# A Guide to Property Taxes: An Overview

By
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# CONTENTS

# About the Author

Mandy Rafool is a senior policy specialist with the Fiscal Affairs Program at National Conference of State Legislatures (NCSL). She works on a wide variety of issues with special emphasis on general state tax policy. She is the author of *State Tax Actions 2001, State Tax Actions 2000 and State Tax Actions 1999.* In addition, she covers general fiscal issues such as state tax and expenditure limits, death taxes, funding for arts and tourism, and funding for sports facilities. She also wrote *State Death Taxes* and the updated version of *Travel and Tourism: A Legislator's Guide*, several reports and articles on other fiscal issues, including *State Tourism Taxes, State Tax and Expenditure Limits* and *Playing the Stadium Game: Financing Professional Sports Facilities in the '90s.*

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# PREFACE AND ACKNOWLEDGMENTS

Several members of the National Conference of State Legislatures' (NCSL) Foundation for State Legislatures convened in 1991 to discuss how they could assist in the development of sound state fiscal policy. They concurred that they could pool their resources to examine specific areas of state fiscal policy and then make recommendations on these state fiscal policy issues. This group, known as the Foundation Fiscal Partners, supports the NCSL Fiscal Affairs Program in an ongoing effort to improve the quality of fiscal information available to state policymakers.

One of the continuing goals of the Foundation Fiscal Partners Project is to improve dialogue among state legislators, business representatives, and other organizations that are interested in and affected by state fiscal policy. Basic information is an important tool for state policymakers who must make decisions about how best to generate revenue in this new economic environment. This Foundation Fiscal Partners Project, *A Guide to Property Taxes*, will provide solid comparative information to assist legislatures with those decisions.

Property taxes, which generally are not well understood, make up one of the most complex revenue systems used at the state and local levels. This project consists of three stand-alone reports that together provide a resource for policymakers and others. The three project reports are listed below.

### 1. A Guide to Property Taxes: An Overview

The first product is an overview. This report examines the various types of taxable property and explains the mechanics of how property taxes are levied. It also examines various types of property and examines how states classify property and how they apply different assessment ratios.

### 2. A Guide to Property Taxes: Property Tax Relief

States provide property tax relief to citizens in a number of different ways, and the number and type of relief has increased significantly in the past few years. The second report of the Foundation Fiscal Partners Project will discuss state relief efforts, including homestead exemptions, circuit breaker programs, tax deferrals and property tax freezes, among others.

3. A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances

During the past decade, the relationship between property taxes and state and local government services has changed significantly. Years of surplus revenue, coupled with voter dislike of the property tax, has resulted in major property tax cuts and has forced states to shoulder a growing share of education costs. In addition, a number of states rely heavily on businesses and personal property to provide a large portion of property tax revenue. Sometimes these taxes are not very straightforward or obvious. This report will begin to examine some of these issues.

*A Guide to Property Taxes* is the sixth Foundation Fiscal Partners Project. Previous Foundation Fiscal Partners Project publications include:

*Principles of a High-Quality State Revenue System* (November 1992)
*Fundamentals of Sound State Budgeting Practices* (May 1995)
*State Strategies to Manage Budget Shortfalls* (December 1996)
*Critical Issues in State-Local Fiscal Policy, Part 1: Sorting Out State and Local Responsibilities* (July 1997) and
*Part 2: A Guide to Local Option Taxes* (November 1997)
*The Appropriate Role of User Fees in State and Local Finance* (June 1999)

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# INTRODUCTION

The *Guide to Property Taxes: An Overview* is the first report in a three-part series of property tax publications produced by the NCSL Foundation Fiscal Partners. The purpose of this Foundation Fiscal Partners Project is to introduce policymakers to property taxes and the associated policy issues. Even though the property tax is largely a local tax, state law provides the power to impose it. In addition, state legislatures develop property tax policies that have major effects on local governments' ability to raise revenue and provide services.

This first report, a property tax overview, contains basic information about property taxes and how they are administered. The other two project publications will focus on property tax relief and the role of property taxes in state and local finances. The three project reports are listed below.

*A Guide to Property Taxes: An Overview*
*A Guide to Property Taxes: Property Tax Relief*
*A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances*

# The Property Tax

## History of the Property Tax

The property tax carries the weight of a long and honored tradition. Even before the existence of money, early leaders received payments from their subjects in the form of property. Over time, this practice evolved into the concept of taxation based on value, what is now termed an ad valorum or property tax.

The property tax, which began in the United States as a national tax on land parcels, provided a way for a fledgling country to fund its fight for freedom. As the young nation expanded, state governments also grew and assumed more responsibilities. Taxes on property provided the means to fund new state services while the federal government started to rely more heavily on tariffs for revenue.

In the mid-1800s, local governments grew rapidly, surpassing state governments in number and taking over investment in transportation, infrastructure and schools. Again, property taxes supplied the revenue in a pattern that became the foundation for the current system of fiscal federalism. Property taxes continued to be the primary source of local revenue in the early 20th century, while the states turned to new revenue sources such as taxes on automobiles. Later, during the great depression of the 1930s, states began levying consumption taxes on general sales as their primary revenue source—a trend that remained. Eventually, states began to impose taxes on income. Today, sales and income taxes are the major revenue sources for states. As a result, the property tax remains almost exclusively a local tax.

## Types of Taxable Property

What exactly does it mean to tax property? Public finance textbooks describe property taxes as levies on wealth, in contrast to two other categories of broad-based taxes: levies on income (income taxes) and levies on consumption (sales taxes).

As the property tax system developed in the United States, it adhered to the concept that all property was taxable. New categories of property were taxed as they evolved, with new names to fit. Now, for property tax purposes, three general categories of wealth are real property, personal property and intangible property. The type of property taxed varies by state, but most states use these general categories. Furthermore, other types of business property—such as inventories, equipment and utility property—are beyond the scope of this report and are not discussed here.

*Real property.* Real property, simply defined, is land and any permanent improvements to the land, such as a building or other structure. It is generally labeled as residential, commercial or agricultural. Real property is taxed in every state unless it is specifically exempt.

*Personal property.* Personal property is defined as everything subject to ownership that is not real property. In other words, it is property that can be seen, touched or moved around, such as a vehicle or boat. At least some tangible personal property is taxable in most states, although household goods and personal effects usually are exempt. Delaware, Hawaii, Illinois, Iowa, New York and Pennsylvania exempt all personal property from property taxes.

*Intangible property.* Intangible property includes intangible financial assets, such as investments in stocks and bonds. Only a few states tax intangible personal property. Appendix A illustrates the tax treatment of personal and intangible property by state. As mentioned earlier, real property is taxed in all states.

## Determining the Tax Base

State lawmakers establish the tax base by determining what type of property is taxable. In addition, they frequently reduce the tax base through property tax exemptions and abatements.

Exemptions, which exclude certain types of property from taxation, vary tremendously from state to state. Government-owned property and property owned by nonprofit organizations, schools, religious institutions and other special categories of property almost always are exempt. The list of exemptions is quite extensive in some states, which may cause financial hardship for local governments that rely heavily on property tax revenues to provide services. Some states reimburse local governments for lost property tax revenue. For example, Minnesota makes payments to local governments for state wildlife lands used for hunting. Wisconsin provides a reimbursement payment to local governments for state parks, forests and other natural areas purchased by the Department of Natural Resources, based on the tax that otherwise would be paid on that property.

A number of states also provide property tax abatements. Abatements differ from exemptions in that the property in question is subject to taxation, but it is taxed at a reduced rate. Abatements frequently are used as a tool to promote new development in designated areas. For example, a community that wants to promote new development in a run-down or "blighted" area may offer private developers a property tax abatement as an incentive to build in the desired location.

In addition, property tax abatements may be court ordered. For example, if a taxpayer challenges his property tax bill and wins, the courts may order a reduction in property value after property taxes have been levied and before they are paid, resulting in a property tax abatement.

## Who Levies Property Taxes?

States and a variety of local government entities may levy property taxes. Depending on the state, taxing authority may be granted to counties, municipalities, townships, school districts and special districts. Table 1 shows the results of a 2000 survey conducted by the International Association of Assessing Officers (IAAO). The survey asked property tax administrators what major units of government (independent taxing districts) receive revenue directly from the property tax or from a central collector of property tax (such as a county collector). Respondents were asked not to include government entities that receive property taxes indirectly (from another government). The survey found that counties in 45 states, municipalities in 48 states and the District of Columbia, townships in 24 states, school districts in 42 states and special districts in 20 states receive revenue directly from property taxes. In two states—Connecticut and Rhode Island—municipalities receive all property tax revenue, but in most states property tax revenue is allocated among counties, municipalities and school districts. Generally, school districts are the most dependent on property taxes because cities and counties often have other revenue sources such as local option sales or income taxes.

