

State Policy Trends Challenging Major County Revenue Sources

Riley Judd

Associate, Fiscal 50, The Pew Charitable Trusts

Pew

Introduction

- The Pew Charitable Trusts is a non-partisan, non-profit public policy research and advocacy organization
- For over a decade, Pew's fiscal policy group has helped policymakers develop and adopt evidence-based policies and practices
- Fiscal 50 is an online interactive platform that provides comprehensive 50-state data and analysis of fiscal, economic, and demographic trends



Fiscal Indicators for Colorado



Tweaks lowering property taxes face opposition from local governments, schools

Some States Are Looking to Abolish Property Taxes Entirely

Property taxes in the tax reform spotlight



As Property Tax Bills Rise, States Look for Long-Term Solutions

State lawmakers seek to limit property tax increases as home values soar



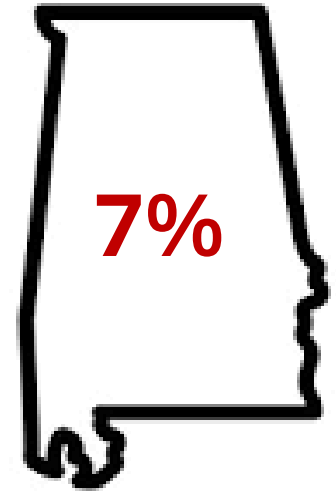
Iowa's property tax reform law comes at a cost for local governments

Property Tax Relief: Where We Are And What Comes Next

Property Tax Caps

Types of property tax caps:

- **Assessment limits** cap the annual increase in the assessed value of properties
- **Rate limits** restrict overall property tax rates local governments can impose
- **Levy limits** place a hard cap on property tax revenue growth



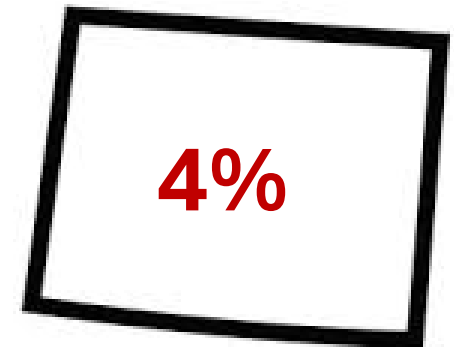
Property tax cap legislation in 2024:

Alabama

- 7% cap on assessed value increases (2024-2027)
- No reimbursement for local governments

Wyoming

- 4% cap on annual residential property tax increases
- No reimbursement to local governments for lost revenue



Property Tax Exemptions are Expanding

Connecticut:

- New homestead exemptions for disabled veterans
- No reimbursement to local governments for lost revenue

South Carolina:

- Expanded property tax exemptions for disabled veterans
- No reimbursement to local governments for lost revenue

Wyoming:

- Homestead Exemption Increase: Doubled from \$3,000 to \$6,000 for eligible veterans; state appropriated \$8.2 million to reimburse local governments
- Long-Term Homeowners Exemption: No reimbursement to local governments for lost revenue



How are counties impacted? Those with larger populations of exempted groups may face revenue challenges.

States Consider Major Property Tax Reforms

Colorado Senate Bill 233

- **Statewide Property Tax Revenue Cap:**
 - 5.5% annual cap on statewide property tax revenue increases
 - Excludes home-rule jurisdictions and areas with existing revenue limits (TABOR)
- **Impact on school districts:**
 - Decouples assessment rates for school districts and other local governments
 - \$380 million drawn from education fund to backfill school districts
 - Only \$10 million allocated to reimburse rural districts with decreased property values
- **Revenue loss:**
 - Local governments face a \$400 million revenue loss in the first year

States Consider Major Property Tax Reforms

Kansas Senate Bill 1

- **Residential Property Exemption:**
 - Exemption from statewide school levy nearly doubled from \$42,000 to \$75,000
 - Reduces property tax base available to local governments
- **Abolishment of Local Funds:**
 - Local ad valorem tax reduction fund and county/city revenue sharing fund abolished
 - Remaining funds transferred to the state general fund effective July 1, 2024

Nebraska Special Session

- Governor's proposal to cut property taxes statewide by 40%
- Property tax cuts funded by increasing sales tax on over 70 new goods and services
- Proposed hard caps on property taxes for school districts and local governments.
- Exemptions added for public safety personnel, training, and equipment after pushback
- Final impact of caps and potential exceptions still uncertain

