



# Erosion of the Property Tax Base

TRENDS, CAUSES, AND CONSEQUENCES

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EDITED BY NANCY Y. AUGUSTINE, MICHAEL E. BELL,  
DAVID BRUNORI, AND JOAN M. YOUNGMAN

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# CONTENTS

	<i>Foreword</i>	<i>vii</i>
	GREGORY K. INGRAM AND HAL WOLMAN	
1	The Property Tax Under Siege	1
	NANCY Y. AUGUSTINE, MICHAEL E. BELL, DAVID BRUNORI, AND JOAN M. YOUNGMAN	
2	Overview of the Trends in Property Tax Base Erosion	17
	JENNIFER GRAVELLE AND SALLY WALLACE	
	<i>Commentary</i> RICHARD M. BIRD	47
3	Property Tax Exemptions, Revenues, and Equity: Some Lessons from Wisconsin	51
	RICHARD K. GREEN AND ELAINE WEISS	
	<i>Commentary</i> ROBERT M. SCHWAB	69
4	Residential Property Tax Relief Measures: A Review and Assessment	73
	JOHN H. BOWMAN	
	<i>Commentary</i> JOHN E. ANDERSON	111
5	Assessment Limits as a Means of Limiting Homeowner Property Taxes	117
	TERRI A. SEXTON	
	<i>Commentary</i> JON SONSTELIE	143

6	Tax and Expenditure Limitations and Local Public Finances	149
	BING YUAN, JOSEPH CORDES, DAVID BRUNORI, AND MICHAEL E. BELL	
	<i>Commentary</i> TRACY M. GORDON	192
7	Efforts to Override School District Property Tax Limitations	197
	GARRY YOUNG, MARGARET SALAS, KELLY BROWN, AND JESSICA MENTER	
8	Property Tax Abatement as a Means of Promoting State and Local Economic Activity	221
	ROBERT W. WASSMER	
	<i>Commentary</i> NATHAN B. ANDERSON	260
9	Preferential Tax Treatment of Property Used for Social Purposes: Fiscal Impacts and Public Policy Implications	269
	WOODS BOWMAN, JOSEPH CORDES, AND LORI METCALF	
	<i>Commentary</i> JULIA FRIEDMAN	295
10	The Politics of the Property Tax Base	307
	JOHN F. WITTE	
	<i>Commentary</i> MICHAEL A. PAGANO	335
	<i>Contributors</i>	345
	<i>Index</i>	349
	<i>About the Lincoln Institute of Land Policy</i>	359

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## FOREWORD

The property tax is a major source of revenue for local governments in the United States, now comprising nearly half of own source revenue and underpinning the provision of core local government services. Yet it remains a highly visible and unpopular tax, and public debate about the tax often is disconnected from the services it provides. Thirty years after Proposition 13 initiated a dramatic series of property tax limitation measures, the continuing attention to tax rates and tax bills has not been matched by similar attention to and concern about the appropriate base for the real property tax, the continuing erosion of this tax base, or indeed what is to replace the property tax as a source for local government services if the erosion continues. Every taxpayer receives a bill, and the rate of tax is public information. The tax base, however, is continually constricted by exemptions and preferential assessments that are of interest primarily to the affected property owners. The combined impact of these base reductions is rarely debated or even calculated. This volume examines the forces that have contributed to this diminution, analyzes its impact, and considers the possibilities for future change.

The desirability of taxes with a broad base and low rates is rarely disputed in principle, but in the case of the property tax it is ever more rarely supported in practice. Decades of property tax rate limitations have not been balanced by any expansion of the tax base. This reduction of the tax base has many diverse causes, from the capital mobility that has encouraged business location tax incentives and the exemption of personal property to the desire to foster socially desirable nonprofit enterprises. This includes the use of assessment limits as a means of extending homeowner tax relief. Each of these measures can command a strong constituency and marshal political support. The cumulative effect of increased revenue pressure on a smaller tax base is a collective problem with no natural interest group committed to its mitigation. In fact, the need for higher tax rates to maintain revenue from a narrowing base only heightens pressure for further exemptions and limitations.

This book, and the 2007 conference at which these papers were initially presented, are part of an ongoing collaboration between the Lincoln Institute

of Land Policy and the George Washington Institute of Public Policy to advance understanding of the property tax and to strengthen policy recommendations for its improvement. A major part of this effort involves gathering and disseminating data on the operation of the property tax. Publications such as this one use these data to analyze how the tax functions and to draw scholarly attention to its policy challenges.