**Table 1. Major Units of Local Government Receiving Property Tax**

| State/Jurisdiction | County | City or Municipality | Township or Equivalent | School District | Special District or Other Entity |
|---|---|---|---|---|---|
| Alabama | ✓ | ✓ | | ✓ | |
| Alaska | ✓ | ✓ | | ✓ | |
| Arizona | ✓ | ✓ | ✓ | ✓ | |
| Arkansas | ✓ | ✓ | | ✓ | |
| California | ✓ | ✓ | | ✓ | |
| Colorado | ✓ | ✓ | ✓ | ✓ | |
| Connecticut | | ✓ | | | |
| Delaware | ✓ | ✓ | | ✓ | |
| Florida | ✓ | ✓ | ✓ | ✓ | |
| Georgia | | ✓ | | ✓ | ✓ |
| Hawaii | ✓ | ✓ | | | |
| Idaho | ✓ | ✓ | | ✓ | ✓ |
| Illinois | ✓ | ✓ | ✓ | ✓ | ✓ |
| Indiana | ✓ | ✓ | ✓ | ✓ | ✓ |
| Iowa | ✓ | ✓ | ✓ | ✓ | ✓ |
| Kansas | ✓ | ✓ | ✓ | ✓ | ✓ |
| Kentucky | ✓ | ✓ | | ✓ | ✓ |
| Louisiana | ✓ | ✓ | ✓ | ✓ | ✓ |
| Maine | ✓ | ✓ | | | |

Table 1. Major Units of Local Government Receiving Property Tax (continued)

| State/Jurisdiction | County | City or Municipality | Township or Equivalent | School District | Special District or Other Entity |
|---|---|---|---|---|---|
| Maryland | ✓ | ✓ | | | |
| Massachusetts | ✓ | ✓ | | | |
| Michigan | ✓ | ✓ | ✓ | ✓ | |
| Minnesota | ✓ | ✓ | ✓ | ✓ | |
| Mississippi | ✓ | ✓ | ✓ | ✓ | |
| Missouri | ✓ | ✓ | ✓ | ✓ | ✓ |
| Montana | ✓ | ✓ | | ✓ | ✓ |
| Nebraska | ✓ | ✓ | ✓ | ✓ | ✓ |
| Nevada | ✓ | ✓ | ✓ | ✓ | ✓ |
| New Hampshire | ✓ | ✓ | | ✓ | |
| New Jersey | N/A | N/A | N/A | N/A | N/A |
| New Mexico | ✓ | ✓ | | ✓ | |
| New York | ✓ | ✓ | ✓ | ✓ | |
| North Carolina | ✓ | ✓ | | ✓ | |
| North Dakota | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ohio | ✓ | ✓ | ✓ | ✓ | ✓ |
| Oklahoma | ✓ | ✓ | | ✓ | ✓ |
| Oregon | ✓ | ✓ | ✓ | ✓ | ✓ |
| Pennsylvania | ✓ | | | ✓ | |
| Rhode Island | | ✓ | | | |
| South Carolina | ✓ | ✓ | ✓ | ✓ | |
| South Dakota | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tennessee | ✓ | ✓ | | ✓ | |
| Texas | ✓ | ✓ | | ✓ | ✓ |
| Utah | ✓ | ✓ | | ✓ | ✓ |
| Vermont | | ✓ | ✓ | ✓ | |
| Virginia | ✓ | ✓ | ✓ | | |
| Washington | ✓ | ✓ | | ✓ | ✓ |
| West Virginia | ✓ | ✓ | | ✓ | |
| Wisconsin | ✓ | ✓ | ✓ | ✓ | |
| Wyoming | ✓ | ✓ | ✓ | ✓ | |
| District of Columbia | | ✓ | | | |
| Total | 45 | 49 | 24 | 42 | 20 |

Source: International Association of Assessing Officers, *Property Tax Policies and Administrative Practices in Canada and the United States*, 2000.

In addition, 15 states levy property taxes at the state level. This issue is discussed further on page 13.

## How Property Taxes Work

The way in which property taxes operate is complicated, and the general public sometimes confuses the process of valuing property with the process of determining tax rates. Property values and tax rates are equally important in determining how much tax is due and how much property tax bills change from year to year.

The process of determining how much a homeowner owes has two separate steps:

- Determining the taxable value of the property.
- Determining the amount of the tax on the basis of taxable value.

*Determining the taxable value.* The first step is determining the taxable value of the property. Assessors—locally elected in many states—set the value of property, based upon standards established in state law. In setting property values, assessors typically use market value—in which they consider the sales prices of comparable property in the same area—and factors such as square footage, garages, decks, the number of bathrooms, and other amenities. Assessors also consider remodeling and other improvements that increase the property's value.

Assessors typically employ one or more of the following methods to value real property:

- The "market data" or "comparable sales" method, under which value is determined by analyzing recent sales of similar properties in the vicinity;
- The "cost" method, under which value is determined by analyzing the cost to construct or replace the subject property; and
- The "income" method, under which value is determined by capitalizing the anticipated annual income for the useful life of the subject property.[1]

Regardless of the method, the assessment process is a frequent subject of complaint about the property tax system. Even in states that have professional assessors, valuing property is not an exact science. Property owners with similar homes in the same areas can face very different tax bills, depending upon the time of the last assessment and other factors.

State law sets the frequency of reassessment. Intervals between reappraisals vary from one to 10 years. Longer assessment cycles can be troublesome in areas where property values are increasing rapidly because several years of property appreciation can cause large increases in property taxes. (However, this problem can be mitigated over time if the amount of taxable property within a tax district grows, because the district will have a larger tax base.) In addition, 34 states and the District of Columbia adjust property values between reappraisals using statistical methods such as sales-ratio analysis, which compare sales prices to assessed values.[2] Table 2 shows real property appraisal cycles by state.

**Table 2. Real Property Appraisal Cycles by State**

| Years in Cycle | State/Jurisdiction | Total |
|---|---|---|
| 1 | Alaska, Arizona, California, Delaware, Florida, Hawaii, Kansas, Kentucky, Michigan, Mississippi, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Oregon, Pennsylvania, South Dakota, Vermont, Washington, West Virginia, Wyoming | 25 |
| 2 | Colorado, Iowa, Missouri, Virginia | 4 |
| 3 | Arkansas, District of Columbia, Maryland, Massachusetts, Texas | 5 |
| 4 | Alabama, Connecticut, Georgia, Illinois, Indiana, Louisiana, Maine, Minnesota | 8 |

| Table 2. Real Property Appraisal Cycles by State (continued) | | |
|---|---|---|
| Years in Cycle | State/Jurisdiction | Total |
| 5 | Idaho, Nevada, South Carolina, Utah, Wisconsin | 5 |
| 6 | Ohio, Tennessee | 2 |
| 8 | North Carolina | 1 |
| 10 | Rhode Island | 1 |

Source: International Association of Assessing Officers, 2000 and Commerce Clearing House, 2001

To complicate matters further, the responsibility for assessing property is different in each state. In some states, the counties handle the assessing; in others, the cities do. In two states—Maryland and Montana—all property is centrally assessed by the state. In the majority of states, property is assessed at the county level. However, most states centrally assess certain types of property—such as railroad and utility property—at the state level. Table 3 shows the number of assessing units by government level in each state.

Table 3. The Number of Assessing Units by Government Level

| State/Jurisdiction | County | City or Municipality | Township or Equivalent | State | Other | Total |
|---|---|---|---|---|---|---|
| Alabama | 67 | | | 1 | | 68 |
| Alaska | 12 | 13 | | 2 | | 27 |
| Arizona | 15 | | | 1 | | 16 |
| Arkansas | 75 | | | 1 | | 76 |
| California | 58 | | | 1 | 1 | 60 |
| Colorado | 63 | | | 1 | | 64 |
| Connecticut | | 19 | 150 | | | 169 |
| Delaware | 3 | 1 | | | | 4 |
| Florida | 67 | | | 1 | | 68 |
| Georgia | 159 | | | 1 | | 160 |
| Hawaii | 4 | | | | | 4 |
| Idaho | 44 | | | 1 | | 45 |
| Illinois | 102 | | 920 | 1 | | 1,023 |
| Indiana | 92 | | 1008 | 1 | | 1,101 |
| Iowa | 99 | 8 | | 1 | | 108 |
| Kansas | 105 | | | 1 | | 106 |
| Kentucky | 120 | | | 1 | | 121 |
| Louisiana | 70 | | | 1 | | 71 |
| Maine | | 492 | | | | 492 |
| Maryland | | | | 1 | | 1 |
| Massachusetts | | 39 | 312 | 1 | | 352 |
| Michigan | | 267 | 1245 | 1 | | 1,527 |
| Minnesota | 87 | 9 | | 1 | | 97 |
| Mississippi | 82 | 301 | | 1 | | 384 |
| Missouri | 114 | 1 | | 1 | | 116 |
| Montana | | | | 7 | | 7 |
| Nebraska | 93 | | | 1 | | 94 |
| Nevada | 17 | | | 1 | | 18 |
| New Hampshire | | 259 | | 1 | | 260 |
| New Jersey | | 335 | 232 | | | 567 |

Table 3. The Number of Assessing Units by Government Level (continued)

| State/Jurisdiction | County | City or Municipality | Township or Equivalent | State | Other | Total |
|---|---|---|---|---|---|---|
| New Mexico | 33 | 101 | | 1 | | 135 |
| New York | 2 | 61 | 920 | 1 | 215 | 1,199 |
| North Carolina | 100 | | | 1 | | 101 |
| North Dakota | 53 | 361 | 1380 | 1 | | 1,795 |
| Ohio | 88 | | | 1 | | 89 |
| Oklahoma | 77 | | | 1 | | 78 |
| Oregon | 36 | | | 1 | | 37 |
| Pennsylvania | 67 | | | | | 67 |
| Rhode Island | | 8 | 31 | | | 39 |
| South Carolina | 46 | | | 1 | | 47 |
| South Dakota | 65 | | | 1 | | 66 |
| Tennessee | 95 | 1 | | 1 | | 97 |
| Texas | | | | | 253 | 253 |
| Utah | 29 | | | 1 | | 30 |
| Vermont | | 251 | | 1 | | 252 |
| Virginia | 95 | 40 | 91 | 2 | | 228 |
| Washington | 39 | | | 1 | | 40 |
| West Virginia | 55 | | | 1 | | 56 |
| Wisconsin | | 584 | 1255 | 1 | 6 | 1,897 |
| Wyoming | 23 | | | 1 | | 24 |
| District of Columbia | | 1 | | | | 1 |

Source: International Association of Assessing Officers, Property Tax Policies and Administrative Practices in Canada and the United States, 2000.

