyers Guild’s Detroit and Michigan Chapter, Michigan Poverty Law Program, Detroit Justice Center, and Street Democracy released an opinion on Friday that concluded the city can legally provide cash payments and property tax credits to reimburse homeowners.

Detroit City Council President Mary Sheffield, who supports cash payments and property tax credits, said Nessel’s opinion is “critical” to determining how residents can be reimbursed.

“It will allow city council to shape the ordinance to compensate Detroiters to the fullest extent permitted by state law,” Sheffield said in a statement Wednesday.

If Nessel agrees that the remedies are legal, Duggan must then make a decision about how to reimburse impacted residents, said Bernadette Atuahene, a law professor at the University of Wisconsin Law School who convenes the Coalition for Property Tax Justice.

“If the current administration wants to remove property tax credits and cash compensation from the menu of options, that’s a political decision that they must make outright,” Atuahene said. “Mayor Mike Duggan cannot hide behind a faulty interpretation of state law as a cover for a political decision.”

6th Circuit rules against county that seized homes for unpaid taxes, didn't refund the surplus value

A county in Michigan violated the takings clause when it seized title to homes to satisfy tax debts without giving the owners compensation for their homes’ value above the amount owed, a federal appeals court has ruled.

The 6th U.S. Circuit Court of Appeals at Cincinnati ruled Oct. 13 for four property owners who challenged the practice. The author of the opinion is Judge Raymond Kethledge, said to have been on former President Donald Trump’s U.S. Supreme Court short list.

Tawanda Hall was among the four plaintiffs. Hall alleges that Oakland County, Michigan, foreclosed on her home worth about $300,000 to satisfy a $22,262 tax debt and then refused to give her the difference between the debt owed and the home’s value.

Instead, the property was transferred to the city of Southfield, Michigan, for the value of the tax debt, which transferred the property to a neighborhood revitalizing initiative for a dollar. The home later sold for $308,000.

Hall was one of four plaintiffs who alleged the county violated the Fifth Amendment’s taking clause, as applied to the states by the 14th Amendment, by failing to pay owners the surplus value of their homes after tax-debt foreclosures.

Hall is represented by the Pacific Legal Foundation, a nonprofit legal organization, which calls the process a “tax and take” scheme.

Oakland County acted under a Michigan law governing tax foreclosures that allows the state or counties to take property owners’ equity interest in their property without paying for it. After a foreclosure petition is filed in court, the property owners are given a chance to redeem their property by paying the taxes, interest, penalties and fees.

If there is no redemption, the law allowed counties to buy the property for the amount of the tax delinquency. Even after a sale at public auction, the property owner would have no right to the excess proceeds.

The law is "an aberration from some 300 years of decisions by English and American courts, which barred precisely the action that Oakland County took here," Kethledge wrote.

"The takings clause would be a dead letter if a state could simply exclude from its definition of property any interest that the state wished to take," Kethledge wrote.

To the contrary, he said, quoting from a Supreme Court decision, "a state may not sidestep the takings clause by disavowing traditional property interests long recognized under state law."

NEW HAMPSHIRE

Taxpayers seek to stop the statewide education property tax

After being a resident of Hopkinton for 23 years and an educator in various New Hampshire school districts for even longer, Jim Lewis has seen the school funding issue from many perspectives.

Commuting daily from his home in Hopkinton, where he paid about $8,000 last year in taxes, to work in Lempster where he is the superintendent of schools, Lewis can see firsthand how every dollar of funding matters to a district and also how high property taxes are impacting residents.

He loves Hopkinton for its bucolic setting, "excellent" school system and supportive townspeople and can't imagine moving away. But for many of his neighbors, staying in town has become unaffordable, Lewis said.

The school tax at $21.80 per thousand of property value is more than three times the municipal tax rate of $6.50 per thousand.

"Hopkinton's a great place; I love it. And a lot of people feel the same way I do," Lewis said. "But a lot of people have left because they, quote, 'can't afford it anymore,' and that's concerning. There's got to be a better way."

Lewis is one of the newest plaintiffs in a lawsuit claiming that the state of New Hampshire's education tax rates are unconstitutional because they are not proportional across towns. The suit, which was launched in June, argues that the state relies too much on local taxpayers to provide the funding necessary to give students an adequate education. As a result of the state's over-reliance on property taxes, students across the state receive different educational opportunities depending on whether they live in a property-rich town or a property-poor town, which is unconstitutional.

"I'd like to see that distributed a little more evenly," Lewis said. "A town like Lempster is a very small town; a thousand dollars to us is a lot of money compared to other districts. I would like to see the state take a little more ownership to it, rather than the small town."

Lewis' modest home is valued at $256,800, according to the town assessor. He knows fellow residents whose home values are much higher and they pay up to $15,000 a year in taxes.

"In my position right now, I'm fortunate. I can stick around," Lewis said. "But I don't know how much longer that's going to last. We know to put money aside every month, just because we know it's going to hit and it's always going to be a little bit more than expected."

Last week, the property-owning plaintiffs took a new step by asking the court for preliminary injunction to prevent state Department of Revenue Administration Commissioner Lindsey Stepp from setting the Statewide Education Property Tax (SWEPT) rates for the coming year, while the lawsuit is pending. In their motion, the plaintiffs argue that they're likely to succeed in proving in court that the SWEPT violates the Constitution by not being uniform across all towns.

In New Hampshire, about 62% of funds for public education come from local revenue, while the state funds about 31% and the federal government funds the remaining 7%. New Hampshire property owners are charged for both local education property taxes and state taxes. Each town is required to collect the SWEPT in addition to their local property taxes to raise funds in order to meet the state's cost of funding an adequate education. Since 2005, the legislature has set the total annual amount to be raised by the state education tax at $363 million, but lowered it to $263 million for the 2022-2023 fiscal year.

Lewis, alongside co-plaintiffs Jessica Wheeler Russell and Adam Russell of Penacook; John Lunn of Newport; Robert Gabrielli, who owns commercial property in Penacook; and Steve Rand, who owns commercial property in Plymouth, say that the state of New Hampshire relies too much on local taxpayers to provide the funding necessary to give students an adequate education.