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# The Property Tax Under Siege

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There is strong support for the decentralization of government functions; many scholars agree that public services should be provided by the jurisdiction covering the smallest area over which benefits are distributed (National Conference of State Legislatures 1997; Gramlich 1993; Oates 1972). Bird (1993, 211) argues that “so long as there are variations in tastes and costs, there are clearly efficiency gains from carrying out public sector activities in as decentralized fashion as possible.” Yet to realize the benefits of decentralization, local governments must have an independent source of revenue within their political control (Peterson 1995) that is also adequate to meet local needs for goods and services. As Bird continued: “Local governments should not only have access to those revenue sources that they are best equipped to exploit—such as residential property taxes and user charges for public services—but they should also be both encouraged and permitted to exploit these sources without undue central supervision.” A strong and vibrant local property tax can be essential to fully realizing the benefits of such localism. This volume explores the theoretical, practical, and political issues raised by the erosion of the property tax base by exemptions, incentives, and tax limitation measures.

Increased reliance on residential property to generate tax revenue, coupled with soaring property values in many parts of the country in the last decade, has placed pressure on local officials to respond to concerns about higher property taxes. The result has been erosion of the property tax as a source of local revenue through a variety of devices designed to relieve residential property tax burdens (e.g., tax and expenditure limitations and circuit breakers)



and to achieve other social and economic goals through property tax exemptions or abatements (e.g., local economic development incentives). In many cases, state and local governments have contributed to the erosion by reducing the property tax base through exemptions and establishing mechanisms that reduce the tax on specific classes of property or for specific classes of owners.

Although the property tax is the largest single source of state and local revenues, the extent of the decline of the property tax is clear. State and local governments raised \$335.7 billion in property taxes in 2005, compared with \$263 billion from the general sales tax and \$240.9 billion from the personal income tax. Local property taxes accounted for 72.4 percent of local tax revenues in 2005 and 45.8 percent of total local general own-source revenues. Fifty years ago, local property taxes raised \$14.4 billion in local revenues, which accounted for 87.2 percent of local tax revenues and 69.5 percent of total local own-source general revenues.

The declining relative importance of the local property tax can be attributed to long-term trends, many of which are beyond the control of local policy makers. The shift from a manufacturing to a high-technology, information-based economy has a profound impact on local property taxes. When heavy manufacturing drove the national economy, local governments benefited inasmuch as a large part of their property tax base consisted of business land, plants, and equipment. By contrast, information-based businesses often have fewer plants and less equipment than large manufacturing firms (Bonnet 1998). These businesses do not own significant amounts of real property, thereby decreasing the relative importance of business property in the local property tax base and shifting property tax burdens from business to residential properties (Strauss 2001).

A 2004 report by the National League of Cities, *Cities and the Future of Public Finance: A Framework for Public Discussion*, echoes these concerns. The report argues that many sources of economic growth and wealth do not contribute to local public revenue, especially property tax collections, because the economy has shifted from one based on goods to one based on services and is now moving toward one increasingly based on knowledge and information. The report takes the position that because local governments are dependent on a traditional goods-based economy and its tax bases, some sectors, such as housing, bear a disproportionate share of the burden of financing local government.

The residential share of the property tax base has increased significantly over time. According to census data, in 1956 the residential portion of gross assessed values was 40.5 percent, increasing to 52.1 percent in 1986. Thus, over this period the relative share of the property tax base accounted for by residential property increased nearly 30 percent (Bowman 2007). While the Bureau of the Census stopped collecting such information after 1987, there is

anecdotal evidence that this trend has continued over the last 20 years as well. For example, Bowman points out that

- in the 1987 Census of Governments, single-family nonfarm residential property accounted for 60.6 percent of the real property tax base in Virginia, while an estimate developed at the University of Virginia for 2004–2005 places this figure at 71 percent; and
- the 1987 Census of Governments data show that all residential property accounted for 67.7 percent of the real property tax base in Ohio in 1986, while state data for 2004 place the residential share at 72.9 percent (Bowman 2007, 32).

The increasing relative importance of residential property in the local property tax base, combined with increased competition for jobs and residents, restricts local property tax revenue. Competition for jobs has resulted in tax incentives for some businesses in order to attract economic activity, which is increasingly mobile. Such competition can be a zero-sum game if it simply shifts investment and jobs between locations, or a negative-sum game for the governments that lose tax revenues.