2024 Property Tax Ballot Measures



Virginia, Colorado, and New Mexico

- **Disabled Veteran Exemptions:**

- Expanding eligibility requirements for disabled veteran property tax exemptions
- Additional measure in New Mexico to increase exemption from \$4,000 to \$10,000, with annual inflation adjustment

Georgia

- **Constitutional Amendment:**

- Authorizes General Assembly to establish a statewide homestead property tax exemption
- General Assembly will determine how counties, municipalities, and school districts can opt out of the exemption

Florida

- **Annual Inflation Adjustment Proposal:**

- Adjusts exempt assessed value annually for inflation
- Exempts school districts; impacts other local governments significantly
- Legislative analysis estimates a reduction of \$22.8 million in 2025-2026, growing to \$111.8 million by 2028-2029

2024 Property Tax Ballot Measures



Colorado

- **Initiative 50:**

- Caps statewide property tax revenue growth at 4% above the previous year. Requires voter approval for increases exceeding 4%
- Potential \$115 million decrease in local property tax revenue in the first year, reaching \$1 billion by the third year

- **Initiative 108:**

- Reduces residential property tax rates from 7.15% to 5.7% and non-residential rates from 29% to 24%
- Mandates state reimbursement for local revenue losses
- Potential \$3 billion decrease in local property tax revenue in the first year, with increasing losses over time

North Dakota

- **Eliminating Property Taxes:**

- Eliminates property taxes (excluding bond debt). Imposes debt limits on local governments
- State required to fully reimburse local governments for revenue losses
- Estimated \$2.46 billion cost to the state for 2023-2025, equivalent to 40.4% of North Dakota's general fund budget

Other Policy Trends Challenging County Revenue Sources

Arizona

- New law effective Jan. 1, 2025, prohibits counties and municipalities from imposing rental taxes

Virginia

- Gov. Youngkin vetoed bill allowing local governments to impose a 1% sales tax for school construction and modernization projects

California

- Proposed Ballot Measure:
 - Sought to raise voter approval threshold for local tax increases from simple majority to two-thirds
 - Would have retroactively reversed most tax increases since Jan. 1, 2022
 - Estimated \$2 billion loss in existing fees and charges, plus \$2 billion in previously approved revenue
 - Measure removed from ballot by the California Supreme Court for significantly altering government framework

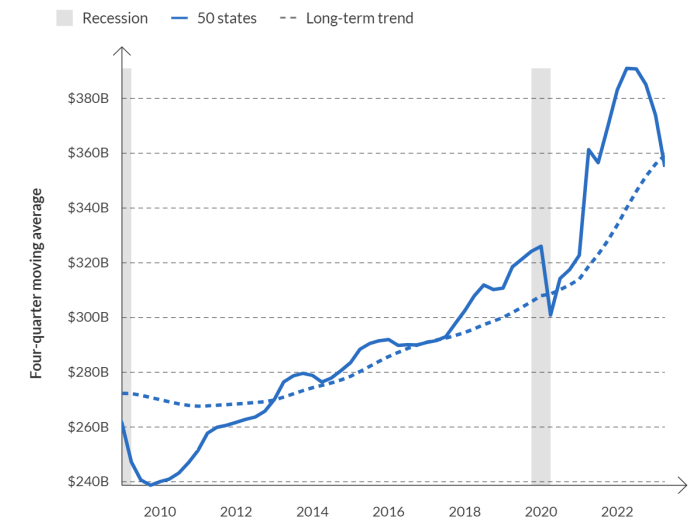
Other Policy Trends Challenging County Revenue Sources

- State tax cuts (income, sales, corporate) can indirectly and directly impact county revenues
- Uncertainty over sustainability of recent tax cuts
- Decline in state tax revenue + weakening budget reserves + increasing spending pressures = tightening fiscal conditions
- These factors could lead to reduced state aid, increased local cost-shares, and unfunded mandates for local governments

Fiscal 50: State Trends And Analysis

State Tax Revenue, Adjusted for Inflation and Seasonality

How quarterly receipts compare with their long-term trend through the same period, 50 states



© August 15, 2024 The Pew Charitable Trusts

Pew

Pew

Property Taxes Expected to Remain a Key Issue in 2025

Montana

- **Proposed Legislation:**
 - New homestead exemptions
 - Introduction of a tiered system for residential property tax rates
 - Tax credit for renters, retirees, and lower/middle-income homeowners
- **Task Force Recommendations:**
 - Task force appointed by Gov. Greg Gianforte expected to release additional property tax policy recommendations

Kansas

- **Future Developments:**
 - Lawmakers preparing for more substantial property tax relief measures

Any questions?

