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Most of Reschovsky's research is on state and local government public finance with a focus on tax policy and intergovernmental fiscal relations. In addition to research on the property tax, he is working with Lincoln Institute research assistant Adam Langley on a multi-year simulation model of the school funding system in Wisconsin. Other current research projects include the design and evaluation of tax policies to increase the rate of home ownership for low-income and minority households, and the measurement of fiscal disparities in selected U.S. metropolitan areas.

His most recent articles have appeared in such academic journals as Public Finance Review, Public Budgeting and Finance, National Tax Journal, Comparative Education Review, *and* Education Finance and Policy. *Contact: reschovsky@lafollette.wisc.edu*

Andrew Reschovsky

LAND LINES: *What has been the major focus of your work as a visiting fellow at the Lincoln Institute?*

ANDREW RESCHOVSKY: I have been working on several projects related to the funding of local governments. In particular, I am interested in the role played by the property tax as the major source of tax revenue for both municipal governments and school districts in the United States. In one project conducted with Richard Dye, another visiting fellow at Lincoln, we set out to see whether the property tax plays a major role in providing stability in local government finance by substituting tax revenues for cuts in state aid that tend to occur during economic slowdowns. In a second project, I am collaborating with two economists in the Wisconsin Department of Revenue on a project to trace changes over time in the property tax bills and tax burdens faced by Wisconsin's homeowners.

LAND LINES: *In the first project, did you find that the property tax increased as a result of cuts in state aid?*

ANDREW RESCHOVSKY: Following the relatively mild recession in late 2001, most states faced several years of large budget deficits. To help balance their budgets many states reduced the amount of fiscal assistance that they provided to their municipal governments and to their school districts. In some earlier research, I calculated that, after accounting for the rising cost of education, 37 states reduced state education aid between fiscal years 2002 and 2004. Using a statistical model to explain the observed difference across states in changes in per capita property tax revenue over this two-year period, we found that on average school districts increased property taxes by 23 cents for each dollar cut in state aid. I believe that these results highlight the important role that the property tax plays in maintaining the stability of the state and local sector.

LAND LINES: *With respect to your study with the Wisconsin Department of Revenue, why are you interested in changes in individuals' property tax bills?*

ANDREW RESCHOVSKY: In recent years a number of states have imposed limits on the growth of local government property tax revenues, or on annual increases in the assessed value of property. One reason for implementing these limitations is the widespread belief that most taxpayers are facing large annual increases in their property tax bills. The reality, however, is that in most states almost nothing is known about the rate of change in property taxes faced by homeowners.

Without knowledge of which taxpayers are facing rapid changes in property tax liabilities, or which taxpayers' taxes are particularly high relative to their incomes, it is difficult to design policies to target property tax relief to those taxpayers for whom the property tax is truly creating economic hardships. We are also interested in learning how homeowners respond to changes in their property tax bills. For example, is it true, as is often claimed, that elderly taxpayers decide to move in response to high property tax burdens (that is, high relative to their annual income)? We are also interested in exploring whether homeowners take advantage of existing state policies, such as circuit breakers, designed to reduce high tax burdens.

LAND LINES: *What data are you using to answer these questions about the property taxes paid by individual homeowners?*

ANDREW RESCHOVSKY: To facilitate its tax compliance efforts, the Wisconsin Department of Revenue has created a data warehouse that contains state and federal income tax return data for all Wisconsin taxpayers for every year since 2000. Because Wisconsin provides its residents with an annual school property tax credit, homeowners are required to list their property tax payments on their income tax returns. To document the annual changes in property taxes paid by individual homeowners, we used data from this warehouse to create a panel dataset that traces the annual income and property tax payments of all Wisconsin homeowners since 2000. To isolate as well as we can the impact of public policy on changes in homeowners' property tax payments, our initial analysis is restricted to those homeowners who have been in the same house since 2000.