In response to rising residential property taxes, citizens in many states have become more vocal in resisting tax increases as residential property becomes a larger share of the property tax base and homeowners bear a greater burden of financing government through the property tax. Many states have enacted a range of limitations on local governments' ability to raise revenues from the property tax and have fueled voter resistance to tax increases.

Voter resistance to tax increases may have been inadvertently exacerbated by efforts to reinvent local government in America after Proposition 13 in California in 1978. As a result of government officials' effort to reconnect with citizens after Proposition 13, some elected officials approach citizens as customers for government services, with an increasing emphasis on improving customer satisfaction. Crenson and Ginsberg, however, argue that there are crucial differences between citizens and customers that have tended to undermine trust in government. Specifically, "citizens were thought to own the government, while customers merely received services from it. Citizens belong to a political community with a collective existence and public purposes. Customers, however, are individual purchasers seeking to meet their private needs in a market. Customers are not involved in collective mobilization to achieve collective interests" (Crenson and Ginsberg 2002, 8).

The chapters in this volume were originally presented as papers at the inaugural Property Tax Policy Roundtable, cosponsored by the Lincoln Institute of

Land Policy and the George Washington Institute of Public Policy (GWIPP). Scholars in the field of property tax policy research were asked to address various aspects of the erosion of the property tax. Taken together, the chapters provide background on recent property tax trends, examine several of the important responses to the increasing importance of residential property, estimate the extent of property tax base erosion and its effects, and consider other topics related to property tax base erosion.

In chapter 2 Gravelle and Wallace establish a context for the other chapters by taking an in-depth look at trends in the growth and composition of the property tax base. Confronted with serious data limitations because the Census Bureau no longer collects information on assessed values by state and land use type, Gravelle and Wallace develop alternative measures of the relative importance of residential property. For example, using data from the Bureau of Economic Analysis, they document the significant growth in residential fixed investment as a share of gross domestic product (GDP) since 1991, with particularly strong growth following the 1991 recession and even stronger prolonged growth since the early 2000s. They also look at the value of housing stock of all residential property and owner-occupied property as a share of GDP; this proportion declined in the early 1980s and remained relatively flat from the mid-1980s to about 2000. Since 2000 there has been a clear upward trend in both owner-occupied housing and total residential property as a share of GDP. These general trends are confirmed when Gravelle and Wallace analyze data from the Federal Reserve Board Flow of Funds.

Overall, the growth of property tax revenues relative to GDP has been relatively flat over the past two to three decades, and the authors consider some possible explanations. For example, there is little evidence that growth in tax-exempt property has contributed to any erosion of the property tax base. However, economy-wide declines in the capital-to-labor ratio may have reduced the growth in some types of taxable property. In addition, a variety of tax limitations, exemptions, and other forms of special treatment has had some impact on reducing the growth of property tax revenues.

In chapter 3 Green and Weiss explore the implications of various property tax exemptions on local property tax bases, revenues, and equity. They point out that the property tax often appears to be regressive, especially to policy makers at the state level, and to threaten taxpayers with loss of their homes. In response to these concerns, state policy makers have enacted a variety of policies intended to provide relief to low-income families, the elderly, farmers, businesses, and, in some states such as Minnesota, to all homeowners.

Using Wisconsin as a case study, Green and Weiss take the first steps toward developing a tax expenditure budget for property tax relief mechanisms that

estimates the cost to local governments and other taxpayers of various tax relief measures. For example, Green and Weiss cite a report estimating that total property tax exemptions for religious establishments, nonprofit organizations, and the like reduce the property tax base for local governments by \$22.5 billion annually in Wisconsin, and that personal property exemptions reduce the property tax base for local governments by another \$12 billion annually. Green and Weiss add their own estimate that taxing farmland at use value, rather than market value, reduces the local property tax base by another \$1.6 billion annually. Overall, Green and Weiss estimate that if all property were subject to taxation, and taxes were levied on a uniform basis, those properties currently paying full rates on full values would pay about 8.6 percent less in property taxes than they do now in Wisconsin.

According to Green and Weiss, the situation is even worse in Kansas where 15 percent of the property tax base is exempted from paying property taxes. The market value of agricultural land in Kansas is about five times greater than its taxable value, and the share of taxable values attributed to residential properties is less than its share of market value. At the same time, commercial properties' share of the tax base in Kansas is 80 percent higher than its share of market value, causing substantial shifts in property tax liabilities.