After the assessor determines the market value of the property, it is multiplied by the assessment ratio to determine the taxable value (also known as assessed value), which may be different than the appraised market value if the ratio is less than 100 percent. State law determines the assessment ratio. These ratios are applied because they allow some flexibility with tax policy and provide a way to levy more or less tax on different types of property without using different tax rates. One reason states use assessment ratios of less than 100 percent is that it allows them to provide tax breaks to homeowners and farmers but to levy higher taxes on businesses.

In many states, property is categorized by type, which allows policymakers to assign different assessment ratios to different classes of property. In Alabama, for example, the residential property classification carries a 10 percent assessment ratio, and business property falls into a classification that has a 20 percent assessment ratio. Thus, the taxable value of a $100,000 home is $10,000 ($100,000 x .10), and the taxable value of a $100,000 business is $20,000 ($100,000 x .20). At the same tax rate, businesses pay twice as much as homeowners on property of the same market value. Residential property taxation also is more straightforward because most residences are primary homes, not second homes, which may be taxed differently. However, commercial property varies tremendously, ranging from apartment buildings to factories to retail malls and, depending on the state and its classification system, these all may be taxed differently. Therefore, how property is classified can significantly affect how it is taxed due to different assessment ratios.

States differ greatly in the number of separate classes of property they differentiate. At one extreme are those that distinguish no classes; at the other are states that differentiate more than 10 classes. Homes and farms generally receive the most favored treatment under classification systems, while businesses, particularly utilities, tend to be treated less favorably. Appendix B shows how state classification systems differentiate between various property types.

*Determining the tax.* The second step after determining the taxable value is to determine the amount of the tax. The taxable value is multiplied by the local tax rate to determine the total tax due. In many states, the county, city, school district and special districts (flood control, fire protection, library, sewer and water districts) each account for a portion of the total local tax rate. Some states require that the voters approve tax rates, while others allow locally elected officials (county commissioners, city councils, or school boards) to set tax rates without a popular vote. Some states actually set rates in state law by establishing maximum rates.

To determine the actual rate, the taxing authority determines how much revenue it needs to generate through property taxes. That amount is divided by the total taxable value of the property in the district to determine a tax rate. Property tax rates are simply a function of how much the local government has budgeted, which explains why they vary from year to year.

Tax rates are commonly referred to as mill levies; a mill is one-tenth of a cent. A 1 mill levy means that the taxpayer owes $1 for every $1,000 in taxable property value. The rate applied usually will represent an aggregation of the various rates of different taxing jurisdictions where the property is located.

Because rates vary and different assessment ratios are applied, the best way to measure property taxes is through the effective rate, which is the proportion of tax dollars paid to market value. This is really the only way to compare the effect of property taxes across jurisdictions. To calculate the effective tax rate, divide the property tax paid by market value of the property. For example, the effective tax rate of a house valued at $200,000 and a property tax of $2,000 is $2,000 / $200,000 = 0.01 = 1.0 percent. The 1.0 percent effective rate then can be compared with the effective rates of other properties in different locations.

Manufactured housing makes up an increasing proportion of U.S single family homes. Several factors drive the growth, including affordability, better financing, and a shift in population toward rural areas, especially in the South and Southwest. "Manufactured housing" refers to structures built in a factory to U.S. Department of Housing and Urban Development (HUD) standards, transported to a site and installed. The industry uses the term "mobile home" to refer to manufactured homes produced prior to 1976, although the Census Bureau lumps both types together.

For tax purposes, residential manufactured housing may be classified as either real or personal property. More than half the states use multiple measures to determine classification, with the most significant factors being whether units are permanently affixed, owner-occupied, or situated on the owner's land.

When classified as real property, manufactured homes generally are assessed at the same rates as other houses. However, some states provide a tax break. For example, Arizona assesses manufactured housing at 82 percent and other homes at 100 percent of their respective market values.

When classified as personal property—usually because a unit is located in a mobile home park or is not permanently affixed—valuation is frequently based on the sales price. Subject to an ad valorem tax, manufactured houses and mobile homes are generally treated as a depreciable asset such as a car.

Source: L. Kenneth Hubbell, "A Comparative Study of the Taxation of Manufactured Housing," in *State Tax Notes* (April 26, 1999).

## Other Valuation Methods

Historically, property taxes were based on the market value of the property. Over time, however, exceptions to this standard have been provided as a tax benefit to specified types of property such as agricultural land, historic property, and other special use property. These frequently are valued on the basis of their "*current actual use,*" which typically is a much lower value. Use value attempts to determine a value based upon the actual production of the property and to remove other influences that affect the market value of real estate.

*Agricultural land.* Most states employ some version of use value, rather than market value, for determining agricultural land values for property tax purposes. Even if the "use value" standard is not specifically employed, agricultural land generally is taxed at a lower effective rate. Michigan, for example, does not have use value for agricultural land. However, agricultural lands are not assessed taxes for local school uses, thus accomplishing much the same result as use valuation but eliminating the need for use value taxation procedures. Appendix C shows how states value agricultural land.

Because agricultural land is subject to less tax, it is a desirable classification. Depending on the state and its administrative rulings, agricultural use may be defined rather loosely to allow some questionable inclusions. To deal with this issue, most states have established certain threshold tests to establish whether the land in question is truly being used for agricultural purposes. For example, Florida has a procedure for determining when agricultural use value no longer is appropriate. When the sales price of a tract of land is greater than or equal to three times the use value of the tract, it no longer is considered agricultural land. Montana currently is examining how agricultural land is taxed. This is primarily due to the fact that many acres of land are being bought for recreation and tourism purposes, yet still qualify as agricultural land for tax purposes.

*Other land.* In addition to agricultural land, lawmakers often apply the use value standard to timberland, open space and historic buildings.

*Personal property.* Personal property also is valued differently than real property. Usually, it is valued on the basis of depreciation. Industry-based valuation guides commonly are used. For example, motor vehicles are subject to property taxes in a number of states; however, the tax due decreases each year as the vehicle depreciates (usually using "blue book" value as the guide). In Wisconsin, personal property is valued based on its acquisition cost, with adjustments for inflation and depreciation. Because some types of property—such as computer and other high-tech equipment —have a short shelf life, most states have constructed tables to reflect various depreciation cycles.

## Equalization

Equalization is the process states undertake to ensure that assessments are uniform throughout the state. Most states use a state or local review board to compare the work of local assessors. If inconsistencies are found among jurisdictions or classes of property, the board can require that adjustments be made. For example, the South Dakota Department of Revenue adjusts local assessments to ensure that the median assessment within each county represents at least 85 percent of the market value.

For further uniformity, most states have adopted central assessment to ensure equity in the appraisal of certain complex properties, such as utility, railroad and manufacturing.

### Appeals

Each state has a formal process for appealing the assessed value of property. However, tax rates (mill levies) are not subject to appeal. Although the process varies among states, some elements are common. In most states, taxpayers may call the assessor's office and provide evidence (comparable property sales, clarify incorrect information, other factors affecting property value) to demonstrate that the assessment is incorrect. If the taxpayer is still not satisfied, he or she may appeal to an elected body, such as a county board, that exists specifically to hear property valuation appeals. In most states, county board or elected body decisions may be appealed to the courts.

Most states have specific deadlines for appealing property valuations. Once these deadlines have passed, taxpayers' appeals will not be heard.[3]

### Property Tax Limits

Property tax policy is also shaped by other factors. Throughout the country, state laws and constitutional provisions limit property taxes in many ways, including limitations on property assessment increases, on property tax rates and on overall local revenue growth. Many limitations have been adopted in states that allow the initiative petition process, which lets citizens make laws and amend state constitutions. California's Proposition 13, Massachusetts' Proposition 2 1/2 and Oregon's "Cut and Cap" are notable examples of property tax limitation measures initiated directly by voters. However, notwithstanding the citizen initiative process, most states have some type of constraint on property taxes. (Limits will be discussed in more detail in the second publication of this series.)

### Reliance on the Property Tax

Local government reliance on property taxes reached its peak in the 1970s; then came taxpayer revolts and the ensuing tax limits. As a result, state and local governments reduced reliance on the property tax in the latter part of the 20th century; however, it remains a major revenue generator.