LAND LINES: *What have you learned from looking at the Wisconsin data?*

ANDREW RESCHOVSKY: We learned that while the average annual rate of increase in property taxes was 3.6 percent between 2000 and 2005, the rate of change varied tremendously among homeowners. Property tax bills actually decreased for 11.8 percent of homeowners and increased by less than 2 percent a year for another 21.1 percent of homeowners. On the other hand, for 18.3 percent of Wisconsin's homeowners property taxes grew by more than 6 percent per year over this period. We are currently in the process of determining the characteristics of the homeowners who experienced tax reductions and those who faced particularly rapid tax increases.

LAND LINES: *Will you be able to use your Wisconsin data to explain the reasons why there is so much variation among homeowners in the growth rate in property tax liabilities?*

ANDREW RESCHOVSKY: Yes. Our next step will be to attach to the data on individual homeowners new information about the municipality and school district in which they live. Then we will be able to determine whether changes in property taxes were attributable to changes in property tax rates, or to other changes in public policy.

LAND LINES: *Over the past several years the property tax has been under attack in many states. Why do you think this is occurring?*

ANDREW RESCHOVSKY: The property tax has never been a popular tax, and with growing economic uncertainty about the future many taxpayers see the property tax as one of the few major annual expenses that they may be able to influence through the political process. Thus, taxpayers are putting pressure on elected officials to take actions to reduce property taxes in one way or another. Also, the rapid increase in home prices between 2000 and 2005 led to substantial tax increases for some taxpayers, and those taxpayers tend to complain loudly to their political representatives.

LAND LINES: *State governments have been adopting policies to limit local governments' ability to levy property taxes. Are there some property tax relief policies that states should avoid?*

ANDREW RESCHOVSKY: In my view any policy designed to provide property tax relief should meet three criteria. First, relief measures should do nothing to limit or distort the essence of the property tax as a tax on the market value of property. Second, no tax relief measure should interfere with the freedom of elected local governments to determine the level of property taxation within their community. And third, property tax relief should be targeted to taxpayers for whom the property tax causes substantial economic hardship.

Meeting these criteria means that limits on assessment increases should be avoided, even though these policies tend to be popular and have been adopted in nearly 20 states (Haveman and Sexton 2008). These assessment limits are particularly troublesome when they are designed to permanently destroy the link between the level of property taxes and the market value of property. Limits placed by state governments on the annual percentage increases in property tax levies of local governments also should be avoided because they eliminate the ability of local residents, through their locally elected officials, to control their level of taxation.

When property tax limitations restrict property tax revenue growth to rates below the annual growth in the costs of providing public services, local governments are forced to make cuts in services. Both assessment limits and levy limits also fail to target property tax relief to those taxpayers facing the heaviest property tax burdens.

LAND LINES: *What property tax relief measures would you recommend?*

ANDREW RESCHOVSKY: A number of states are using circuit breakers. These policies target property tax relief to those taxpayers whose property tax bill exceeds a specified percentage of their income. Most circuit breakers provide taxpayers with a state-financed payment, sometimes in the form of an income tax credit, intended to reduce high property tax burdens.

The advantage of circuit breakers is that they can target property tax relief to those facing the highest tax burdens (relative to their annual income). In practice, however, many states limit their circuit breakers to taxpayers with very low incomes, and some limit the size of the circuit breaker any taxpayer may receive, thereby reducing substantially the degree of tax relief provided. Another problem with circuit breakers is that they can provide an incentive for eligible taxpayers to support higher local government spending and property tax rate increases. This incentive is created by the fact that because the circuit breaker effectively places a ceiling on the amount a recipient pays in property taxes, she bears none of the cost of the extra spending or higher taxes.

Along with many economists, I would prefer the use of property tax deferrals. Under a state-financed deferral program, taxpayers could borrow money from the state to pay their property tax bill. The borrowed money plus interest would be paid back when the homeowner sold her house or by the homeowner's estate. States could choose to subsidize the interest rate for some set of homeowners, such as those with low incomes. Deferral programs do exist in a number of states, but they are not used widely. Steps could be taken to increase their use by advertising their availability, simplifying the application procedures, and expanding eligibility.

REFERENCE

Haveman, Mark, and Terri A. Sexton. 2008. *Property tax assessment limits: Lessons from thirty years of experience.* Cambridge, MA: Lincoln Institute of Land Policy.