Riley Judd

Fiscal 50, State Fiscal Policy Project
rjudd@pewtrusts.org

Pew

Rethinking Property Taxes



Why Rethink the Property Tax?

- The tax is widely unpopular

But...

- It is worth rehabilitating...
 - Stable revenue
 - Immobile tax base
 - Benefits tax



Center our Goals of Rethinking Around Taxpayers

- Goal #1: Provide Accurate and Fair Valuations of Total Tax Liability for Taxpayers
 - Accurate assessments ensure tax fairness and adequate revenue.
 - Unfair assessments impact tax lower-income properties.
- Goal #2: Provide Stable, Predictable Costs to Taxpayers
 - Unpredictable tax increases contribute to the tax's unpopularity.

Tale of Two Properties



\$420k

\$181k

Land Value (per acre)

\$107

\$125

Building Value (per sq. ft.)

\$3,781

\$4,604

County Taxes (per acre)



Strategies to Achieve Accurate Assessments

The Most Obvious Cause ...

○ The Cause: Too Much Time Between Assessments

- Imagine a market with 5% annual increases and a 3-year period between assessments
- That's an eye-popping 15% increase at re-assessment
- Remember these folks?

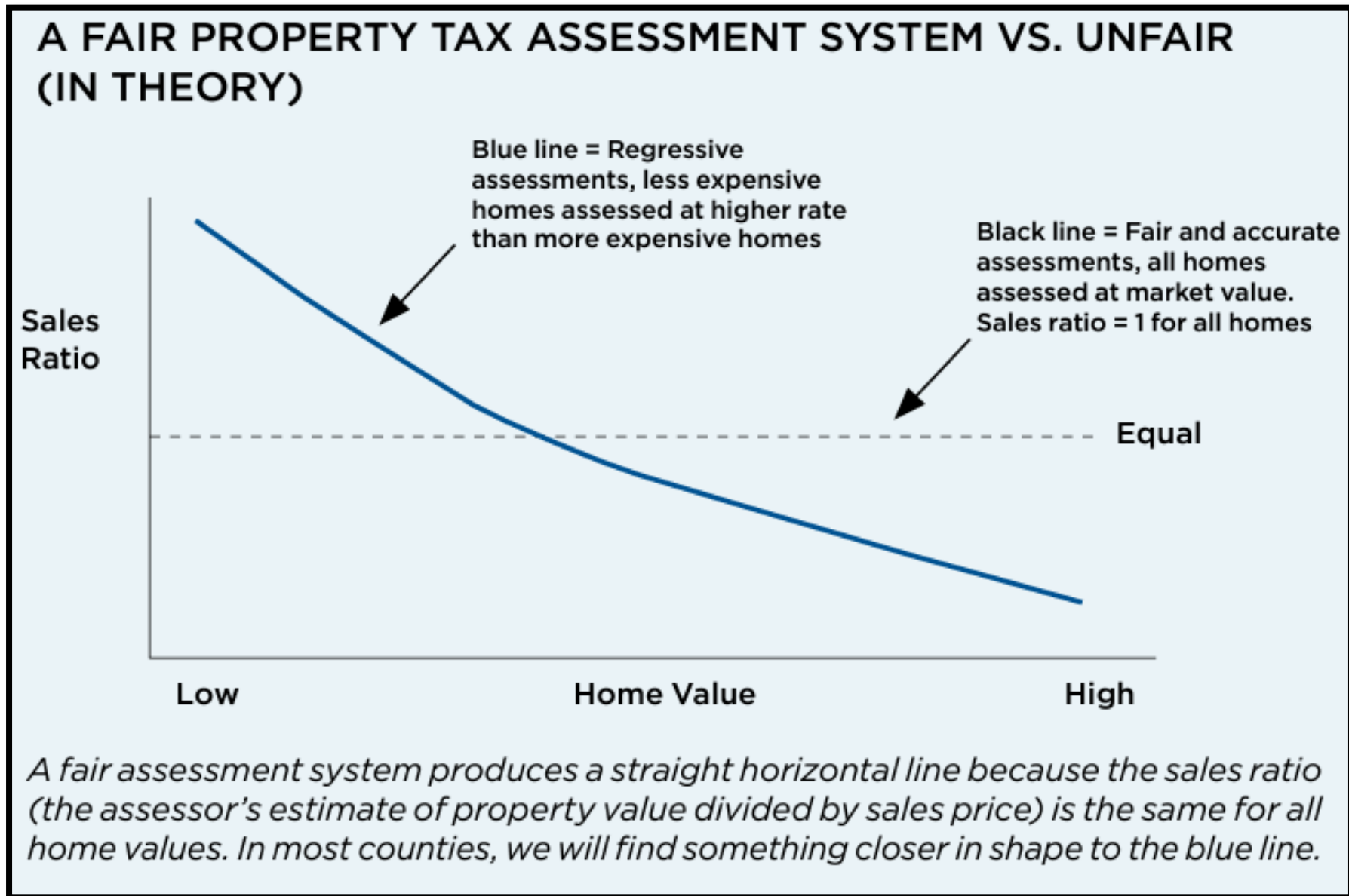


...Meets the Most Obvious Solution

- Shorten the time between assessments, ideally annually
- That costs money!
- How to contain costs
 - Substitute machines for labor
 - Achieve economies of scale

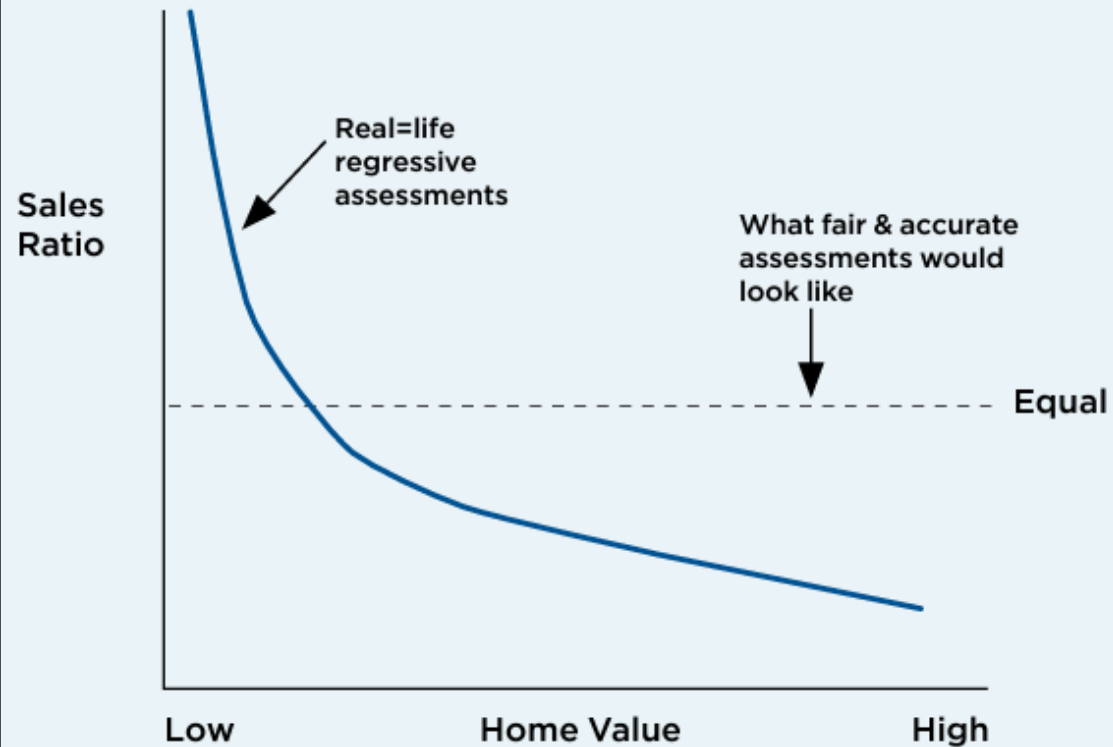


The Less Obvious Cause...