Green and Weiss conclude that most states do not have the detailed information necessary to estimate the revenue costs of property tax exemptions and preferences given to certain owners or uses of property. This creates a serious lack of transparency, inasmuch as decision makers and the general public are not informed of the foregone revenues and shifts in the tax burden resulting from such exemptions and preferences. Green and Weiss encourage states, counties, and cities to develop the capacity to provide the tools necessary to measure the tax expenditures associated with various property tax exemptions and preferences, so that policy makers and the general public can make more informed decisions about how the property tax burden should be distributed across all property owners.

The next three chapters look at various tools used by state and local governments to provide property tax relief, primarily to residential property owners. Of course, one type of property tax relief is the substitution of other revenue sources for property tax revenue. Bowman provides evidence that there have been substantial shifts of this sort over the last century. For example, considering state and local general revenues from own sources, the property tax share has declined from 77.7 percent in 1902 to 37.5 percent in 1957 and just 21.2 percent in 2005. As a source of local tax revenue, however, property taxes have maintained a significant role, declining far less steeply from 88.6 percent of local taxes in 1902 to 86.7 percent in 1957 and 72.4 percent in 2005.

As noted above, the residential share of the property tax base has increased over the last 50 years, and as a result there are pressures to provide property tax relief to residential property owners and renters. In chapter 4 Bowman provides an overview of a number of measures typically used by states to provide property tax relief to residential property owners and in some instances to renters.

Bowman traces the history of residential property tax relief from the emergence of the general homestead exemption in the 1930s, followed by classified rates that bore more heavily on business property than on residences. Currently, 22 states have some form of classification for real property tax purposes.

The 1950s and 1960s saw an emphasis on property tax relief for elderly homeowners and farmers. By 1973 all 50 states provided some form of residential property tax relief for the elderly. In 1964 Wisconsin pioneered another form of residential property tax relief for the elderly, often referred to as a circuit breaker. This extended to renters as well as owners in an amount that declined as income rose.

Bowman quotes Glenn Fisher explaining the growth of tax relief for homes and farms: “The universal truth about taxation is that people want government without paying for it. The history of taxation is the story of a struggle among individuals and groups intent upon achieving that goal for themselves or for their groups” (Fisher 1996, 187). Such efforts have resulted in some states having 10 to 15 programs providing residential property tax relief to different groups. As a result, there is less uniformity, which has resulted in sometimes substantial differences in effective property tax rates across properties. For example, under classification in the 1980s, the highest prescribed effective property tax rates (relative to value) were 27.5 times greater than the lowest in Minnesota and 20 times higher than the lowest in Arizona. Bowman concludes that the number of departures from the standard of a uniform effective property tax rate should be minimized.

Considering the impacts of residential property tax relief mechanisms, Bowman concludes that such relief favors residential properties, giving them a lower effective tax rate that may cause some bias in favor of investment in residential property relative to other types of property. Broad relief will cause a greater bias than relief targeted narrowly on claimants’ needs.

According to Bowman, an important concern with locally provided property tax relief is its impact on revenue adequacy to provide needed goods and services. For example, if there are large concentrations of households needing relief within a jurisdiction that has comparatively low per capita fiscal capacity, meaningful property tax relief may be impossible. Thus, his preferred approach to residential

property tax relief is to aim limited relief at those most in need through a state-funded circuit breaker with the following features:

- Threshold formula, preferably of the multiple-threshold variety found in Maryland and several other states, to provide narrowed targeting of benefits
- Very broad definition of income
- Coverage of owners and renters of all ages
- State-reimbursed homeowners property tax credits and state-issued checks for renters; no income or benefit limit
- Tax relief limited to the property tax on the first \$X of a home's market value

In chapter 5 Sexton explores another policy program that provides relief to residential property owners by reducing the base of the property tax for local jurisdictions. Specifically, she examines the increasing importance of assessment limitations as a means of limiting property taxes on homeowners. According to Sexton, under the most common form of assessment limit the annual increase in assessed value of each individual property cannot exceed a specified percentage of the prior year's value. She identifies 20 states that have some form of assessment limit, as does the District of Columbia. These programs vary from state to state along several different dimensions, such as the type of property that is eligible for the limit (residential, owner-occupied, all properties) and the specific limit. Some are statewide limits while some are available as a local option. Ten states have assessment limits established by constitutional amendments; while in the other 10 states assessment limits were created through legislation.