The property tax is still the primary tax source for local governments. It is responsible for approximately 72 percent of all local tax revenue. Table 4 shows the amount of local tax revenue derived from the property tax. (Keep in mind that the comparison here is between property taxes and locally raised taxes only and does not include other sources of local revenue such as state and federal aid.) Local governments in 13 states rely on property taxes for more than 90 percent of their tax revenue. The property tax generates between 80 percent and 90 percent of local revenue in seven states. Thirty states are above the national average of 72.3 percent. The nine states with less than 60 percent local government tax reliance on the property tax are Alabama, Georgia, Kentucky, Louisiana, Maryland, New Mexico, New York, Oklahoma and Tennessee.[4]

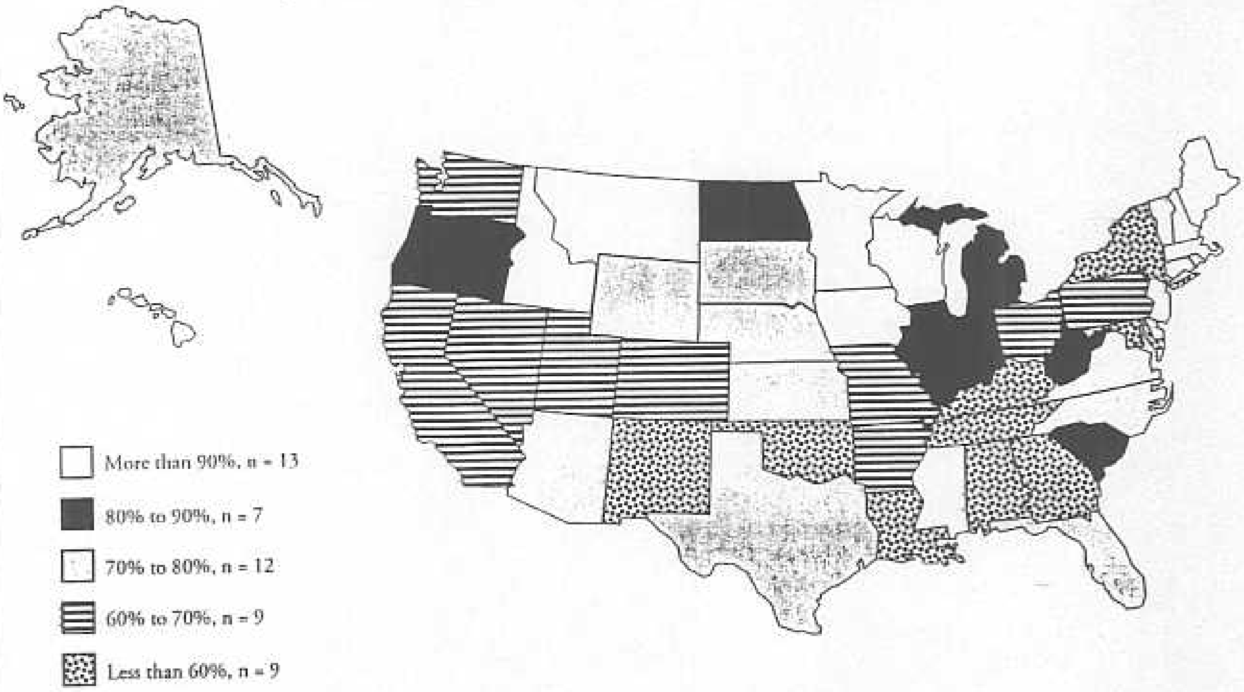
Table 4. Local Property Taxes as a Percent of Local Taxes, Fiscal Year 1999

| Rank | State/Jurisdiction | Percent | Rank | State/Jurisdiction | Percent |
|---|---|---|---|---|---|
| 1 | New Hampshire | 98.8% | 27 | Florida | 78.7% |
| 2 | Rhode Island | 98.6 | 28 | Wyoming | 77.6 |
| 3 | Connecticut | 98.3 | 29 | Kansas | 76.5 |
| 4 | New Jersey | 97.9 | 30 | North Carolina | 74.6 |
| 5 | Maine | 97.6 | | United States | 72.3 |
| 6 | Massachusetts | 96.9 | 31 | Virginia | 71.7 |
| 7 | Vermont | 95.8 | 32 | Arizona | 70.6 |
| 8 | Montana | 95.3 | 33 | Pennsylvania | 69.7 |
| 9 | Minnesota | 94.5 | 34 | California | 66.2 |
| 10 | Wisconsin | 94.0 | 35 | Ohio | 66.0 |
| 11 | Idaho | 93.9 | 36 | Utah | 65.7 |
| 12 | Mississippi | 91.8 | 37 | Arkansas | 64.6 |
| 13 | Iowa | 90.3 | 38 | Nevada | 63.3 |
| 14 | Michigan | 89.8 | 39 | Washington | 62.4 |
| 15 | Indiana | 88.6 | 40 | Colorado | 61.5 |
| 16 | North Dakota | 88.1 | 41 | Missouri | 60.2 |
| 17 | South Carolina | 84.9 | 42 | Georgia | 59.5 |
| 18 | Illinois | 82.9 | 43 | Tennessee | 59.0 |
| 19 | West Virginia | 82.8 | 44 | New York | 57.0 |
| 20 | Oregon | 80.1 | 45 | Maryland | 55.2 |
| 21 | Texas | 79.8 | 46 | New Mexico | 54.2 |
| 22 | Nebraska | 79.6 | 47 | Kentucky | 53.9 |
| 23 | Hawaii | 79.6 | 48 | Oklahoma | 52.7 |
| 24 | Alaska | 79.3 | 49 | Louisiana | 39.4 |
| 25 | Delaware | 79.0 | 50 | Alabama | 37.5 |
| 26 | South Dakota | 78.9 | | | |

Source: *State Policy Reports*, September 2001.

The level of property tax revenue depends heavily on the degree of fiscal centralization in a state and on the division of responsibility between state and local governments. Other factors that influence property tax levels include local spending and the extent to which local governments have access to other forms of revenue. Many states with property tax limits authorize local option sales and income taxes so that local governments have other own-source revenues in addition to state aid. On the other hand, many New England states rely heavily on property taxes because they have few local option alternatives. Figure 1 shows regional differences in reliance on the property tax as local tax source.

Figure 1. Local Property Taxes as a Percent of Local Taxes, FY 1999




Source: U.S. Census Bureau, 2001.

Appendix D shows property taxes as a percentage of state and local revenue, which provides some perspective as to the importance of the property tax to the state revenue picture as a whole. This appendix takes into account all state revenues, including non-tax revenues such as user fees and federal funds.

*State Property Taxes.* Only a few states rely on property taxes for state revenue. Property taxes currently comprise more than 10 percent of state revenue in just four states—Montana, Vermont, Washington and Wyoming.

Typically, states levy taxes on specific types of property, such as motor vehicles, utility company property, railroad property, aircraft and equipment, and oil and gas property. Only 15 states levy statewide taxes on real property.

Among the states, Minnesota and New Hampshire most recently have adopted a statewide tax on real property. During the 2001 legislative session, as part of a larger tax relief and reform package, Minnesota adopted a new statewide property tax on business property (and cabins) with the revenue growth from year to year dedicated to education.

In 1999, lawmakers in New Hampshire, seeking additional revenues to fund education because of a school finance equity suit, approved a statewide property tax of $6.60 per $1,000 of valuation. This was reduced to $5.80 per $1,000 of valuation during the 2001 legislative session.

| Table 5. Statewide Property Taxes | |
|---|---|
| State | State Property Tax Rate on Real Property |
| Alabama | The rate of taxation for state purposes is 0.65 percent annually on the assessed value of taxable property in the state. |
| Indiana | The total state tax rate is limited to 1¢ (.33¢, beginning March 1, 2001) on each $100 of valuation. |
| Kansas | Permanent state tax levies include a 1 mill levy for state educational institutions; a 0.5 mill levy for state institutions caring for the mentally ill, retarded and visually handicapped; and a 0.25 mill levy for state correctional institutions. |
| Kentucky | The state tax rate on real property is 14.1 cents per $100 of valuation. |
| Maryland | The state levy on real property is 21 cents per $100 of assessed valuation. |
| Michigan | A state education tax is imposed on all taxable property at a rate of 6 mills. |
| Minnesota | A statewide property tax is imposed on all business real property and cabins. The total levy amount is set grow annually by the amount of inflation; therefore, the rate will vary from year to year. |
| Montana | The state levies a 95 mill statewide tax for school finance equalization, plus an additional 6 mills for community colleges. |
| Nevada | The state property tax of 15 cents per $100 of assessed value is used exclusively to service debt. |
| New Hampshire | A statewide property tax for education is imposed at the rate of $6.60 per $1,000 of value. The tax is set to expire in January 2003. |
| Utah | The state rate of tax cannot exceed 0.00048 per $1 of taxable value of taxable property in the state. |
| Vermont | A statewide education property tax is imposed on all nonresidential and homestead property at a rate of $1.10 per $100 of equalized education property value. |
| Washington | The state levies a school property tax at the rate of $0.36 per $100 of market value. |
| Wisconsin | A state tax of 0.2 mills, imposed annually on all taxable property, is used to fund state forestry programs. |
| Wyoming | A state tax of 12 mills is levied annually for school support. |
| Source: National Conference of State Legislatures and Commerce Clearing House, State Tax Guide, March 2001. | |

## Property Tax Burdens

When considering property tax policies, lawmakers frequently are concerned about how property taxes in one state compare to those in other states. Table 6 shows state and local property taxes per capita and as a percentage of personal income. Many fiscal experts consider tax burdens as a percentage of personal income the best measurement because it takes into account the overall wealth of the state and captures its residents' ability to pay.

