

Property Tax Revenue Increased As Property Values Fell

By Aaron Merchak and Kail Padgitt

The recession that began in December 2007 was precipitated by a financial crisis which in turn was triggered by the popping of a real estate bubble, particularly in residential property. And indeed, property values did decline dramatically. The Case-Shiller index, a popular measure of residential home values, shows a drop of almost 16 percent in home values across the country between 2007 and 2008. As property values fell, one might expect property tax collections to have fallen commensurately, but in most cases they did not.

Data on state and local taxes from the U.S. Census Bureau show that most states' property owners paid more in FY 2008 (July 1, 2007, through June 30, 2008) than they had the year before (see Table 1). Nationwide, property tax collections increased by more than 4 percent. In only four states were FY 2008's collections lower than in FY 2007: Michigan, South Carolina, Texas and Vermont. And in three states – Florida, Indiana and New Mexico – property tax collections rose more than 10 percent.

Table 1
State and Local Per Capita Property Tax Collections
Fiscal Years 2007–2008

| | Per Capita Property Tax Collections 2007 | Per Capita Property Tax Collections 2008 | Percentage Change | Rank (1 is Largest Increase) |
|---------------|---|---|------------------------------|---|
| United States | \$ 1,298 | \$ 1,352 | 4.2% | |
| Alabama | \$ 454 | \$ 495 | 9.1% | 6 |
| Alaska | \$ 1,523 | \$ 1,559 | 2.4% | 41 |
| Arizona | \$ 991 | \$ 1,043 | 5.2% | 23 |
| Arkansas | \$ 477 | \$ 512 | 7.4% | 11 |
| California | \$ 1,347 | \$ 1,449 | 7.6% | 10 |
| Colorado | \$ 1,181 | \$ 1,254 | 6.2% | 13 |
| Connecticut | \$ 2,314 | \$ 2,381 | 2.9% | 40 |
| Delaware | \$ 662 | \$ 695 | 4.9% | 26 |
| Florida | \$ 1,476 | \$ 1,649 | 11.7% | 1 |
| Georgia | \$ 1,009 | \$ 1,063 | 5.3% | 22 |
| Hawaii | \$ 891 | \$ 977 | 9.7% | 4 |
| Idaho | \$ 752 | \$ 780 | 3.7% | 35 |

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|--|----------|----------|-------|----|
| Illinois | \$ 1,604 | \$ 1,662 | 3.6% | 36 |
| Indiana | \$ 976 | \$ 1,089 | 11.6% | 2 |
| Iowa | \$ 1,217 | \$ 1,245 | 2.4% | 42 |
| Kansas | \$ 1,251 | \$ 1,323 | 5.8% | 17 |
| Kentucky | \$ 609 | \$ 651 | 6.9% | 12 |
| Louisiana | \$ 606 | \$ 643 | 6.1% | 14 |
| Maine | \$ 1,565 | \$ 1,636 | 4.6% | 29 |
| Maryland | \$ 1,164 | \$ 1,171 | 0.6% | 46 |
| Massachusetts | \$ 1,703 | \$ 1,789 | 5.0% | 24 |
| Michigan | \$ 1,443 | \$ 1,409 | -2.4% | 48 |
| Minnesota | \$ 1,183 | \$ 1,273 | 7.6% | 9 |
| Mississippi | \$ 758 | \$ 785 | 3.4% | 37 |
| Missouri | \$ 893 | \$ 924 | 3.4% | 38 |
| Montana | \$ 1,163 | \$ 1,221 | 5.0% | 25 |
| Nebraska | \$ 1,349 | \$ 1,399 | 3.7% | 34 |
| Nevada | \$ 1,136 | \$ 1,241 | 9.2% | 5 |
| New Hampshire | \$ 2,215 | \$ 2,317 | 4.6% | 28 |
| New Jersey | \$ 2,489 | \$ 2,625 | 5.5% | 20 |
| New Mexico | \$ 516 | \$ 568 | 10.2% | 3 |
| New York | \$ 1,964 | \$ 2,009 | 2.3% | 43 |
| North Carolina | \$ 815 | \$ 860 | 5.5% | 19 |
| North Dakota | \$ 1,096 | \$ 1,157 | 5.6% | 18 |
| Ohio | \$ 1,157 | \$ 1,178 | 1.8% | 45 |
| Oklahoma | \$ 537 | \$ 582 | 8.4% | 8 |
| Oregon | \$ 1,068 | \$ 1,133 | 6.1% | 15 |
| Pennsylvania | \$ 1,194 | \$ 1,239 | 3.8% | 33 |
| Rhode Island | \$ 1,857 | \$ 1,957 | 5.4% | 21 |
| South Carolina | \$ 980 | \$ 963 | -1.7% | 47 |
| South Dakota | \$ 1,033 | \$ 1,072 | 3.8% | 32 |
| Tennessee | \$ 738 | \$ 752 | 2.0% | 44 |
| Texas | \$ 1,449 | \$ 1,393 | -3.8% | 49 |
| Utah | \$ 777 | \$ 823 | 5.9% | 16 |
| Vermont | \$ 1,994 | \$ 1,896 | -4.9% | 50 |
| Virginia | \$ 1,304 | \$ 1,362 | 4.5% | 30 |
| Washington | \$ 1,148 | \$ 1,199 | 4.4% | 31 |
| West Virginia | \$ 628 | \$ 683 | 8.7% | 7 |
| Wisconsin | \$ 1,503 | \$ 1,573 | 4.6% | 27 |
| Wyoming | \$ 2,310 | \$ 2,385 | 3.3% | 39 |
| Dist. of Columbia | \$ 2,591 | \$ 2,938 | 13.4% | |
| Source: Census Bureau and Tax Foundation calculations. | | | | |

There are two explanations for the resilience of property tax collections. The first is that administratively, it is comparatively easy for localities to raise the property tax rate and thereby compensate for the declining value of property. Unlike state sales and income tax rates, which cannot be changed without state legislatures deliberating and voting in what invariably involves a public, political dispute, property tax rates can be raised with much less fuss. For example, if a county or municipality has determined to increase its budget by 5 percent over the previous year, and the government anticipates that property tax values will be stagnant, then a 5 percent rate hike will be part of the budget. In states where FY 2008 property tax revenues were actually lower than in FY

2007, it is likely that the drop in assessed values was much steeper than state and local governments had anticipated.

In addition to the ease of raising rates, lagged or incorrect assessment is a second reason that property tax revenues continued to increase in FY 2008 even as the market value of property dropped. Many homeowners were undoubtedly paying property taxes on an assessed value that was higher than the property's true value, which might have occurred because assessors did not perceive how quickly market values were falling or because the local government does not assess every year.

When the fiscal 2009 data are published, we are likely to see that local governments, and state governments in those states that levy property taxes, have also raised property tax rates to make up for revenue lost from sales and income taxes during the recession, as well as revenue lost from property taxes on houses that have foreclosed.

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