The suit, led by attorneys Andru Volinsky, John Tobin and Natalie LaFlamme, is the latest legal move toward changing the state's school funding model. Their argument hinges on 1997 rulings issued for the Claremont school funding lawsuit, where the New Hampshire Supreme Court held that state property taxes for education must be "administered in a manner that is equal in valuation and uniform in rate throughout the state."

"We're just going to go ahead and try to show the court that not only are the rates different mathematically and numerically, but that they violate the Constitution," Tobin said.

The debate around New Hampshire's education funding system identifies two types of towns: "property-rich" towns, with wealthy tax bases and high property values that can generously fund their public schools, and the "property-poor" towns that struggle to provide funding without disproportionately high taxes. The divide, which has perpetuated despite multiple state Supreme Court rulings, means property-rich towns tend to experience better facilities, higher teacher pay and often better educational outcomes, while the property-poor towns experience delayed facility upgrades and face high staff turnover.

New Hampshire's school funding system was declared "inequitable from both student and taxpayer perspectives," by the Commission to Study School Funding in a 2020 report. At the time, the commission – made up of state legislators, school administrators and education specialists – proposed redistributing the state education taxes so that excess taxes from wealthier towns are passed along to those with fewer resources, restoring a "donor town" system that had been eliminated in 2011.

Another school funding lawsuit referred to as ConVal, filed by the Contoocook Valley, Mascenic, Monadnock and Winchester school districts in 2019, is still pending. That suit argues that the funding the state provides per pupil – which was around $3,636 in 2019 – isn't enough and doesn't take into account the costs of transportation, teachers and facilities.

"Between the two of us, hopefully we'll get a new system where the state does its fair share and taxpayers pay comparable rates instead of really disproportionate rates," Tobin said.

The trial date for the lawsuit over tax rates has been set for August 2023.

NEW YORK

It's time to repair NYC's unjust property taxes

If you are one of Council Minority Leader Joe Borelli's neighbors on Staten Island, chances are you pay an effective property tax rate that is three times higher than if you are one of Comptroller Brad Lander's neighbors in Park Slope. Homeowners in southeast Queens and the north Bronx also have a much higher effective tax rate than most Manhattan homeowners.

Since New York City's current property tax system was established 40 years ago, exemptions, caps, tweaks and changes to the housing market have layered on top of one another to create a byzantine Jenga-like structure. Fairness went out the window long ago, and today the whole system teeters on the edge of rationality.

The property tax system disproportionately taxes our working- and middle-class communities with single-family homes, many of whom are majority-minority neighborhoods. The outdated rules mean owners of some high-end condos and co-ops in downtown Manhattan and waterfront Brooklyn and Queens are assessed at only 20% of what they would be if they were valued based on the sales price, as most other homeowners are.

The current system also taxes new rental high-rise developments more than new condominiums or smaller single- and multi-family homes. This unequal tax treatment disincentivizes developers from building the new rental housing we need and decreases the availability of existing rentals — causing the market to be even less affordable. According to the comptroller's monthly economic analysis, New York City added only 65,000 housing units in the last five years, issuing fewer housing permits per capita than most other large U.S. cities. What's worse, thanks to higher interest rates increasing the cost of homeownership, would-be home buyers are renting instead, increasing pressure on the rental market.

We're seeing that play out in skyrocketing rental costs: August asking rents were 19% above a year ago in New York City.

Fixing this broken system is no easy task. Change will require collaboration between the powers that be up in Albany — the governor and the Legislature — as well as those who run the city — the mayor and the City Council. Different entities eye each other suspiciously. It's viewed as a political third rail. That's why we are working together, a Staten Island homeowner and a Park Slope homeowner, a conservative Republican and a progressive Democrat, to help build a coalition for change.

The devil is always in the details, but the broad strokes of what we need to do are also pretty clear: Property owners across the city should pay the same effective tax rate, relative to the value of their property. Vulnerable homeowners, like seniors on fixed incomes whose home value has risen, should be eligible for relief. Tax breaks for affordable housing should be reserved for actual affordable housing, rather than a massive subsidy for mostly luxury housing.

At the end of last year, the NYC Advisory Commission of Property Tax Reform finally released its long overdue report with some good ideas for how to move forward. Members recommend creating a new tax class for small residential property owners to ensure that rules are applied uniformly regardless of property type, which would rescind a state law requiring condos and co-ops to be assessed as income-producing properties, rather than based on sales of comparable condos and co-ops. They suggested removing assessed value growth caps, widely recognized as one of the primary drivers of inequity, and replacing them with a simpler five-year phase-in of assessment increases.

The commission's proposed phase-in would also provide financial safeguards like homestead exemptions and "circuit breakers" to help ease the burden of tax increases for "house-rich, cash-poor" homeowners. We pushed for a property tax reform commission to give us a roadmap to fix this broken system, and they delivered.

This coming year is our best opportunity to make it happen.

The expiration of the 421-a tax abatement this past June opened the door to broader reforms that tackle the underlying issue of a tax system that disincentivizes rental development. The two of us don't see eye-to-eye on many elements of housing policy, but we agree that rentals and condos should be taxed fairly. By leveling the tax playing field between new rental and condo development, we can eliminate the need for costly tax exemptions for market-rate development and better support the creation of new multifamily rental housing.

The next step needs to come from Albany. Although it is New York City's property tax, state legislation sets all the rules. Our collaboration demonstrates that there is a serious push to put aside our differences to cut through the noise of the legislative session and move this to the top of Albany's housing priorities.

When next year's legislative session opens, we need a governor, mayor, Legislature and City Council ready to work together to bring tax fairness to New York City. If the two of us can get together behind it, we know they can, too.

Lander is the New York City Comptroller. Borelli represents Staten Island in the City Council.

Real Estate Makes Up Larger Share Of NYC's Tax Revenue Even Amid Value Reset

Real estate taxes have steadily become a larger and larger part of New York tax collections over the last eight years as the city faces a fiscal crisis.

In the financial year ending 2021, real estate-related taxes made up 54.1% of tax collections, up from an average of 51.9% between 2015 and 2018, according to a new report from the Real Estate Board of New York.