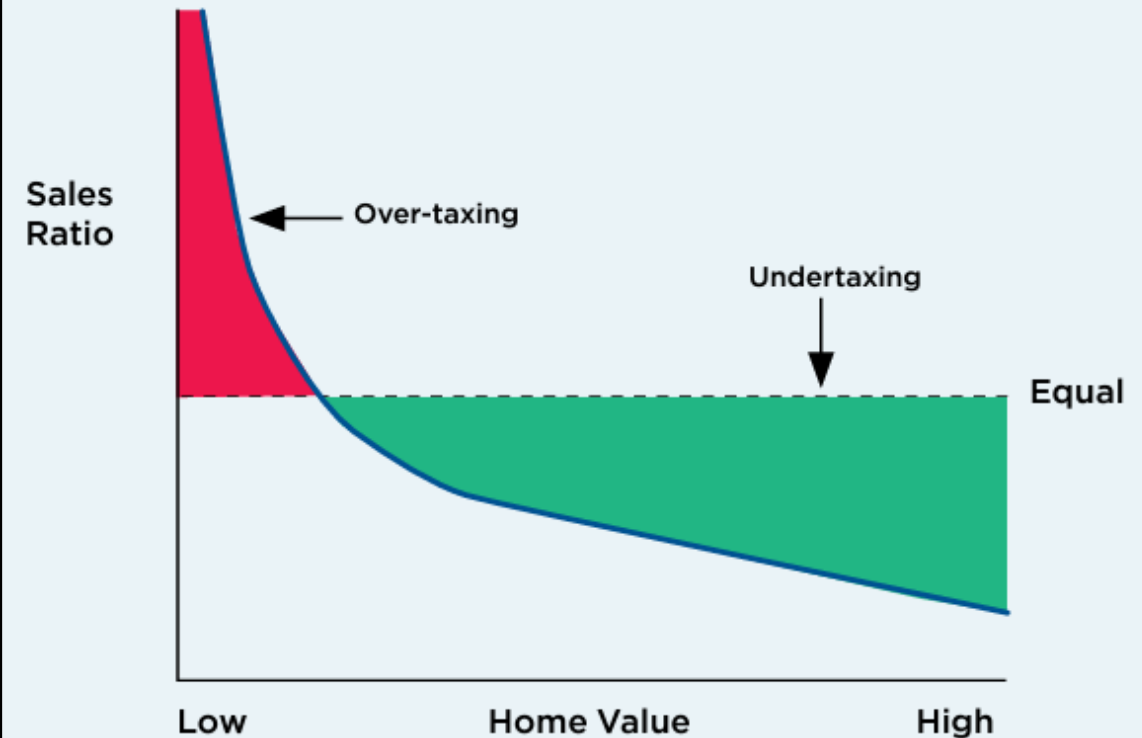
In Practice...