Table 6. State and Local Property Taxes Per Capita and as a Percentage of Personal Income, FY 1999

| State | Collections in thousands | Per Capita Amount | Per Capita Rank | Per $100 Income Amount | Per $100 Income Rank |
|---|---|---|---|---|---|
| New Hampshire | $2,014,400 | $1,677.3 | 2 | 5.7% | 1 |
| Maine | 1,546,856 | 1,234.5 | 7 | 5.3 | 2 |
| Vermont | 765,688 | 1,289.0 | 6 | 5.2 | 3 |
| New Jersey | 14,336,025 | 1,760.5 | 1 | 5.2 | 4 |
| Montana | 891,131 | 1,009.2 | 13 | 4.8 | 5 |
| Rhode Island | 1,285,113 | 1,296.8 | 5 | 4.6 | 6 |
| Wyoming | 522,697 | 1,089.0 | 11 | 4.4 | 7 |
| Alaska | 727,813 | 1,173.9 | 9 | 4.2 | 8 |
| New York | 24,758,694 | 1,360.6 | 4 | 4.2 | 9 |
| Connecticut | 5,174,841 | 1,576.7 | 3 | 4.2 | 10 |
| Wisconsin | 5,524,611 | 1,052.3 | 12 | 4.0 | 11 |
| Illinois | 14,099,968 | 1,162.6 | 10 | 3.9 | 12 |
| Texas | 18,804,963 | 938.2 | 16 | 3.7 | 13 |
| Nebraska | 1,567,009 | 940.6 | 15 | 3.6 | 14 |
| Iowa | 2,532,735 | 882.8 | 20 | 3.6 | 15 |
| Massachusetts | 7,300,559 | 1,182.3 | 8 | 3.6 | 16 |
| South Dakota | 617,287 | 842.1 | 22 | 3.5 | 17 |
| Washington | 5,763,411 | 1,001.3 | 14 | 3.5 | 18 |
| Indiana | 5,177,129 | 871.1 | 21 | 3.5 | 19 |
| Florida | 13,900,952 | 919.9 | 18 | 3.5 | 20 |
| North Dakota | 497,220 | 784.3 | 29 | 3.4 | 21 |
| Michigan | 8,810,590 | 893.2 | 19 | 3.3 | 22 |
| Minnesota | 4,458,850 | 933.6 | 17 | 3.2 | 23 |
| Arizona | 3,584,155 | 750.1 | 32 | 3.2 | 24 |
| Ohio | 9,334,354 | 829.2 | 25 | 3.2 | 25 |
| Kansas | 2,115,021 | 796.9 | 28 | 3.1 | 26 |
| Idaho | 815,660 | 651.5 | 35 | 3.0 | 27 |
| Oregon | 2,558,189 | 771.5 | 30 | 3.0 | 28 |
| Virginia | 5,757,546 | 837.7 | 24 | 3.0 | 29 |
| Pennsylvania | 9,659,064 | 805.3 | 26 | 2.9 | 30 |
| Colorado | 3,413,607 | 841.6 | 23 | 2.9 | 31 |
| South Carolina | 2,475,954 | 637.1 | 36 | 2.9 | 32 |
| California | 25,424,960 | 767.1 | 31 | 2.8 | 33 |
| Georgia | 5,422,816 | 696.3 | 34 | 2.7 | 34 |
| Maryland | 4,144,064 | 801.2 | 27 | 2.6 | 35 |
| Arkansas | 1,401,967 | 549.6 | 40 | 2.6 | 36 |
| Utah | 1,191,691 | 559.5 | 39 | 2.5 | 37 |
| Mississippi | 1,389,918 | 502.0 | 41 | 2.5 | 38 |
| Nevada | 1,261,135 | 697.1 | 33 | 2.4 | 39 |
| Missouri | 3,305,361 | 604.5 | 37 | 2.4 | 40 |
| North Carolina | 4,350,642 | 568.6 | 38 | 2.3 | 41 |
| West Virginia | 811,771 | 449.2 | 45 | 2.2 | 42 |
| Tennessee | 2,684,026 | 489.4 | 43 | 2.0 | 43 |
| Kentucky | $1,666,329 | $420.7 | 46 | 1.9 | 44 |
| Hawaii | 594,558 | 501.7 | 42 | 1.9 | 45 |

Table 6. State and Local Property Taxes Per Capita and as a Percentage of Personal Income, FY 1999
(continued)

| State | Collections in thousands | Per Capita Amount | Per Capita Rank | Per $100 Income Amount | Per $100 Income Rank |
|---|---|---|---|---|---|
| Oklahoma | 1,237,654 | 368.6 | 48 | 1.7% | 46 |
| Louisiana | 1,620,130 | 370.6 | 47 | 1.7 | 47 |
| New Mexico | 587,849 | 337.8 | 49 | 1.6 | 48 |
| Delaware | 348,517 | 462.2 | 44 | 1.6 | 49 |
| Alabama | 1,191,792 | 272.7 | 50 | 1.2 | 50 |
| United States | $239,427,272 | 879.7 | | 3.3 | |
| Source: U.S. Census Bureau, 2001. | | | | | |

Both ranking methods show enormous variation among the states. New Hampshire holds the top spot for property taxes as a percent of income and is second for property taxes per capita. New Jersey ranks first on a per capita basis and fourth on property taxes relative to personal income. Alabama's property tax burdens are about a third of the national average.

Although such tables provide some perspective about property tax burdens and how states rank, it is important not to draw too many conclusions from them because the data alone has many limitations. A state that relies heavily on property taxes may rank high here but low in other taxes. For example, New Hampshire has a high property tax burden, but residents there pay no general sales tax and no income tax on anything other than interest and dividend income. Generally speaking, it is a low tax state and ranks 49th in overall tax collections as a percentage of personal income, a fact that is not evident from these property tax tables. Appendix E shows how states rank when all state and local taxes are considered.

In addition, some states provide property tax relief to taxpayers in ways that are not reflected in the tables, through such mechanisms as income tax breaks or with direct payments (rebates and refunds). (In fact, property tax relief is such a significant part of state property tax policy that it is the subject of the next publication of the NCSL Foundation Fiscal Partners.)

Also, there is no way to know anything about the services those property tax dollars may buy. A municipality with high property taxes may be providing taxpayers services well above the national average, while a government with a low tax base may be providing very little. The data do not tell the whole story.

It is difficult to measure whether taxes or services are "too low" or "too high" from the information contained in the tables. These political questions are decided by citizens and lawmakers in each state. It is most important to examine the overall tax structure and spending climate of a state before making judgments about its tax policy.

## Appendix A. Tax Treatment of Personal and Intangible Property, by State

| State/ Jurisdiction | Personal Property Taxable? | | Comments | Intangible Property Taxable? | | Comments |
|---|---|---|---|---|---|---|
| | Yes | No | | Yes | No | |
| Alabama | ✓ | | | ✓ | | Specific intangibles, such as corporate shares, bonds and hoarded money are taxable |
| Alaska | ✓ | | | | ✓ | |
| Arizona | ✓ | | | | ✓ | |
| Arkansas | ✓ | | | | ✓ | |
| California | ✓ | | | | ✓ | |
| Colorado | ✓ | | The first $2,500 is exempt | | ✓ | |
| Connecticut | ✓ | | | | ✓ | |
| Delaware | | ✓ | Only property of captive insurance companies is taxable | | ✓ | |
| Florida | ✓ | | | ✓ | | State tax on intangible property of 1 mill |
| Georgia | ✓ | | The first $500 is exempt | | ✓ | |
| Hawaii | | ✓ | | | ✓ | |
| Idaho | ✓ | | | | ✓ | |
| Illinois | | ✓ | | | ✓ | |
| Indiana | ✓ | | | | ✓ | |
| Iowa | | ✓ | Some items of personal property are deemed to be real property | | ✓ | Intangible tax levied only on credit unions and loan agencies |
| Kansas | ✓ | | | | ✓ | |
| Kentucky | ✓ | | | ✓ | | Specified property is taxable |
| Louisiana | ✓ | | | | ✓ | Bank stock, insurance company credits, loan and finance company credits, and public service property are excluded from the intangibles exemption |
| Maine | ✓ | | | | ✓ | |
| Maryland | | ✓ | Only business property greater than $10,000 located at an individual's home is taxable | | ✓ | |
| Massachusetts | ✓ | | | | ✓ | |
| Michigan | ✓ | | | | ✓ | |
| Minnesota | ✓ | | Specified items are taxable | | ✓ | |
| Mississippi | ✓ | | | ✓ | | Specified property is taxable |
| Missouri | ✓ | | | | ✓ | |
| Montana | ✓ | | | | ✓ | |
| Nebraska | | ✓ | Only depreciable business property or property used for the production of income that has a life span of more than one year is taxable | | ✓ | |