Titled The Invisible Engine, the report's objective is to show real estate's value to the city's economy. REBNY said real estate taxes will account for more than $35B in the city's adopted budget for the financial year ending in 2023 while $30B will come from all other tax sources. Residential sales, which soared last year, pushed tax collections by $1.3B — making up for the damage done to commercial properties like office and retail.

“This report is another reminder that the health of the real estate sector and the City’s finances and economy are inextricably linked,” REBNY President James Whelan said in a statement. “Even throughout the pandemic, the real estate industry has been the single most important source of revenue for New York City, a fact that will only become more pronounced in the years ahead. We look forward to our continued partnership with City and State leaders to further strengthen these ties."

The report notes that the mansion tax and new urban transit/mortgage-recording taxes introduced in 2019 contributed more than $1.3B to MTA operating expenses and the “capital lockbox” in 2021.

The city's 2023 budget of $101B is more than $10B less than the year before, according to Comptroller Brad Lander’s office, and overall tax revenues are expected to be $1B less than fiscal year 2022 because of the expectation of slower economic growth.

“[The mayor] is already telling some agencies they need to take a 30% cut at this moment,” Queens Borough President Donovan Richards in an interview with Bisnow last week. “So we [are] dealing with a crisis of great magnitude."

NYC Offices to See $50 Billion in Value Wiped Out, Study Says

Researchers estimate the value of the city’s stock of office buildings will remain well below pre-pandemic levels given the rise in remote work.

New York office buildings are facing a potential $50 billion wipeout of value thanks in part to remote work.

The values of those properties declined nearly 45% in 2020 and are forecast to remain roughly 39% below pre-pandemic levels due to the persistence of flexible work policies that gained traction during the crisis, according to a new study from the National Bureau of Economic Research.

As the Covid-19 pandemic shuttered office buildings and forced people to switch to a remote work environment, many offices sat vacant and still do, even as companies try to entice employees to return. Roughly 46% of workers in the New York metro area were back at their desks in the week ended Sept. 21, according to card-swipe data from Kastle Systems.

The authors of the study, which included researchers from New York and Columbia universities, found that higher-quality buildings are more insulated from the trends, as more tenants seek out better space for their remaining office footprints.

"Lower quality office buildings see much more dramatic swings," the researchers said in the report. Overall, "these valuation changes have repercussions for local public finances and financial-sector stability."

NYC office market faces 'real estate apocalypse'

Dive Brief:

Office valuations in New York City are forecasted to decline by as much as 39% by 2029 due to remote work trends, according to a recent report from professors at the NYU Stern School of Business and Columbia University Business School.

That plunge represents a $453 billion valuation drop for New York City office buildings, while similar declines could occur in other U.S. cities, the report noted. What the authors call an "office real estate apocalypse" also will have negative implications for nearby businesses and local public finances.

The authors said that lower quality, less expensive office buildings will experience much more volatile swings in valuation, while higher quality office buildings are somewhat buffered against the downward trend.

Dive Insight:

The COVID-19 pandemic accelerated the push for remote work, which in turn, decreased office space demand. Physical occupancy, or the amount of people working in an office building on any given day, fell from 95% in February 2020 to about 47% last month in major U.S. office markets, according to the report.

In a worrisome sign for office markets, the study estimates the trend toward more remote work likely will persist.

To determine this, the research studied office REITS focused on New York City. The model indicated "office REIT investors believe remote-work practice to be long-lasting," according to the report. Many U.S. corporations have announced permanent remote or hybrid work arrangements, and several have begun to shrink their physical footprint.

That was the basis for the report's forecast of valuations dropping 39% by 2029.

The plunge will also affect the city's business and retail properties, which has important implications for local public finances, according to the report.

For example, the share of real estate taxes in New York City's budget was 53% in 2020, 24% of which came from office and retail property taxes. Given budget balance requirements, a drop in office and retail valuations would need to be made up for by either raising tax rates or cutting government spending. Either of these options would further negatively impact the attractiveness of the city as a place of residence and work, the study said.

Nevertheless, the work-from-home movement could spark new trends in office construction and renovation, according to the report. Declining office occupancy has prompted discussions on the merits of renovations of class-B or class-C office buildings into class-A structures or conversions into alternative uses such as multifamily.

Renovation projects make sense due to the higher value for high-quality properties and the expected slowdown of new office construction for years to come. Conversion projects make sense due to both a lack of affordable housing in large cities. Older buildings also tend to be more amenable to apartment conversion, according to the report.

Still, the study mentions there may be a role for local governments to play in order to subsidize the conversion of office buildings to housing.

"Future research should explore these implications and study the role for federal fiscal policy," according to the report.

How NYC and state must prepare for the possible implosion of commercial real-estate values

As those who got used to working from home refuse to return five days a week — and businesses shed the expensive Manhattan footprints giving every employee a desk — the value of America's costliest real estate is likely to crater. That means that commercial property tax collections, which account for a fifth of all municipal revenue, may soon crater, too.

New York has two choices: Wait for massive fiscal growing pains, or adapt now, minimizing the agony.

Adapting now means rethinking zoning. There's no good reason that in a modern city, buildings are so rigidly categorized into classes, with minimal flexibility between light industrial, commercial, residential, medical and other. A nimbler New York would end unnecessary distinctions to let people find the best uses for space with minimal regulatory hurdles.

Second, adapting now means budgeting smartly. Profligate spending that piles ever more recurring spending into the city's $101 billion-and-growing fiscal plan risks throwing New

York off a cliff if and when property receipts revenue plunges (personal income and related tax revenue is already expected to fall sharply this year).

State Comptroller Tom DiNapoli projects a potential city budget gap of nearly $10 billion in 2026. Building up reserves and responsibly dialing back bureaucracy are the wisest insurance policies against sudden downward shifts — especially if those coincide with a recession.

Third, adapting now means rethinking property tax collections, which have become unfair and incomprehensible over generations. Not only must New York rationalize levies on rentals, condos, coops and single-family homes; it must accept that golden-goose employers whose taxes have defrayed those from residences might not lay eggs forever.

Fourth, adapting now means more sensitively implementing statutes that inflict huge costs on commercial real estate, like the law that will soon start punishing noncompliant buildings with big fines. That's likely to accelerate a commercial exodus.

None of this precludes Mayor Adams and Gov. Hochul jawboning to bring more people back to the office. Let them try, but understand that an ounce of preparation is worth many pounds of hot air.