NATIONWIDE SALES RATIOS VS. HOME VALUES



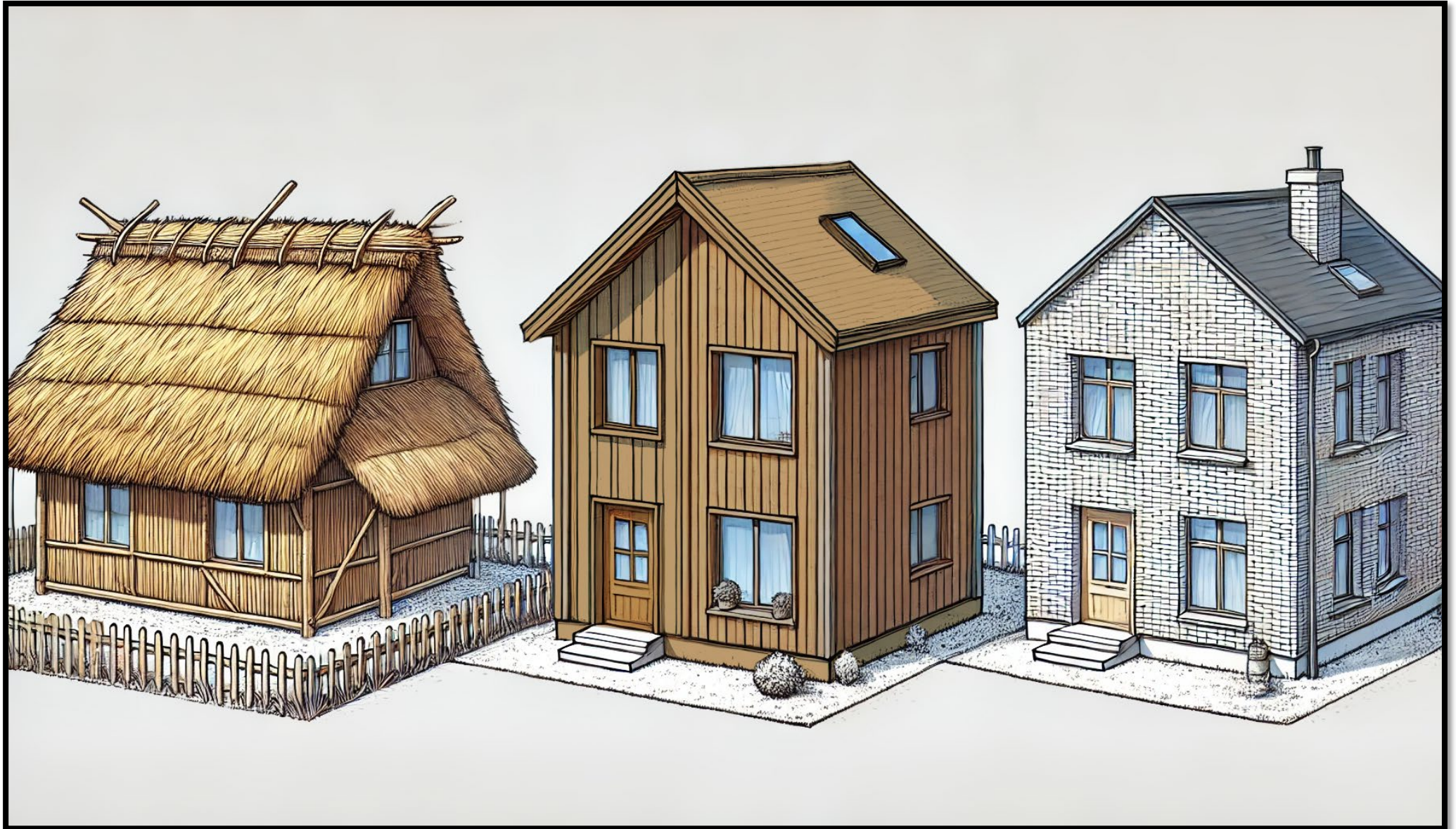
Nationwide, lower-value homes are consistently over-assessed.

TAX SHIFTING FROM HIGH- TO LOW-VALUE PROPERTIES



The difference in size between the red (over-taxed) and green (under-taxed) is the net subsidy to higher-value properties