The primary motivation for assessment limits is that they correct inequities that arise when property values, especially housing values, rise rapidly and government does not respond by reducing tax rates. The popular perception is that such limits will prevent the tax burden from shifting to homeowners. Sexton looks at the impact of assessment limits on the property tax base, property tax revenues, and the equity of the property tax.

Overall, assessment limits reduce the local property tax base, with a consequent loss in property tax revenue. The lower the assessment cap and the greater the rate of increase in property values, the greater will be the erosion of the tax base. It was estimated that the 2 percent assessment cap that was established in California with the passage of Proposition 13 in 1978 resulted in a 44 percent reduction in the tax base for 1992. On the other hand, revenue losses resulting from assessment limits are difficult to estimate because local governments may increase the tax rate to adjust for the reduction in the tax base.

Specifically, local governments may impose a higher property tax rate in the face of a reduced base than they would have otherwise, making the equity implications of assessment limits less straightforward and obvious. Sexton argues that in such cases the property tax burden is shifted to types of properties not protected by the limit and within the protected class, from high- to low-appreciating properties. This situation could benefit owners of relatively low-valued homes if they are the properties appreciating in value the most. Sexton points to Maryland, where properties valued at less than \$200,000 increased an average of 75 percent in price while all property increased an average of 18.7 percent. Sexton also points out that assessment limit programs that rely on acquisition value to reset assessed values put residential property at a disadvantage, because homes typically change ownership more frequently than do businesses. Thus, if the assessment limit applies to all types of property the burden will shift toward residential property as its aggregate assessed value increases more rapidly due to turnover. The net result will be significant disparities in property tax bills and effective property tax rates among owners of comparable properties, violating the principle of horizontal equity that calls for the “equal treatment of equals.”

While assessment limits are believed to be the answer to both skyrocketing property taxes and the redistribution of the tax burden to residential properties, Sexton concludes that they are among the least effective, equitable, and efficient strategies available for providing property tax relief. Assessment limits give tax breaks to anyone whose property value increases rapidly, with the most relief going to those whose properties appreciate the fastest; they provide no relief to those whose assessed values are stagnant. The result is substantial shifts in tax burden and differences in effective property tax rates within and across property classes.

In chapter 6 Yuan, Cordes, Brunori, and Bell look at a broader set of interventions intended to protect taxpayers from dramatic increases in property tax liabilities. Specifically, they look at a set of state-imposed limitations on local governments’ ability to raise property taxes referred to in the literature as tax and expenditure limits (TEs), which include assessment limits, rate limitations, and revenue and expenditure limits. While rate limitations and exemptions first appeared during the Great Depression, there has been a proliferation of such TEs since voters in California passed Proposition 13 in 1978 to hold down increases in assessments and limit property taxes to no more than 1 percent of property value; between 1978 and 1988 43 states adopted some new form of TE.

While the literature is not always consistent, there are some well-documented impacts of TEs on local public finances. For example, TEs that are legally and

administratively structured to be binding are more likely to have measurable effects on local public finances than are TELs whose constraints are easily circumvented. In this context, binding TELs constrain growth in property tax revenue; rate limits coupled with assessment limits are particularly binding, resulting in the greatest reduction in the growth of per capita property tax revenue.

Local governments have reacted to such constraints by substituting other local, though narrower, revenue sources such as fees and charges, and by increased reliance on grants from state government.

Since half of all property tax revenues go to finance education, it is especially important to consider the effects of TELs on education. There is some empirical evidence that TELs have constrained local spending on public schools, as measured by a variety of indicators such as student-teacher ratios, teacher salaries, and teacher quality. TELs are not only associated with reduced spending on education inputs, but also with lower educational outcomes, as measured by test scores.

Two other concerns about TELs are their impact on housing values and their distributional consequences. There is a scarcity of literature exploring these issues. However, there is at least some preliminary evidence from Proposition 2½ in Massachusetts that TELs may have actually raised property and home values in jurisdictions constrained by them. With regard to the distributional consequences of TELs for individual taxpayers, there is some evidence to suggest that Proposition 13 in California may have benefited lower-income homeowners. There is somewhat weaker evidence that the TEL enacted in New Jersey had a similar effect.

When considering the impact of TELs across communities, there is some very limited evidence that lower-income communities experienced larger reductions in educational outcome from TELs.