NORTH CAROLINA

Disparities in property tax appeals seen in School of Government study

Christopher McLaughlin examined local records to see if our state reflected a national trend of inequity affecting Black and Hispanic residents.

In 2020, an analysis of 118 million home sales across the nation from the past decade revealed that for nearly every state, property tax assessments were higher relative to sales prices in areas with higher Black and Hispanic populations. In what researchers coined "The Assessment Gap," areas with higher concentrations of poor and minority residents were paying more in property taxes, on average, than white families in the same financial situation.

Interested by the results of this study, School of Government faculty member Chris McLaughlin sought to determine if this national trend of inequity within the property tax system held true in North Carolina. His goal, he said, was two-fold.

"First, do poor and minority taxpayers appeal their property tax appraisals as often as do wealthy and white taxpayers?" he asked. "Second, when poor and minority taxpayers appeal their tax appraisals, do they achieve results similar to wealthy and white taxpayers?"

A call to action

In tackling this question, McLaughlin aimed to examine whether the state's appraisal process fulfilled all the core tenets of public administration.

"Equity is one of the four universally recognized pillars of public administration, along with economy, efficiency and effectiveness," McLaughlin said. "Given my background, I believe that studying property tax data for evidence of structural bias is the best way for me to help our local governments focus on equity concerns."

McLaughlin is a local government tax and finance expert, having published, instructed and advised on issues of property tax collection, tax foreclosures, occupancy taxes and more at the school for 14 years. Uniquely qualified to answer the question at hand, he reached out to Durham County — whose commissioners had made clear their strategic priority to eliminate systemic bias in an official 2020 resolution.

The county's tax administration office readily agreed to partner with McLaughlin. With a collaborative approach between the county and school teams, the group analyzed thousands of appeals from Durham County's last two reappraisals in 2016 and 2019.

Attempting to determine if appeal rates or appeal results varied with taxpayers' race, income or property value, the process ultimately found that appeal rates are generally higher for neighborhoods with lower minority populations and higher value homes.

Possibly indicative of an "assessment gap," the study found fewer successful appeals from poor and diverse taxpayers increases the likelihood that their tax assessment are further away from true market value. What the study did not conclude, however, is that results of the appeals were definitively affected by factors like race, income or property value.

In other words, while no racial bias was found, disparities in the process remain.

"Recognizing that systemic bias exists is not an accusation. It's a call to action. It creates an obligation," McLaughlin wrote in a Coates' Canons blog post. "It's vital that our local governments serve all of their constituents regardless of race, gender, income or other demographic characteristic."

Different county, similar finding

Building off his research, McLaughlin was contracted by Mecklenburg County to complete a study into potential systemic bias in its property tax appeal system this year.

To conduct the study, McLaughlin and two Carolina planning students and veterans of fellow faculty member Tyler Mulligan's "Community Revitalization" course analyzed residential property tax appeal data related to the county's 2019 countywide reappraisal.

The question posed was in line with the Durham County study: Do appeal rates and their results vary on property values and a neighborhood's minority population percentage?

The data yielded similar results as the previous study: Appeal rates are generally higher for (1) neighborhoods with larger white populations, and (2) neighborhoods with higher value homes. The Mecklenburg County data also showed that the results of informal appeals (which were not studied in Durham County) were generally better for (1) taxpayers from neighborhoods with larger white populations, and (2) more expensive homes.

These results suggest that structural disparities, while not necessarily rooted in racial bias, exist in local property tax systems. Ignoring them, McLaughlin said, would be incongruous with government's function to help solve community challenges.

“We can't fix problems we don't know exist,“ McLaughlin said.

Broadening the scope

McLaughlin is in the beginning stages of contracting with Orange County to complete a similar study. He hopes other counties across the state will follow suit.

“I remain impressed by the willingness of tax officials and elected county leaders to shine a spotlight on their tax systems to help root out potential biases and would welcome the opportunity to work with additional counties,” McLaughlin said.

OHIO

Working with Appraisers in Property Tax Assessment Appeals

Recent turbulence in various market sectors is creating the need to sharpen analyses and understandings of property tax assessment valuations. In evaluating the need for real property tax assessment appeals, it is critical to understand the roles an appraiser can play in the appeal process. Early in the appeal process, an appraiser can help evaluate the tax at issue in a property tax challenge case by evaluating market data and market trends, or by providing an opinion of market value as of the statutory valuation date. Knowing the tax at issue is critical for appeal planning purposes. Why spend $3,000 on an appeal probably only worth $2,000? Perhaps later in the process, an appraiser may assist a property owner by providing an opinion of value in a form appropriate for the circumstances.

Appraisers as Expert Witnesses

Appraisers are routinely engaged as expert witnesses in real property tax assessment contests where property valuations are the primary issue. Knowledgeable and experienced appraisers use appraisal practices and procedures to analyze data and develop and report opinions of value accordingly. Tax authorities or judges receive appraiser testimony and review appraisal reports, often asking appraisers questions about items contained within appraisal reports. An appropriately developed and well-written appraisal report, testified to by a knowledgeable expert, is often an essential part of a successful assessment challenge.

Expertise Matters

In working with appraisers, it's important to understand that there are different appraisal specialties and, depending on the circumstances, that expertise can play a significant role in the appraisal process. However, an appraiser may not have the necessary level of expertise for a particular appraisal assignment at the time of engagement; in this instance, the appraiser may agree to work to acquire the required level of expertise with the client's consent. Depending on the type of appraisal, an appraiser may need to seek assistance from other experts, particularly when an in-depth investigation conducted by a specialist would be helpful or necessary to establish items including, but not limited to, capitalization rates, architectural feasibility, or construction costs.