**Appendix A. Tax Treatment of Personal and Intangible Property, by State**
(continued)

| State/ Jurisdiction | Personal Property Taxable? Yes | Personal Property Taxable? No | Comments | Intangible Property Taxable? Yes | Intangible Property Taxable? No | Comments |
|---|---|---|---|---|---|---|
| Nevada | ✓ | | | | ✓ | |
| New Hampshire | | ✓ | | | ✓ | |
| New Jersey | | ✓ | Only personal property of certain utilities and petroleum refineries is taxable | | ✓ | |
| New Mexico | ✓ | | Specified items are taxable | | ✓ | |
| New York | | ✓ | | | ✓ | |
| North Carolina | | ✓ | Non-business property is not taxable | | ✓ | |
| North Dakota | ✓ | | Specified items are taxable | | ✓ | |
| Ohio | | ✓ | Only business property in excess of $10,000 is taxable | ✓ | | Intangibles held by an intangibles dealer are taxable |
| Oklahoma | ✓ | | Counties may enact a full exemption | | ✓ | |
| Oregon | | ✓ | Only personal property used in a trade or business is taxable | | ✓ | |
| Pennsylvania | | ✓ | | ✓ | | Specified intangibles are taxable |
| Rhode Island | ✓ | | | | ✓ | |
| South Carolina | ✓ | | | | ✓ | |
| South Dakota | | ✓ | Only personal property of centrally assessed utilities is taxable | | ✓ | |
| Tennessee | | ✓ | Only personal property used in a trade or business is taxable | | ✓ | Only certain intangibles of insurance companies, loan and investment companies and cemetery companies are taxable |
| Texas | | ✓ | Unless a locality elects otherwise, only income – producing personal property is taxable | | ✓ | Only certain intangibles of insurance companies and savings and loan associations are taxable |
| Utah | ✓ | | | | ✓ | |
| Vermont | ✓ | | | | ✓ | |
| Virginia | ✓ | | Local governments may enact an exemption | | ✓ | |
| Washington | ✓ | | | ✓ | | |
| West Virginia | ✓ | | | ✓ | | Specified intangible property is taxable, although the tax is being phased out |
| Wisconsin | | ✓ | Only business property is taxable | | ✓ | |

**Appendix A.** **Tax Treatment of Personal and Intangible Property, by State**
(continued)

| State/ Jurisdiction | Personal Property Taxable? Yes | No | Comments | Intangible Property Taxable? Yes | No | Comments |
|---|---|---|---|---|---|---|
| Wyoming | ✓ | | | | ✓ | |
| District of Columbia | | ✓ | Only property used in a trade of business | | ✓ | |

Source: Commerce Clearing House, *State Tax Guide*, 2001.

**Appendix B. Property Classification, by State**

| State/ Jurisdiction | Types of Property Classifications | Assessment Ratios |
|---|---|---|
| Alabama | Class 1: Utility<br>Class 2: All real and personal property not in other classes<br>Class 3: Agricultural, historic and residential<br>Class 4: Motor vehicles | 30%<br>20<br>10<br>15 |
| Alaska | No classifications. All property is assessed at its full and true value. | 100% |
| Arizona | Class 1: Mining, utilities, commercial and telecommunications<br>Class 2: Agricultural and nonprofit<br>Class 3: Residential property<br>Class 4: Rented residential property<br>Class 5: Railroad and flight<br>Class 6: Special purposes<br>Class 7: Commercial historic<br>Class 8: Historic / residential<br>Class 9: Possessor interests on government property | 25%<br>16<br>10<br>10<br>5<br>5<br>1<br>1<br>1 |
| Arkansas | No specific classes of property—real and personal property are taxed the same<br>Note: Agricultural and other special valued lands are assessed at their use value. | 20% |
| California | No classifications. All property is assessed at its full value. | 100% |
| Colorado | The constitution restricts the percentage of residential property assessed value to 45 percent of total assessed property value. The assessment rate for commercial real property is fixed at 29 percent. The legislature adjusts the residential assessment ratio each year. For the 2001 and 2002 property tax year, the residential assessment ratio is established at 9.15 percent of a property's actual value. | Varies |
| Connecticut | No classifications. Property is assessed at 70 percent of actual value. | 70% |
| Delaware | No classifications. All property is assessed at its true value. | 100% |
| Florida | No classifications. Property (other than homesteads or property valued on use) is assessed at its full cash value. Homesteads are assessed at just value as of Jan. 1, 1994. | 100% |
| Georgia | No classifications. Property is assessed at 40% of fair market value. | 40% |
| Hawaii | No classifications. All taxable real property is assessed at its fair market value. | 100% |
| Idaho | Property is classified as either real property, personal property or operating property of public utilities. | 100% |
| Illinois | Class 1: Residential (counties under 200,000 inhabitants)<br>Residential (counties over 200,000 inhabitants)<br>Class 2: Farm<br>Class 3: Commercial<br>Class 4: Industrial<br>Class 5: Railroad<br>Class 6: Mineral | 25%<br><br>33.3<br>33.3<br>33.3<br>33.3<br>33.3 |
| Indiana | No specific classifications. (Prior to March 1, 2001, property was assessed at 33.3 percent.) | 100% |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | Assessment Ratios |
|---|---|---|
| Iowa | Residential<br>Agricultural (assessed at 100% of productivity)<br>Commercial<br>Industrial<br>Utilities/Railroad | 100% |
| Kansas | Real Property:<br>Class 1: Residential<br>Class 2: Agricultural<br>Class 3: Vacant lots<br>Class 4: Nonprofit<br>Class 5: Public utility real property<br>Class 6: Commercial and industrial real property<br>Class 7: Other real property<br>Personal Property:<br>Class 1: Mobile homes used for residential purposes<br>Class 2: Most mineral leasehold interests<br>Class 3: Most public utility tangible personal property and inventories<br>Class 4: Motor vehicles<br>Class 5: Most commercial and industrial machinery and equipment<br>Class 6: All other tangible personal property | <br>11.5%<br>30<br>12<br>12<br>33<br>25<br>30<br><br>11.5<br>30<br>33<br>30<br>25<br>30 |
| Kentucky | All property is assessed at its fair cash value. Classification is achieved through differential tax rates. | 100% |
| Louisiana | Residential/land<br>Residential improvements<br>Electric cooperative properties (excluding land)<br>Public service property (excluding land)<br>Other<br>Agricultural, marsh and timber land | 10%<br>10<br>15<br>25<br>15<br>10 (use) |
| Maine | No classifications. Property is assessed at its just value. | 100% |
| Maryland | Real property<br>Personal property | 40%<br>100 |
| Massachu-setts | Class 1: Residential<br>Class 2: Open space land<br>Class 3: Commercial<br>Class 4: Industrial | 100%<br>100<br>100<br>100 |
| Michigan | No specific classifications. Property is assessed at 50% of true cash value. | 50% |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | Assessment Ratios |
|---|---|---|
| Minnesota | Property is assessed at full market value but is taxed at different rates depending on the type and value of property, as follows: | Tax Rates 2002: |
| | Disabled homestead up to $32,000 | 0.45% |
| | Residential homestead | 1.0 or 1.25 |
| | Residential non-homestead | 1.0 or 1.5 |
| | Apartments | 0.9 or 1.8 |
| | Commercial/industrial/public utility | 1.5 or 2.0 |
| | Seasonal recreational commercial | 1.0 or 1.25 |
| | Seasonal recreational residential | 1.0 or 1.25 |
| | Agricultural homestead | 0.55 or 1.0 |
| | Agricultural non-homestead | 1.0 |
| | Miscellaneous properties | 1.0 or 1.5 |
| Mississippi | Class 1: Residential | 10% |
| | Class 2: All non-residential real property | 15 |
| | Class 3: Personal (except motor vehicles) | 15 |
| | Class 4: Public utility property | 30 |
| | Class 5: Motor vehicles | 30 |
| Missouri | Class 1a: Real residential | 19% |
| | Class 1b: Real agricultural | 12 |
| | Class 1c: Real utility, industrial, commercial and railroad | 32 |
| | Class 2a: Personal property | 33.3 |
| | Class 2b: Grain and crops | 0.5 |
| | Class 2c: Livestock | 12 |
| | Class 2d: Farm machinery | 5 |
| | Class 3: Intangible personal property | 33.3 |
| Montana | Property is assessed at 100 percent of market value. However, taxable value is the value upon which the tax is levied and is a percentage of market value. | 2002 Taxable Value: |
| | Class 1: Net proceeds of mines (except coal and metal) | 100% |
| | Class 2: Gross proceeds of metal mines | 3 |
| | Class 3: Agricultural land | 3.46 |
| | Nonproductive mining claims | 3.46 |
| | Nonagricultural land between 20 acres and 160 acres | 24.220 |
| | Class 4: Residential, commercial and industrial land and improvements | 3.460 |
| | Golf courses | 1.730 |
| | Idle agricultural and timber processing property | 3.460 |
| | Mobile homes | 3.460 |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | | Assessment Ratios |
|---|---|---|---|
| | Class 5: | Air and water pollution control equipment | 3 |
| | | Rural electrical and telephone cooperatives | 3 |
| | | Real and personal property of "new industry" | 3 |
| | | Machinery and equipment used in electrolytic reduction facilities | 3 |
| | | Real and personal property of research and development firms | 3 |
| | | Real and personal property used to produce gasohol | 3 |
| | Class 6: | Livestock | 1 (0 in 2003) |
| | | Rental or lease equipment less than $15,000 | 1 (0 in 2003) |
| | | Machinery and equipment used in canola seed oil processing | 1 (0 in 2003) |
| | Class 7: | Qualifying rural electric associations | 8 |
| | Class 8: | Business personal property | 3 |
| | Class 9: | Real and personal property of pipelines and certain electric property | 12 |
| | Class 10: | Forest lands | 0.35 |
| | Class 11: | Repealed | |
| | Class 12: | Railroad and airline transportation property | 4.270 (2000) |
| | Class 13: | Telecom property and electrical generation property | 6 |
| Nebraska | Class 1: | Residential | 100% |
| | Class 2: | Personal (excluding motor vehicles) | 100 |
| | Class 3: | Agricultural | 80 |
| Nevada | No classifications. Property is assessed at 35 percent of taxable value. | | 35% |
| New Hampshire | No specific classifications. | | 100% |
| New Jersey | No specific classifications. Taxable value is a percentage of true value. | | 20% - 100% |
| New Mexico | Property is classified as either residential or nonresidential. | | 33.3% |
| New York | New York state law provides that all property within a municipality be assessed at a uniform percent of market value. The level of assessment can be 5 percent, 20 percent, 50 percent, or any other percent up to 100 percent. | | Varies |
| North Carolina | No specific classes. Historic property is taxed at 50 percent. | | 100% |
| North Dakota | Class 1: | Residential | 9% |
| | Class 2: | Agricultural | 10 |
| | Class 3: | Commercial | 10 |
| | Class 4: | Centrally assessed property except wind turbine generators | 10 |
| | Class 5: | Centrally assessed wind turbine generators | 3 |
| Ohio | No specific classes. Most property is assessed at 35 percent. | | 35% |
| Oklahoma | For locally assessed property, the county assessor sets the ratio | | |
| | Real property | | 11% – 13.5% |
| | Personal property | | 10 - 15 |
| | Public service corporation property (centrally assessed) | | 22.85 |
| | Railroad and air carrier property (centrally assessed) | | 12.08 |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | Assessment Ratios |
|---|---|---|
| Oregon | No specific classifications | 100% |
| Pennsylvania | No specific classifications. Assessment ratios vary by county. | 75% - 100% |
| Rhode Island | No state classifications: cities may have own classification system. | Varies |
| South Carolina | Class 1: Real and personal property of manufacturers and utilities | 10.5% |
| | Class 2: Residential | 4 |
| | Class 3: Agricultural realty | 4 |
| | Class 4: Real and personal property of transportation companies | 9.5 |
| | Class 5: All other real property | 6 |
| | Class 6: All other personal property (except certain water craft) | 10.5 |
| South Dakota | South Dakota has four property classifications:<br>Nonagriculture<br>Agriculture<br>Owner-occupied single-family dwellings<br>Nonagricultural acreage | 100% |
| Tennessee | Residential | 25% |
| | Real property of utilities | 55 |
| | Real industrial and commercial property | 40 |
| | Personal property | 5 |
| | Personal property of utilities | 55 |
| | Personal industrial and commercial property | 30 |
| Texas | Texas has 14 property categories; 13 are valued at 100 percent of market value; rural real property (category D) is valued on its productivity valuation.<br>Category A: Single-family residences<br>Category B: Multi-family residences<br>Category C: Vacant lots<br>Category D: Rural real property<br>Category F1: Commercial real property<br>Category F2: Industrial real property<br>Category G: Oil, gas and minerals<br>Category J: Utilities<br>Category L1: Commercial personal property<br>Category L2: Industrial personal property<br>Category M: Other personal property<br>Category N: Intangible personal and uncertified property<br>Category O: Residential inventory<br>Category S: Special inventory | 100% |
| Utah | Primary residential property | 55% |
| | Other locally assessed real property | 100 |
| | Centrally assessed property (utilities, mines, airlines, railroads, etc.) | 100 |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | Assessment Ratios |
|---|---|---|
| Vermont | The following real property categories are assessed at full value:<br>1. Residential property with less than 6 acres of land<br>2. Residential with 6 or more acres of land<br>3. Mobile home on land not owned by the owner of the mobile home<br>4. Mobile home on land owned by owner of the mobile home<br>5. Vacation property with less than 6 acres of land<br>6. Vacation property with more than 6 acres of land<br>7. Commercial<br>8. Commercial apartments<br>9. Industrial<br>10. Operating property of electric utilities<br>11. Operating property of other utilities<br>12. Farm<br>13. Other<br>14. Woodland<br>15. Undeveloped land that is not mostly wooded | 100% |
| Virginia | No specific classifications. | 100% |
| Washington | No specific classifications. | 100% |
| West Virginia | Class 1a: Tangible personal property used for agriculture while owned by the producer<br>Class 1b: Agricultural products while owned by the producer<br>Class 1c: Intangible personal property such as notes, bonds and stocks<br>Class 2a: Property owned, used and occupied by the owner for residential purposes<br>Class 2b: Farms occupied and cultivated by owners or bonafide tenants.<br>Class 3: Real and personal property situated outside of municipalities, exclusive of classes 1 and 2<br>Class 4: Real and personal property situated inside of municipalities, exclusive of classes 1 and 2 | 60% |
| Wisconsin | Class1: Residential<br>Class 2: Commercial<br>Class 3: Manufacturing<br>Class 4: Agricultural<br>Class 5: Swamp or waste<br>Class 6: Productive forest land<br>Class 7: Other | 100% |
| Wyoming | Class 1: Gross mineral and mine products<br>Class 2: Industrial property<br>Class 3: All other property | 100%<br>11.5<br>9.5 |