In chapter 7, Young, Salas, Brown, and Menter consider how TEL override provisions actually affect the severity of TELs on school finances in Wisconsin. The authors note that despite persistent concerns regarding school quality and funding, 35 states impose some type of TEL on their school districts. Of the 35 states with school TELs, however, most (26) provide their school districts with some capacity to override the limitation, typically through a referendum held among voters in the school district.

Young et al. analyze the use of referenda for TEL overrides by focusing on override attempts by school districts in Wisconsin between 1995 and 2007. They address three issues of interest to a range of scholars and practitioners. First, they provide the first systematic empirical analysis of TEL overrides. For schools and other forms of local government, TEL override provisions are common across the United States, but remain virtually unstudied. Yet, it is



impossible to fully evaluate the actual impact of TELs on local governance, and on the use and erosion of the property tax, without understanding override provisions. Second, along with the initiative, referenda constitute a key form of direct democracy in the United States. While state-level referenda attract intense scholarly attention, the place where the referendum is most common, the local government level, receives very little attention. This is true even though local governments across the nation rely on referenda to gain approval of a wide range of statutes, tax increases, and bond sales. Finally, TELs directly affect education policy, since they potentially impose limitations on the ability of school districts to raise revenue.

From 1995 through 2007, 667 revenue cap overrides were sent to the voters in Wisconsin. For the ten years from 1998 through 2007, voters were asked to approve overrides, ranging from a low of 44 in 2002 to a high of 82 in 2000 and 2001. Of the total 667 override attempts, only 285, or 43 percent, were approved. Thus, Wisconsin's TELs seem to constitute a genuine constraint on school finances. Attempts to override the revenue cap were frequent, but these attempts failed more often than not.

Wisconsin has two types of revenue cap overrides: recurring and nonrecurring. Recurring overrides persist, while nonrecurring overrides are limited to a set number of years, usually not more than five. During the period examined, there were 362 recurring override attempts and 305 nonrecurring override attempts. Only 34 percent of the recurring override attempts passed, compared to 53 percent of the nonrecurring override attempts.

The authors conclude that because TEL override attempts often fail in Wisconsin, school boards undergoing shortfalls due to the revenue cap face an uncertain and difficult challenge to get additional revenues approved by the voters through an override. This reinforces the evidence provided in chapter 6 that TELs have a substantive impact on school spending, fiscal policy, and school governance. In addition, the unpopularity of recurring overrides appears to have induced school boards to shift to nonrecurring measures.

Finally, the authors express concern that TELs that require a referendum to override the revenue caps change the nature of school board governance. Revenue decisions are no longer made in-house, but rely on the ability of the school board to convince wary voters to tax themselves more. This is a very different form of representative governance than that which school boards and other local governments carried out traditionally.

The next two chapters look at other initiatives by state and local governments to provide property tax relief in order to encourage economic development or promote socially desirable land uses. While circuit breakers and other property tax relief measures discussed in chapter 4 lower property tax liabili-

ties generally or for individual property owners, property tax abatement programs can directly reduce the property tax base of local jurisdictions. In chapter 8 Wassmer looks at the growth and impact of what are called Stand Alone Property Tax Abatement Programs, or SAPTAPs. Such programs allow a full or partial reduction in property tax liability for selected manufacturing, commercial, and/or retail parcels, impose a time limit on the length of the reduction, have a stated purpose beyond relief from high property taxes such as creating jobs or income, and can be used in conjunction with other state or local economic development programs.

According to Wassmer, 15 states offered some form of SAPTAP in 1964. By 1979 the number of states with such programs increased to 31, and by 2004 35 states provided such programs.<sup>1</sup> This increase in such programs is driven, at least in part, by a perception that there is an increase in the potential mobility of all business activity, that globalization exacerbates the potential or actual mobility of firms, and that there is slower industrial growth nationwide.

Because circumstances vary across states, so does the design of SAPTAPs. For example, of the 35 states with such programs in 2004, 33 offered them for manufacturing firms, 29 states have programs for commercial firms, 20 have programs for future residential development and 9 have abatement programs for the primary sector (agriculture, forestry, and mining). Abatements are provided through a number of different methods, including a value freeze where renovated property is taxed only based upon the assessed value before renovation, a partial freeze that reduces property tax payments based only on the value of incremental property added to a site after abatement, property tax credits, a percentage reduction in total assessed value, and reclassification of a property for property tax purposes. In 23 of the 35 states with such programs, full local discretion is allowed in determining which firms will receive abatements. In six states discretion on a case-by-case basis for granting abatements is held by the state alone. Nine of the 35 states have abatement programs that are scheduled to end in the future unless new enabling legislation is passed. Fourteen abatement programs allow a jurisdiction to rescind a previously granted abatement to a firm if contractually promised outcomes are not achieved.