Appraisal Methodology Also Matters

Ohio counties are required to reassess property market values every six years, and a separate adjustment is made in the interim three-year period to take into account recent sales of comparable properties and changes in physical characteristics, such as additions or removal of structures, if not previously addressed. Examining market values indicated by sale prices of similar properties in surrounding areas, or the sales comparison approach, is one method for determining current taxable value. Another method is the income approach, where the income producing aspects of a property are analyzed to determine its taxable value. The income approach is often used when reassessing commercial offices and other commonly leased property types. The cost approach is commonly employed for special use properties and is also relevant to consider for other types of recently constructed properties. Your appraiser needs to be skilled in utilizing and understanding all three approaches to value, whether pursuing, or defending, a tax appeal. Another consideration is that certain property types require attention to valuation methodology nuances that are pertinent to Ohio property tax law. Your appraiser must also remain aware of where the property is in the six-year and three-year periods. A skilled appraiser can help you protect your bottom line. It is important to discuss all your available options with your appraiser.

When considering the use of appraisers, it is important to note the protections that are available only when working with appraisers through legal counsel. An attorney's communications with an appraisal expert are protected in Ohio, which can be critical when dealing with a property in uncertain circumstances, especially given the nuances in Ohio's legal structure for property tax valuations.

Going Forward

The impact that House Bill 126 (HB 126), passed into law earlier this year, will have on property tax assessment appeals is uncertain. Aside from other considerations, dates of valuation are important factors. It is important to bear in mind that the valuation date for 2022 property taxes was Jan. 1, 2022, and involved a different set of market conditions than what Jan. 1, 2023, will bring.

Property owners and authorized tenants should carefully examine their assessments and obtain second opinions from qualified experts in complex situations.

PENNSYLVANIA

Philadelphia Extends Deadline for First Level Reviews of Tax Assessments

No one can deny that the fall months have a certain allure. With the changing leaves, American author Jim Bishop noted that "Autumn carries more gold in its pocket than all the other seasons." Of course, Autumn isn't the only one looking for pockets of gold. The City of Philadelphia anticipates $92 million in additional revenue from its recent property assessments and the deadline to challenge assessments, although extended, is quickly approaching.

The new assessments come after a three year pause on assessments due to concerns about assessment inaccuracies and pandemic-related issues. Initial reviews of the new assessments suggest many taxpayers will face dramatically increased tax bills. On average, assessments increased by thirty-one percent (31%) since the City's reassessments for 2020. In some cases, taxpayers have reported increases over two hundred percent (200%).

Although the City had three (3) years to prepare for the roll-out of the new assessments, it was not without problems. This includes a delay with giving notice of the increased assessments reportedly due to a lack of envelopes. As a result of this delay, the City extended the deadline for filing a first level review ("FLR") with the Office of Property Assessment (the "OPA") until October 14, 2022.

The FLR is a process unique to Philadelphia and allows taxpayers to engage the OPA in semi-informal discussions to resolve assessment disputes. Taxpayers choosing to participate in the FLR process will need to disclose additional information about the property to establish a reduced assessment. If successful, the OPA will voluntarily adjust the assessment to an agreed value, which avoids the need for a formal hearing before the Board of Revision of Taxes ("BRT").

A taxpayer can also appeal the OPA's assessment directly to the BRT. The party appealing to the BRT has the burden of showing that the assessment is too high. For all properties assessed at over one million dollars, the taxpayer must provide an appraisal report with the appeal. The deadline to file a formal real estate assessment appeal with the BRT is always the first Monday in October – for the 2023 tax year, the deadline is October 3, 2022. If a taxpayer fails to file an appeal by the October 3rd deadline, their rights to challenge the assessment may be waived even if they filed for a FLR.

In considering whether to pursue a FLR or a formal appeal to the BRT, the property owner should always weigh the costs versus the benefits of moving forward with an appeal. Factors to consider include the local tax rates, the likelihood of an increased or a reduced assessment, the period of years the appeal may cover, the costs of litigation, and the possible impact on realty transfer tax or use and occupancy tax, among several others.

Can Pennsylvania erase property taxes without wiping out education?

The long, difficult and ongoing quest to reduce property taxes in Pennsylvania: A City & State analysis.

In 2015, an effort to eliminate Pennsylvania's school property tax system failed by one vote, with Democrat Mike Stack, then the state's lieutenant governor, casting the tie-breaking vote to kill the plan. In the days that followed, Stack explained his vote, arguing that the bill would have left a "billion-dollar black hole" in the state's public education budget. The proposal would have shifted the state's school funding system from one based on local property taxes to one underwritten by a combination of increased sales and personal income taxes.

For years, property taxpayers have been itching for a solution that brings down their tax burdens, while education advocates and school district officials have been cautious to upend a system that is reliant on property tax dollars. The result is a complicated and ongoing push to bring down property tax costs in the short term while also ensuring schools have adequate funding – and keeping the prospect of full-scale property tax elimination in view at the same time.

The sheer complexity associated with overhauling the state's tax laws has made property tax elimination a heavy lift in Harrisburg. It even prompted some lawmakers to put full-scale elimination on the back burner while they pursued other options, including plans that sought to increase financial assistance to homeowners and reduce property tax bills, rather than eliminate them entirely.

Just this year, lawmakers approved a temporary expansion of the state's Property Tax and Rent Rebate program, which provided an additional $140 million in financial relief to eligible taxpayers.

But with a potential recession looming over the country, fears are mounting that a lack of action on property tax reforms could result in compounding economic hardships for families who are already struggling with inflation and the high costs it has brought to everyday life.

"If we don't solve this problem and fix this tax code in the commonwealth, it will be the (straw) that breaks the camel's back," said Republican state Rep. Frank Ryan, who has long advocated for the elimination of the current property tax system. "This is the No. 1 issue that needs to be addressed to keep Pennsylvania solvent."

According to data from the state's Independent Fiscal Office, Pennsylvanians paid $21.5 billion in property taxes in 2020, which represented 2.7% of total income. The office developed a "property tax burden" for each county, calculated using a ratio of total property taxes to total income.

Monroe County had the largest property tax burden of all 67 counties, with the IFO finding that Monroe County residents paid a total of $427 million in property taxes, making up 5.14% of the total income for those living in the county. Pike County was second, with a tax burden of 4.33%, followed by Sullivan County (4.1%), Northampton County (3.76%) and Wayne County (3.71%). Berks, York, Lehigh, Greene and Delaware counties rounded out the top 10.

The IFO analysis also determined that, generally speaking, rural counties had higher property tax burdens "because those counties have relatively larger elderly populations and lower per-capita income levels."