**Appendix B. Property Classification, by State**
(continued)

| State/ Jurisdiction | Types of Property Classifications | | Assessment Ratios |
|---|---|---|---|
| District of Columbia | Class 1: | Residential | 100% |
| | Class 2: | Non-owner occupied residential | 100 |
| | Class 3: | Hotels and motels | 100 |
| | Class 4: | Improved real property that is not class 1, 2 or 3 | 100 |
| | Class 5: | All real property that is not any other class | 100 |

Source: Commerce Clearing House, 2001, NCSL and International Association of Assessing Officers, 2000.

| Appendix C. | Tax Treatment of Agricultural Property, by State |
|---|---|
| State | Comments |
| Alabama | Upon request of the owner, agricultural property will be appraised on current use value |
| Alaska | Farmland is assessed on the basis of full and true value for farm use |
| Arizona | Agricultural land, pasture land, timber land, residential and commercial land, excluding structures, used primarily as such, must be valued upon the basis of its productivity or use. |
| Arkansas | Agricultural land, pasture land and timberland valuation is based on soil productivity |
| California | Land zoned exclusively for agricultural purposes may be assessed only on the basis of use. |
| Colorado | The actual value of agricultural lands must be determined solely by consideration of the earning or productive capacity of such lands capitalized at 13 percent. |
| Connecticut | Special provisions are made for classification and taxation of woodlands, farmland, forestland, open-space land, and shellfish lands. |
| Delaware | The value of qualified land actively devoted to agricultural, horticultural or forest use is that value which such lands have for such purposes. |
| Florida | Agricultural land may be assessed based solely on its agricultural use. |
| Georgia | Taxable real property used for the commercial production of agricultural products is assessed at 75% of the value at which other real property is assessed. |
| Hawaii | Agricultural property is valued according to its agricultural use, regardless of the value it might have for another purpose or any neighboring land uses. |
| Idaho | The assessed value of agricultural property is determined using the income approach rather than the market data approach. |
| Illinois | Land used for agricultural purposes is assessed on the basis of its economic productivity value. |
| Indiana | Agricultural land is valued by a formula based on the soil productivity factor. |
| Iowa | Agricultural property is assessed at its actual value by giving exclusive consideration to its productivity and net earning capacity, determined on the basis of its use for agricultural purposes. |
| Kansas | Agricultural land is appraised at the value of the land for agricultural purposes. |
| Kentucky | Upon application, agricultural or horticultural land will be valued at its agricultural or horticultural value. |
| Louisiana | Agricultural, horticultural, marsh and timberlands are assessed on their use value. |
| Maine | The value of land classified as farmland is based on its current use value as farmland. |
| Maryland | Qualified farmland is assessed at 50 percent of its use value. |
| Massachusetts | Qualified agricultural or horticultural land is assessed and taxed on its use value. |
| Michigan | Agricultural lands are not assessed taxes for local school uses, which accomplishes much the same result as use valuation but eliminates the need for use value taxation procedures. |
| Minnesota | Qualified agricultural property is classified as such and is taxed at a lower rate. |
| Mississippi | Agricultural land is assessed at a specified percentage of its true value, according to current use. |
| Missouri | The true value in money of land that is agricultural and horticultural property is that value such land has for agricultural or horticultural use. |
| Montana | Agricultural land is assessed at 100 percent of its productive capacity based on yield. |