After briefly reviewing the arguments for and against such property tax abatement programs, Wassmer reviews the literature that analyzes the impact of such programs. The literature falls into three general categories: surveys, case studies of representative firms, and regression analyses. He argues that

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1. By 2007 at least seven other states allowed localities to offer a full or partial reduction in property taxes paid within their boundaries, but only in conjunction with a larger economic development program. That is, these are not stand-alone property tax relief programs.

surveys of business decision makers may result in biased or vague findings, in part because such decision makers may view them as an opportunity to lobby for a public policy change that will increase their bottom line. He argues that case studies of representative firms are not often used for analysis of abatement programs. He spends more time summarizing regression studies that examine the impact of such programs.

While each regression study is unique and addresses different questions in different ways, some themes emerge from Wassmer's review of these studies:

- The overall reduction of business property taxes in a jurisdiction has been more consistently shown to increase business activity in that jurisdiction than the selective use of abatement to specified firms.
- There is evidence of copycat behavior among jurisdictions in metropolitan areas regarding the offering of abatements.
- Such copycat behavior reduces the long-term effectiveness of abatements in a metropolitan area because if all jurisdictions offer them, abatements can no longer be the swing factor in choosing one jurisdiction over another.
- Abatements are likely to generate fiscal stress through the potential revenue lost and increased business services provided after they are offered.

In the final analysis, Wassmer thinks that the appropriate policy response in the case of SAPTAPs is "mend, but do not end." He puts forward a nine-point plan to target SAPTAPs on the areas that are most in need (depressed neighborhoods in the central city or inner-ring suburbs) and limit their use in other areas.

In chapter 9 Bowman, Cordes, and Metcalf look at the use of property tax incentives to pursue social as well as economic development goals in two broad areas: support of local nonprofit organizations and encouraging open space through the preservation of land used for agricultural purposes and set-asides to create green spaces. State and local governments may exempt all or a portion of the taxable value of certain property based on ownership (e.g., churches or other nonprofit organizations) or use (e.g., agriculture or provision of natural conservation easements). Alternatively, the taxable value of such properties may be based on use value or other forms of preferential assessment, rather than market value, or differential rates may be applied to different land uses.

Regardless of which approach is used to provide preferential treatment to certain land uses or owners, the net result is to shift more of the burden of financing government to properties that do not receive such preferential treatment, or to lower the amount of funds that a local government can collect

with a given tax rate. The authors describe the challenges faced in estimating the cost of such tax relief programs given the problems of assessment and record keeping that state and local governments face. In spite of these challenges the authors report estimates of lost revenues that suggest these programs are important and that their impact varies significantly across states.

Using data from the Federal Reserve Bank, in the aggregate, the authors estimate that exemption from property taxation of real estate owned by nonprofit organizations lowered property tax collections in 2002 by approximately 10 percent. This is consistent with state estimates that indicate such exemptions reduce property taxes by between 2.5 and 11.3 percent in the District of Columbia and states that compute such property tax expenditures. Using data from the Internal Revenue Service, which are supplied by the nonprofits themselves when they file their Form 990 tax forms, the authors estimate that the fiscal impact of the nonprofit tax exemption ranges from just under 1.5 percent to just over 10 percent of property tax revenues, with an overall average of 5 percent. While the authors present many caveats with regard to these estimates, it is clear that exemption of real estate owned by nonprofit organizations accounts for significant lost property tax revenues and that the impact varies substantially across states.

Much more limited evidence is provided about the costs of use value assessments or conservation easements. While it is estimated that some 4 million acres are held in conservation easements in 20 states, there is no estimate of the foregone property tax revenues associated with such easements. There is very limited evidence about the cost of use value assessments for agricultural lands. The authors report cost estimates for four states: Minnesota, Nebraska, Oregon, and Texas.

There are both economic and political arguments for and against each of these tools for providing preferential property tax treatment to some properties. However, the authors argue that there are very limited data to evaluate the costs and effectiveness of such programs. They underscore the conclusion of chapter 3 that the first step to a useful evaluation of these preferential assessment programs is to collect and analyze data in order to actually understand current practices and their results.