State Sen. Mario Scavello, a Republican from Monroe County, has developed a reputation for telling harrowing stories of constituents struggling under the weight of property tax payments. During a 2019 public hearing on elimination hosted by the Senate Republican Policy Committee, Scavello told of Pennsylvania residents forced into financial plight by ballooning real estate taxes.

One constituent, Scavello said, was slated to lose her family home. Another 88-year-old resident wrote to Scavello telling him about how she was forced to make decisions between paying for food, paying for clothes and paying her property tax bill. He also relayed a story about a man who attempted suicide after learning that his house was going to be foreclosed upon.

"We can't have too many more of these meetings," Scavello said at the time. "We need to solve the problem and if we don't do it for everybody – do seniors. We need to do something."

Ryan said that a lack of action from state lawmakers could result in more and more people facing dire consequences. "I tell everybody – and they tell me – they are about one life event away from losing their home."

But for all those who say the state needs to fully – and permanently – replace the state's property tax system, there are also those worried about the impact such a plan would have on school funding, since local school property taxes provide a significant source of funding for the state's 500 school districts.

"You can't eliminate property taxes without having a plan on the other side for what you're going to do going forward," Hannah Barrick, the executive director for the Pennsylvania Association of School Business Officials, told City & State in an interview. Barrick said the association previously opposed certain property tax elimination plans that it felt were too simplistic.

Barrick said PASBO is "very supportive" of property tax relief efforts, but stressed that future conversations about replacing the property tax system need to be more comprehensive and factor in mandated costs experienced by school districts, such as pension contributions, special education costs and payments to charter schools.

"The challenge really is trying to understand what school districts need to operate," Barrack said. "Why do districts have property taxes in the first place? What are the costs that are driving education? You've got a lot of mandated costs – pensions, special ed, charter school tuition. All of those things are really the reason why property taxes exist and continue to increase in some districts."

The timeline for when state lawmakers could revisit the great property tax debate could hinge on the results of next month's elections – where the governor's office and most of the seats in the General Assembly will be on the ballot.

Ryan, the outgoing Lebanon County lawmaker, said he believes the political will still exists in Harrisburg to get property tax elimination to the governor's desk. However, what happens once a prospective bill gets to that desk is another question.

With Gov. Tom Wolf slated to leave office in a few months, any changes to the state's property tax system will likely be handled by the next governor. Each of the five gubernatorial candidates that will appear on the ballot this year support using the power of the office to lower property tax bills and re-think education funding, but in different ways.

State Sen. Doug Mastriano, the state's GOP nominee, did not respond to a request for comment about how he would address property taxes as governor. His campaign website describes property taxes as an "unfair burden," and says Mastriano will "immediately establish a Property Tax Elimination Taskforce to find a way to get this burden off of hardworking Pennsylvania homeowners."

Mastriano has also sponsored legislation in the state Senate that would eliminate property taxes for people over the age of 65 who have an annual household income of $40,000 or less and have lived in the state for at least 10 years. That bill has not yet received a committee vote.

Democrat Josh Shapiro, his general election opponent and the state's attorney general, has proposed a number of reforms to state tax laws since launching his campaign for governor, like eliminating a sales tax on cell phone service, but he hasn't publicly backed the elimination of the property tax system like Mastriano has. Instead, Shapiro has championed an expansion of the state's Property Tax and Rent Rebate Program, which provides financial assistance to those over the age of 65.

Under current law, the maximum rebate is $650, but some homeowners may qualify for rebates of up to $975 thanks to other supplemental rebates. Eligibility for the program is limited to those with an income below $35,000, and renters may only qualify if their annual income is $15,000 or lower.

Shapiro is proposing an expansion of the program, increasing the maximum rebate to $1,000, and increasing the number of people who are eligible. Per Shapiro's plan, 275,000 more people would be eligible for relief. A spokesperson for Shapiro said he intends to make expanding the state's existing property tax rebate program a top priority, if elected. "Josh Shapiro knows too many Pennsylvanians are struggling right now, and we must do more to make real, lasting change that will help people all across the Commonwealth dealing with inflation and high costs," said Shapiro spokesperson Manuel Bonder. "As Governor, Josh will bring Democrats and Republicans together to expand the Property Tax Rent Rebate program in order to cover more seniors and put more money back in their pockets."

"While Josh is focused on a real plan to provide relief for Pennsylvania families, Doug Mastriano is continuing to push a reckless agenda to bankrupt our schools with no plan to pay for it," Bonder added, criticizing Mastriano over his education proposals.

Pennsylvania's third-party candidates for governor have also taken issue with the school property tax system.

Morgen Mogus, the campaign manager for Libertarian Party nominee Matt Hackenburg, said the Libertarian Party supports outright elimination of the tax at all levels. "The Libertarian Party supports eliminating not just the school property tax system, but the property tax entirely because we believe your community knows best how to spend that money on education," Mogus said in an email.

Green Party nominee Christina "PK" DiGiulio told City & State that "funding schools through property leads to inequity" and suggested that policymakers should rethink how education is funded.

"A child's ZIP code must not determine the quality of their education. There should be a fair funding system that supports the needs of each student and each community through an equitable process," DiGiulio said, adding that government subsidies for fossil fuel projects and proceeds from legalized recreational marijuana sales could be used to bolster education funding.

Joe Soloski, who is the nominee for the newly formed Keystone Party, also prefers to do away with school property taxes. "The property tax system is the most archaic and most regressive tax system that we have," he said in an email. "There is no rhyme or reason to it and it varies wildly from one county to another."

Soloski suggested replacing the current property tax system with a county-based sales tax. "Completely eliminating the current property tax system and replacing it with a more competitive county sales tax system would go a long way to allowing people to retain ownership of their properties and increase a higher level of fairness that the current system lacks."

Regardless of who occupies the governor's mansion come next January, there is no shortage of factors that state officials must take into account as pressure mounts on them to reduce – or eliminate – property taxes. New revenue sources will have to be established. Additional rounds of rebates and other forms of relief will likely be distributed. Mandated costs faced by school districts will have to be reviewed.

With a particular focus on school district costs and mandates, Barrick said that all these factors should be viewed as a whole the next time policymakers consider taking action.