**Appendix C. Tax Treatment of Agricultural Property, by State**
(continued)

| State | Comments |
|---|---|
| Nebraska | Agricultural and horticultural land constitutes a separate and distinct class of property and is required to be valued at 80 percent of its actual value. |
| Nevada | Approved agricultural or open space land is assessed at 35 percent of its value as agricultural or open space land. |
| New Hampshire | Open space land is assessed at its current use value. |
| New Jersey | Land not less than 5 acres devoted to agricultural or horticultural use may qualify for use value assessment. |
| New Mexico | The value of land used primarily for agricultural purposes is determined on the basis of the land's capacity to produce agricultural products. |
| New York | Owners of qualified agricultural land are entitled to an agricultural assessment, the value of which is determined annually by the state. |
| North Carolina | Agricultural, horticultural and forest land that meets certain qualifications may be taxed based on its present use. |
| North Dakota | Agricultural property is valued at 10 percent of its true and full value. |
| Ohio | Agricultural land is appraised at its current value for agricultural use purposes. |
| Oklahoma | The use value of agricultural land must be determined using the income capitalization approach to valuation. |
| Oregon | Land within a farm use zone used exclusively for farming is, for assessment purposes, valued at its value for farm use. |
| Pennsylvania | Qualified farm, agricultural reserve and/or forest reserve land may, upon application of the owner, be assessed according to its value for farm or forest use. |
| Rhode Island | Designated farmland, forestland of not less than 10 acres, and open space land will be assessed on its use. |
| South Carolina | Qualified agricultural real property, including land used for the growth of timber, is taxed on the basis of its fair market value for agricultural purposes. |
| South Dakota | The value of agricultural land is determined on the basis of the location, size, soil, terrain and the topographical condition of the property, including capability, climate, accessibility and surface obstructions, capacity to produce, and use as cropland or grassland. |
| Tennessee | Qualified agricultural, forest or open space land may be assessed based on its value according to its current use. |
| Texas | Agricultural land is appraised at its value based on the land's capacity to produce agricultural products. |
| Utah | Agricultural land of not less than 5 contiguous acres, which has been actively devoted to agricultural use for at least two successive years immediately preceding the tax year in issue, may be valued upon its agricultural use. |
| Vermont | Qualifying agricultural land and forestland are eligible for use value appraisal. |
| Virginia | Agricultural, horticultural, forest or open space land may be eligible for use value assessment. |
| Washington | Owners of agricultural, open space or timberland may apply for current land use classification. |
| West Virginia | Farm property is assessed on its value in agricultural use. |

| Appendix C. Tax Treatment of Agricultural Property, by State (continued) | |
|---|---|
| State | Comments |
| Wisconsin | Qualified agricultural land is assessed according to its agricultural use. |
| Wyoming | The value of agricultural land is based on the current use of the land and the capacity of the land to produce agricultural products. |
| Source: Commerce Clearing House, *State Tax Guide*, 2001. | |

| Appendix D. Property Taxes as a Percent of Total State and Local Revenue | | |
|---|---|---|
| Rank | State | Percent of Total Revenues From Property Taxes |
| 1 | New Hampshire | 31.21% |
| 2 | New Jersey | 24.25 |
| 3 | Connecticut | 21.75 |
| 4 | Vermont | 20.37 |
| 5 | Illinois | 19.16 |
| 6 | Maine | 19.11 |
| 7 | Rhode Island | 17.84 |
| 8 | Massachusetts | 17.62 |
| 9 | Montana | 17.36 |
| 10 | Indiana | 16.76 |
| 11 | Texas | 16.01 |
| 12 | Florida | 15.72 |
| 13 | Kansas | 14.96 |
| 14 | Iowa | 14.67 |
| 15 | South Dakota | 14.61 |
| 16 | Virginia | 14.42 |
| 17 | New York | 14.37 |
| 18 | Nebraska | 14.31 |
| 19 | Wisconsin | 14.24 |
| 20 | Arizona | 13.94 |
| 21 | Colorado | 13.43 |
| | United States | 13.38 |
| 22 | Michigan | 13.33 |
| 23 | Maryland | 13.25 |
| 24 | Washington | 13.15 |
| 25 | Pennsylvania | 12.95 |
| 26 | Ohio | 12.43 |
| 27 | Minnesota | 12.17 |
| 28 | North Dakota | 12.15 |
| 29 | Idaho | 11.88 |
| 30 | Wyoming | 11.82 |
| 31 | Georgia | 11.72 |
| 32 | South Carolina | 11.44 |
| 33 | Oregon | 11.10 |
| 34 | Missouri | 11.03 |
| 35 | Nevada | 10.76 |
| 36 | California | 10.49 |
| 37 | Arkansas | 10.44 |
| 38 | Mississippi | 9.28 |
| 39 | Utah | 8.97 |
| 40 | North Carolina | 8.87 |
| 41 | Tennessee | 8.56 |
| 42 | West Virginia | 7.99 |
| 43 | Alaska | 7.89 |
| 44 | Hawaii | 7.35 |
| 45 | Kentucky | 7.32 |
| 46 | Oklahoma | 7.10 |
| 47 | Delaware | 6.31 |
| 48 | Louisiana | 6.30 |
| 49 | New Mexico | 5.23 |
| 50 | Alabama | 5.05 |
| Source: U.S. Census Bureau, 2001. | | |

**Appendix E. Total State and Local Taxes, FY 1999**

| State | Collections in thousands | Per Capita Amount | Per Capita Rank | Per $100 Income Amount | Per $100 Income Rank |
|---|---|---|---|---|---|
| Alabama | $8,770,411 | $2,007.0 | 50 | $9.11 | 48 |
| Alaska | 1,761,609 | 2,841.3 | 22 | 10.26 | 39 |
| Arizona | 12,237,979 | 2,561.3 | 37 | 10.87 | 25 |
| Arkansas | 6,076,982 | 2,382.2 | 42 | 11.26 | 18 |
| California | 104,977,251 | 3,167.2 | 12 | 11.36 | 15 |
| Colorado | 12,116,877 | 2,987.4 | 17 | 10.22 | 40 |
| Connecticut | 14,888,650 | 4,536.5 | 1 | 12.15 | 8 |
| Delaware | 2,471,752 | 3,278.2 | 8 | 11.23 | 19 |
| Florida | 40,244,933 | 2,663.3 | 28 | 10.02 | 44 |
| Georgia | 21,503,096 | 2,761.1 | 25 | 10.77 | 29 |
| Hawaii | 3,913,612 | 3,302.6 | 7 | 12.30 | 5 |
| Idaho | 3,039,342 | 2,427.6 | 40 | 11.26 | 17 |
| Illinois | 37,969,839 | 3,130.8 | 14 | 10.50 | 34 |
| Indiana | 15,575,751 | 2,620.9 | 31 | 10.47 | 37 |
| Iowa | 7,673,090 | 2,674.5 | 27 | 10.80 | 28 |
| Kansas | 7,292,434 | 2,747.7 | 26 | 10.76 | 31 |
| Kentucky | 9,760,823 | 2,464.2 | 38 | 11.10 | 21 |
| Louisiana | 10,533,303 | 2,409.3 | 41 | 10.80 | 27 |
| Maine | 4,082,369 | 3,258.1 | 9 | 13.91 | 2 |
| Maryland | 16,558,537 | 3,201.6 | 11 | 10.46 | 38 |
| Massachusetts | 22,269,422 | 3,606.4 | 4 | 10.85 | 26 |
| Michigan | 29,904,866 | 3,031.7 | 15 | 11.36 | 14 |
| Minnesota | 17,187,874 | 3,598.8 | 5 | 12.33 | 4 |
| Mississippi | 6,086,891 | 2,198.2 | 48 | 11.05 | 22 |
| Missouri | 14,027,725 | 2,565.4 | 36 | 10.16 | 43 |
| Montana | 2,041,456 | 2,312.0 | 46 | 10.88 | 24 |
| Nebraska | 4,623,913 | 2,775.5 | 24 | 10.77 | 30 |
| Nevada | 5,290,739 | 2,924.7 | 19 | 10.18 | 41 |
| New Hampshire | 3,110,088 | 2,589.6 | 32 | 8.84 | 49 |
| New Jersey | 31,575,898 | 3,877.7 | 3 | 11.37 | 13 |
| New Mexico | 4,469,003 | 2,568.4 | 34 | 12.17 | 7 |
| New York | 82,153,897 | 4,514.7 | 2 | 14.03 | 1 |
| North Carolina | 20,266,326 | 2,648.8 | 29 | 10.55 | 33 |
| North Dakota | 1,668,354 | 2,631.5 | 30 | 11.49 | 12 |
| Ohio | 32,301,429 | 2,869.5 | 20 | 10.99 | 23 |
| Oklahoma | 7,767,899 | 2,313.3 | 45 | 10.48 | 35 |
| Oregon | 8,536,218 | 2,574.3 | 33 | 10.02 | 45 |
| Pennsylvania | 35,192,509 | 2,934.2 | 18 | 10.72 | 32 |
| Rhode Island | 3,197,279 | 3,226.3 | 10 | 11.56 | 11 |
| South Carolina | 9,067,175 | 2,333.3 | 44 | 10.48 | 36 |
| South Dakota | 1,653,134 | 2,255.3 | 47 | 9.51 | 47 |
| Tennessee | 11,748,362 | 2,142.3 | 49 | 8.80 | 50 |
| Texas | 49,231,585 | 2,456.2 | 39 | 9.68 | 46 |
| Utah | 5,468,796 | 2,567.5 | 35 | 11.68 | 9 |
| Vermont | 1,784,409 | 3,004.1 | 16 | 12.18 | 6 |
| Virginia | 19,557,644 | 2,845.6 | 21 | 10.16 | 42 |
| Washington | 18,118,092 | 3,147.7 | 13 | 11.13 | 20 |
| West Virginia | 4,278,788 | 2,367.9 | 43 | 11.67 | 10 |
| Wisconsin | 17,417,597 | 3,317.6 | 6 | 12.71 | 3 |
| Wyoming | 1,357,106 | 2,827.3 | 23 | 11.34 | 16 |
| United States | $812,803,114 | $2,986.3 | | $11.04 | |

Source: U.S. Census Bureau, 2001.

# NOTES


1. Commerce Clearing House, *U.S. Master Property Tax Guide 2001* (Chicago: CCH Incorporated, 2001).
2. Fiscal Affairs Program, *State Tax Policy and Senior Citizens*, 2nd Edition (Denver, Colorado: National Conference of State Legislatures), 40.
3. Ibid.
4. Trinity Tomsic, "State and Local Revenue." *State Policy Reports*, 19, no.17 (September 2001), 9.