In chapter 10 Witte looks at the politics of property tax base narrowing, and by implication the prospects of broadening the property tax base in the future. He describes the characteristics of an ideal property tax in terms of criteria such as broad base, neutrality, fairness, efficiency, simplicity, and accountability. He then systematically documents how the actual administration of the property tax in the United States tends to violate all of these ideal conditions. In several case study states (Wisconsin, Oregon, Kansas, and Maine) he traces how

uniformity requirements in each state's constitution have been systematically unraveled by various interventions to provide special property tax treatment for one group of property owners or another. Wisconsin and Kansas have given preferential treatment to farmers through the implementation and expansion of use value assessment. Oregon has extended similar preferential property tax treatment to forestlands. All of these states extended homestead tax credits to all residential owner-occupants. These interventions, like the assessment limits, rate limits, revenue limits, property tax abatements, and other forms of preferential tax treatment described in the preceding chapters, undermine the features of an ideal property tax as outlined by Witte.

Confronted with these trends, which undermine the property tax, Witte questions why majority coalitions do not oppose narrow, particularistic tax expenditures. He suggests four different possible explanations:

- Minority benefits arise because those who gain have an intense interest in forwarding their positions while the majority is either uninformed about the consequences of such actions or indifferent to them.
- There may be an overlap, either real or perceived, between the minority interests and the majority; for example, because they expect to grow older themselves, even young voters support benefits to the elderly.
- More general concerns, such as an opposition to taxes, may take precedence over the particular effects of a specific measure.
- Since elected officials in legislatures will have continuous and future contacts and negotiations with their colleagues on a variety of issues, such future considerations may play an important role in other decisions.

Witte is concerned that reversing the narrowing of the property tax base will not be an easy task. As documented in the previous chapters, the devices used by various minorities seeking special treatment under the property tax are numerous and widespread, including but not limited to revenue limitations, assessment caps, agricultural and business exemptions, and elderly and poor provisions. But Witte does think that there are some possibilities for at least slowing down future dilution of the property tax base. His proposed strategy includes truth in taxation measures, especially as implemented in Utah and Virginia. While chapter 6 identified truth in taxation laws as being relatively nonbinding in terms of reducing property taxes, they could be made part of a broader strategy to improve the amount and content of information available to decision makers and the public regarding property taxes. For example, the truth in taxation approach in Utah and Virginia, as described by

Witte, could be combined with some sort of property tax expenditure budget, as developed by Green and Weiss, to fully inform decision makers and the public when various proposals to reduce the property tax base are being considered. According to Witte, such transparency could provide an environment conducive to beginning the long climb back toward uniformity and a broad-based property tax.

In summary, over the last 50 years residential property has become an increasing share of the property tax base. In part, this reflects economic trends beyond the control of state and local decision makers that are exacerbated by the erosion of the property tax base by preferential treatment of property for social purposes, as described in chapter 9. To some extent these trends have been exacerbated further by efforts to reduce residential property tax burdens through exemptions or assessment limits, and compounded by efforts to limit local government use of the property tax more generally through rate limits, levy limits, revenue limits, and full disclosure laws. All of these initiatives contribute to differential effective property tax rates across property use classes and across individual properties within land use classes. In fact, Bowman argues that the property tax has changed so much in the last 50 years that at times he questions whether we still have a property tax. And a number of contributors to this book, especially Green and Weiss and Witte, argue these changes have happened with very limited information or analysis to inform the policy debate over various property tax relief measures.

Twenty-five years ago H. Clyde Reeves, reflecting on the trends of the past 25 years, concluded that “the erosion of tax systems may be a natural phenomenon in a political democracy” (Reeves 1983, 7). The chapters in this book document how this phenomenon has played out over the last 25 years. The net result has been a continued assault on the local property tax. In this context, Brunori (2003, 2) argues that “without significant financial reforms, local governments will play a far-diminished role in public life—a consequence that is contrary to the best interests of both the American federal system and the American public.”

Brunori argues that federalism implies a theory of government based on the belief that the values of our society can best be guaranteed by a division of powers among the various levels of government—federal, state, and local. Thomas Jefferson championed local governments as the best protection of individual liberty. The erosion of the property tax described in the following chapters raises serious concerns about the future health of our federal system of government and the continued ability of local governments to protect what Tocqueville called America’s passion for popular sovereignty.

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