"There hasn't been a thoughtful, long-term plan to ensure that school funding would be able to continue in a way that would meet those mandated cost increases and the needs of schools," she said. "You could really balance all these things together if we took a step back and tried to approach it as a gigantic, connected mess, instead of trying to silo these things off one by one."

TEXAS

Texas has a $27 billion surplus. Should it cut taxes or invest in infrastructure?

The drumbeat among Republicans is strongly in favor of using it largely for a big property tax cut.

With state government poised to enjoy a massive budget surplus, lawmakers on Friday began debating in public how to use the money.

Republicans who are likely to remain in control of the Legislature after next month's election are talking tax cuts. Democrats are questioning that approach, saying shrewd investments in improving infrastructure and workforce training could help the state economy grow even faster.

Sen. Paul Bettencourt, R-Houston, told an audience of tax professionals and people who represent businesses that at least a portion of the $27 billion surplus projected by Comptroller Glenn Hegar should go toward further reductions of school property taxes.

"When you have excess funds, part of the money's got to go back to the taxpayers," said Bettencourt, who heads the Senate Local Government Committee.

"That's who actually gave it to you in the first place."

Bettencourt didn't endorse a suggestion by Gov. Greg Abbott that at least half of the $27 billion surplus be applied toward a property tax cut.

Abbott first threw out the idea at a reelection campaign rally in Fairview on Aug. 31, about six weeks after Hegar increased his guess about how much of a cushion the state will enjoy at the end of the current two-year budget cycle.

Bettencourt, who has championed property tax relief, called the idea of applying half of a surplus to tax cuts "a good model."

But there's stiff competition for the excess dollars as preparations intensify for next year's legislative session, he noted.

"Humorously, there's a story that's … going around the Capitol that we have $1 trillion worth of requests for those $27 billion," Bettencourt said at the annual meeting of the Texas Taxpayers and Research Association in Austin. "There's going to be a slew of requests."

GOP leaders have made school property tax cuts a top agenda item for the 2023 session. Abbott, Lt. Gov. Dan Patrick and Speaker Dade Phelan, R-Beaumont, have said they plan to use $3 billion in federal COVID relief funds on property tax reduction.

Patrick, the Senate's presiding officer, greeted Hegar's July 14 surplus announcement with a laundry list of how he'd spend the money: $4 billion more for property tax cuts; an increase in the exemption from a home's value for school taxes to $60,000, from $40,000; suspending state motor-fuels taxes for the rest of this year; and providing retired teachers with another "13th check," to help offset their lack of cost-of-living increases.

"Texas homeowners must receive tax relief before we commit to any new spending," Patrick said.

‘Leaving out the renters’

On Friday, Austin Democratic Rep. Donna Howard told the tax-research group that the GOP leaders’ talk of huge property tax cuts is “a disservice to having a real honest and open discussion.”

In 2006, Howard’s first session, the Legislature committed $14 billion of state money over two years to buy down school maintenance and operations tax rates by one-third, she noted.

Property tax cuts and the recent increase of the homestead exemption, from $25,000 to $40,000, are “beneficial,” she said.

“But we’re leaving out the renters,” said Howard, a nurse and former school board president who is the longest-serving Democrat on the budget-writing House Appropriations Committee.

Hegar’s guess about the surplus “might be even higher” when the Republican tax collector and revenue forecaster has to issue his biennial revenue estimate in January, she said.

Howard was referring to Hegar’s constitutional duty to give lawmakers, near the start of their session, his best guess on how much state discretionary revenue will remain unspent at the current cycle’s end — Aug. 31, 2023.

Hegar also has to guess how much revenue the state will take in during the succeeding 24 months. His revenue estimate sets the ceiling on what lawmakers may spend in the 2024-25 budget they write next session.

Howard ticked off “investments” that could soak up all of the $27 billion surplus — improvements to broadband, water-supply structures, transmission lines and paying the $6.3 billion of debt that electricity generators and other energy companies had to “securitize” after the 2021 winter freeze. She included full funding of TEXAS Grants for four-year college students and a community college tuition assistance program, saying it’s needed to improve the “educated workforce pipeline.”

Don’t do “knee jerk” tax cuts, she urged.

“What is going to give us the long-term benefit that we need?” Howard asked.

As in the past, lawmakers might be able to cobble together enough state funds to buy down school tax rates so that the average homeowner receives “a couple of hundred dollars” of relief, she said.

"But we have to sustain that and bake that into the budget and it's an ongoing expense," Howard said. "I hope we'll have a lot of discussion about this and that we'll come [into session] not with things decided, but with all the issues before us."

The session starts Jan. 10.

Dallas City Council OKs $4.75 billion budget with modest tax decrease but higher fees

The new annual spending plan is $400 million more than the budget approved last fall.

The Dallas City Council unanimously approved a $4.75 billion budget Wednesday, a near-record spending plan that lowers the property tax rate, raises residential trash and water service fees, and adds more funding for the police and fire departments.

It's the first time since 2019 that all 15 council members voted in favor of the budget, which will take effect Oct. 1. Mayor Eric Johnson credited the broad support to, among other things, the tax rate decrease and plans to put more money into initiatives aimed at public safety, homelessness, and sidewalk and other infrastructure improvements. Several initiatives that Johnson personally asked for were included in the budget.

"Mr. Manager, this is the best budget I have seen since I've been mayor of the city," Johnson said to City Manager T.C. Broadnax. "That's not to say that the budget is perfect. There is no perfect budget."

The budget is $400 million larger than the one approved last fall, buoyed in part by higher revenue from sales and property taxes.

The new budget previously was listed by the city as coming in at $4.51 billion, but Janette Weedon, Dallas budget and management services director, told The Dallas Morning News that didn't factor in the inclusion of an extra roughly $6 million in employee's retirement fund money and $241 million more for internal service and other funds.

The council approved several amendments to the initial budget recommended by Broadnax in August, much of involving the shifting of money that officials had planned to set aside into a fund for future pension-related expenses. The amendments included paying for plans to repair and renovate Dallas Fire-Rescue buildings and buy new equipment, hire more community prosecutors, and boost the new Inspector General division from 10 workers to 16.

The council set the property tax rate at 74.58 cents per $100 valuation, a 2.75 cent drop from the current rate. But with appraisals rising throughout North Texas, most property owners will still pay more.