The Cause: The Flaw of Averages



Real Life Example: From the Wrong Side of the Tract

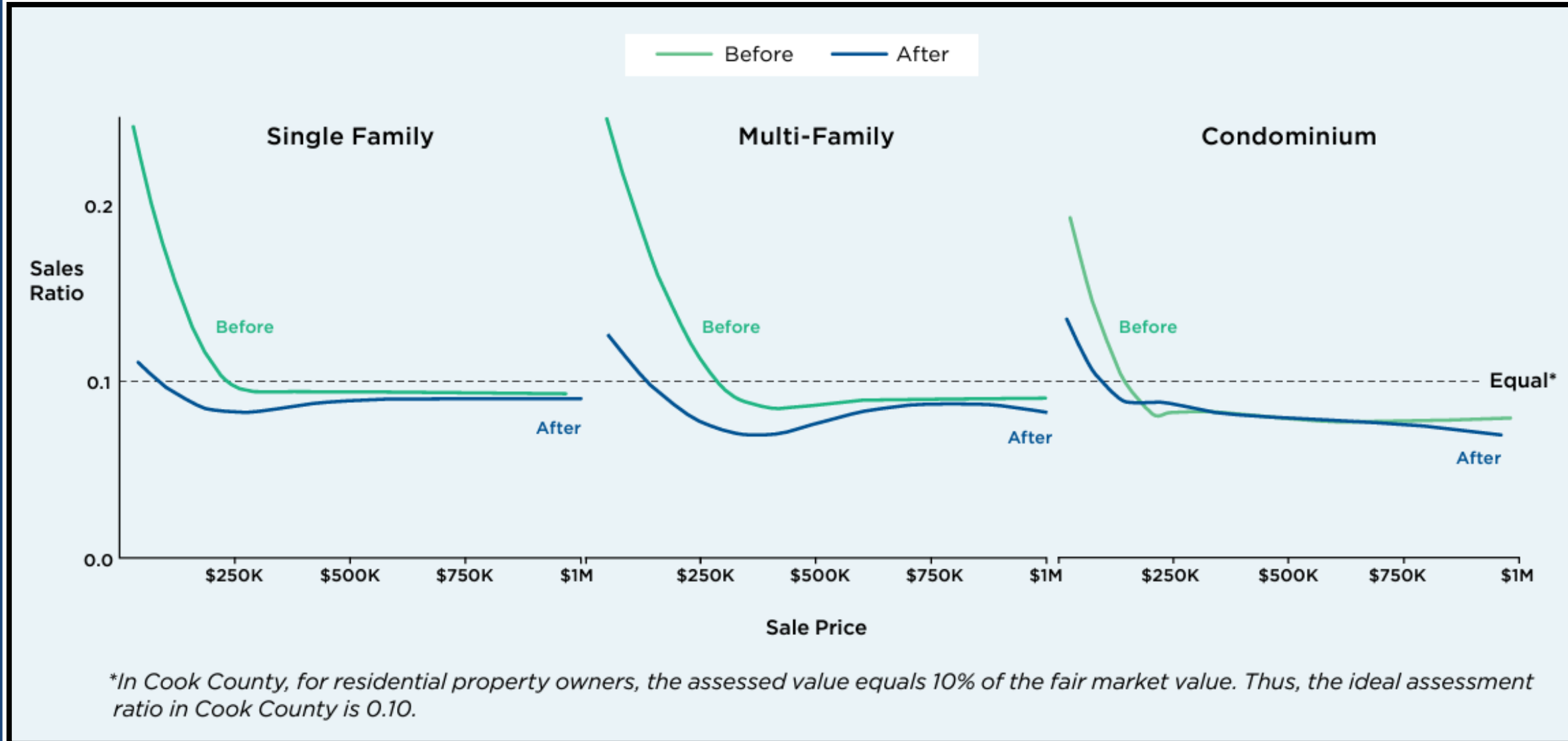


← This side of the tract: 102% increase

This side of the tract: 316% increase →

Using average characteristics for properties across an assessment tract resulted in a large increase in assessed value for a modest home that happened to be grouped into a tract with higher values.

A Solution is Possible! Before vs After in Cook County



**In Cook County, for residential property owners, the assessed value equals 10% of the fair market value. Thus, the ideal assessment ratio in Cook County is 0.10.*

How Cook County Did It

- Investigate causes of regressivity & look for patterns
- Look for deficiencies in the physical census of properties
- Best solutions will usually be through better modeling rather than better fieldwork



**Won re-election with
81% of the vote!**



Strategies to Provide Stable, Predictable Costs to Taxpayers

Addressing Market Reasons for Instability

- Responsive Rate Setting
- Tax limitations
 - Circuit breakers and tax deferrals
 - What about broader relief?...
- Recognize why relief exists: people want stable, predictable bills. How can we provide it?
 - Budget-driven assessment system
 - Guarantees on max annual increase for total bill (not assessment and not rate)
 - Perhaps even a role for refunding excess taxes collected?

Addressing Administrative Reasons for Instability

- Quality assessments solve much of the problem!

The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.

Jean-Baptiste Colbert, First Minister of State,
France, 1661-83



Current Approach to Property Tax Billing



Some Solutions

- Send monthly statements, allow monthly payments for those not on escrow
- Share property tax receipts
 - City of Shakopee, MN

Your 2023 City of Shakopee Property Tax Receipt	
General Government	\$97.96
Mayor & Council i	\$4.05
Administration i	\$15.80
Human Resources i	\$9.79
Communications i	\$6.88
Information Technology i	\$12.76
City Clerk/Elections i	\$5.45
Finance i	\$13.72
Property Assessing (County contract) i	\$6.35
Planning & Development i	\$10.76
Facility Maintenance i	\$8.24
Library Building i	\$4.16
Public Safety	\$238.25
Police i	\$177.13
Code Enforcement i	\$7.22
Fire i	\$53.91

The End!

- Check out Rethinking Property Taxes



- GFOA and UC working on assessment incubator!



gfoa.org/rethinking-revenue