Still, the 2.75-cent decrease is the most in at least 37 years, and the last time Dallas' tax rate was around 74 cents was in 2010. Dallas' property tax rate is among the highest of major cities in the state.

Council member Cara Mendelsohn said that while she thought the budget had "some big wins," she was concerned the property tax rate wasn't lower. A budget amendment she proposed last week to shift $4.4 million from the new pension stabilization fund to lower the tax rate to 74.33 cents was voted down.

"We have an alarming growth of city expenses, deferred maintenance, a looming structural deficit, reserves are being depleted," she said. "It's the end of our large fiscal cash infusions, property values are maxed out, and we still haven't restored city services to pre-COVID levels for things like libraries."

The minimum wage for city workers is increasing from $15.50 an hour to $18 in the new budget.

Monthly residential sanitation fees are estimated to rise by $1.51 from the current budget, increasing the average residential sanitation bill to $35.81. The jump is being driven by rising costs for gas and roll carts and the minimum-wage hike.

Storm drainage fees will increase by 40 cents to $9.22 on an average monthly bill.

Water and wastewater service fees will go up $3.25 to an average rate of $70.19 a month. The higher fees are to cover higher staff costs, improvements to department equipment, and costs related to connecting the city's water system to Lake Palestine, which is 100 miles southeast of Dallas.

Other budget highlights include:

— Hiring 250 new police officers.

— Enlarging the development services office to address monthslong delays in issuing residential and commercial building permits. The expansion will include creating a team dedicated approving single and multifamily housing projects.

— Creating a Homeless Action Response Team, to more quickly address homeless encampments.

— Expanding library hours at 16 branches around the city that lack internet access and other resources from five days a week to six.

— Hiring more code enforcement staff for apartment inspections and more animal services workers to respond to calls about loose dogs.

— Dedicating $1.5 million for street safety improvements, such as speed bumps, as part of the city's Vision Zero plan.

— Hiring new employees to oversee how plans seeking to address traffic deaths and racial disparities are implemented.

Also on Wednesday:

— The council approved nearly $4.2 million in financial incentives for developers led by Dallas-based Edwin Cabaniss to revive the Longhorn Ballroom just south of downtown. The estimated $14.3 million plan is expected to turn the vacant historic music venue and dance hall into a multi-use entertainment center. The iconic music venue was built in 1950 but has been in disrepair since the 1990s. Construction is to begin next month and wrap up in June 2026.

— The council rejected a proposal to allow developers to build warehouses and single- and multi-family homes on vacant land near the Capella Park neighborhood in southwest Dallas, following a previous recommendation from the City Plan Commission. The council heard from around 40 people who opposed the development, citing the impact of increased industrial vehicle traffic and other things on their neighborhood of mostly single-family homes. The project is backed by Bishop T.D. Jakes, whose megachurch The Potter's House sits about 3 miles north of the 175 acre site.

WISCONSIN

Wisconsin property values see record growth in 2022

Housing shortage and inflation helped drive up the value of homes. Some housing advocates worry it's a burden on low-income homeowners and renters.

Wisconsin property values saw a record increase in 2022, coming after a continued shortage of homes and new real estate demand during the COVID-19 pandemic.

The Wisconsin Policy Forum found total property values in the state grew by 13.8 percent, overwhelmingly surpassing the previous record increase of 9.6 percent in 2006. The nonpartisan research group’s analysis looks at data from the state Department of Revenue on equalized property values as of Jan. 1 dating back to 1985.

Research director Jason Stein said a variety of factors contributed to the record growth from 2021 to 2022. With lower interest rates caused by the pandemic, many people bought homes in 2021. Inflation also drove up the price of property just like many other commodities.

But Stein said property values have also increased because of the limited supply of homes available in the last decade. He said home building across the United States slowed significantly after the housing market crash of 2007 and 2008, and the industry has been working to catch up ever since.

"We're seeing more construction, we've seen more construction in 2021. But it just takes a long time to, you know, dig out from under that," he said.

Stein said the growth in real estate values have been widespread across the state’s urban and rural areas. Southeast Wisconsin saw growth at slightly less than the statewide rate. The City of Milwaukee saw an 11.6 percent increase, slightly less than the previous year’s growth of 12.3 percent. Total values in Dane County grew more than the state at 15.4 percent, and the City of Madison saw an even higher rate at 17.2 percent.

"Dane County overtook Milwaukee County to be the largest county in the state in terms of property values, which is remarkable when you consider how much larger Milwaukee County is in terms of population," Stein said.

He said the higher property values are a boon for existing homeowners, especially because property taxes have not increased at the same rate because of state levy limits.

Statewide gross property tax levies increased by 1.6 percent, the smallest annual increase since 2014.

Because Wisconsin law has strict revenue limits for school districts, Stein said many districts had to lower their tax rate or keep increases to a modest level because of increases in revenue from the state. He said municipalities are also restricted to only increase property taxes by the value of new construction, which was challenged by supply chain disruptions and a tight labor market.

Higher property values can be difficult for people looking to buy a home or who are renting.

"Almost no one who is staying in their current job is going to get a 13 percent raise, right?" Stein said. "So housing is getting less affordable for you, just the actual price of the housing.

Interest rates are going up right now. That is going to make the financing of a mortgage more difficult."

Andy Heidt is housing policy and programs manager for Wisconsin Community Action Program. He said higher property values can be difficult for low-income homeowners because they end up paying more in taxes, cutting into their limited money for home upkeep or monthly expenses.

Heidt said landlords pass along the increase in their property taxes to their tenants by raising monthly rates.

"It's just going to be a really hard dynamic to keep people with vulnerable economic situations stable in homes," he said.

Heidt said the increase in property values has also made it a lot harder for people to move from renting to homeownership. He said when people can't afford to make the transition, it has a ripple effect across the housing market.

"They're staying in rental units that other people can't move into, further creating supply issues on the affordable housing rental side," Heidt said.

He said the increased rents and rising interest rates also make it harder for the elderly to downsize, even if they're able to get a good price for their existing home.

As the pressure on affordable housing and rental rates builds with higher property values, Heidt said he worries the state will see an increase in the number of people who can't afford to remain in their homes.