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

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

National Conference of State Legislatures
William T. Pound, Executive Director

7700 East First Place
Denver, Colorado 80230
(303) 364-7700

444 North Capitol Street, N.W., Suite 515
Washington, DC 20001
(202) 624-5400

www.ncsl.org

August 2004

The National Conference of State Legislatures is the bipartisan organization that serves the legislators and staffs of the states, commonwealths and territories.

NCSL provides research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and is an effective and respected advocate for the interests of the states in the American federal system.

NCSL has three objectives:

- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado and Washington, D.C.

Printed on recycled paper

ISBN 1-58024-307-X

CONTENTS

List of Tables and Figures

Tables

Figures

FOREWORD

A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances is the third and final report in a three-part series of property tax publications produced by the NCSL Foundation Fiscal Partners. The purpose of this Fiscal Partners project is to introduce policymakers to property taxes and the associated policy issues. Although 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.

The first report provides an overview. It contains basic information about property taxes and how they are administered. The second report focuses on property tax relief policy. This, the third and final report, examines the role of property taxes in state and local finances. The three project reports are listed below.

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

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 revenue and spending decisions in a constantly changing economic environment. This Foundation Fiscal Partners Project, *A Guide to Property Taxes*, provides 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 described below.

A Guide to Property Taxes: An Overview

The first report, an overview, 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.

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 types of relief have increased significantly during the past 30 years. The second report of the Foundation Fiscal Partners Project discusses state relief efforts, including homestead exemptions, circuitbreaker programs and tax deferrals.

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

The relationship between property taxes and state and local government services continues to change. Several years of surplus revenues, coupled with voter dislike of the property tax, resulted in major property tax reductions and led states to shoulder a growing share of education costs. This report examines some of the implications for state and local finances of these shifts, with emphasis on property tax funding for schools.

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

- *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)
- *Critical Issues in State-Local Fiscal Policy, Part 2: A Guide to Local Option Taxes* (November 1997)
- *The Appropriate Role of User Fees in State and Local Finance* (June 1999)
- *Principles of a High-Quality State Revenue System, 4th Edition* (June 2001)
- *Tax Policy Handbook for State Legislators, 2nd Edition* (April 2003)

Participating Legislators and Legislative Staff

Fred Baatz, South Dakota
Deborah Davison, Louisiana
Lee Derr, Pennsylvania
Representative Macy Easley, Oklahoma
Nickie Evans, Ohio
Joe Falzon, District of Columbia
Senator John Fonfara, Connecticut
Senator Emmet Hanger, Virginia
Senator Beverly Hollingworth, New Hampshire
Senator Bob Jauch, Wisconsin
Bob Keaton, Louisiana
George Kilpatrick, Nebraska
Representative Ann Kitchen, Texas
Stephen Klein, Vermont
Senator Janis Lee, Kansas
Bill Lock, Nebraska
Bill Marx, Minnesota
Matt Massman, Minnesota
Representative Steve May, Arizona
Senator Caroline McCarley, New Hampshire
Representative Jim Murphy, Missouri
Representative Alice Nitka, Vermont
Rick Olin, Wisconsin
Representative Betsey Patten, New Hampshire
Martin Poethke, New Jersey
Dennis Prouty, Iowa
John Rappa, Connecticut
Bill Robinson, Texas
Representative Lane Shetterly, Oregon
Sara Teachout, Vermont
Senator Ron Teck, Colorado
Jean Vandal, Louisiana
Representative Peggy Welch, Indiana
Andrea Wilko, Utah
Jay Wortley, Michigan

Representatives of the Foundation Fiscal Partners

- American Federation of Teachers: Ed Muir and Bill Tammelleo
- International Council of Shopping Centers: Herbert Tyson
- NCSL Foundation for State Legislatures: Caroline Carlson
- National Education Association: Janis Hagey and Ed Hurley
- Philip Morris Management Corporation: Pam Inmann and Michael Stojsavljevich

Judy Zelio is the principal author for this report, with significant contributions from the writings of Steven D. Gold, Ron Snell and other experts as noted. Corina Eckl, Ron Snell and Leann Stelzer provided valuable editing advice, Anabliss Design designed the cover, and Lisa Houlihan prepared the report for publication.

Special thanks go to the funding partners for their generous support and to the legislative partners for their insight and contributions.

INTRODUCTION

The declining proportion of property taxes in total state-local tax collections, various limits adopted by state policymakers, and numerous exemptions for economic development and charitable purposes all seem to imply that the importance of property taxes is ebbing. There is little doubt that, as other taxes and fees garner larger portions of revenue collections, the importance of the property tax declines. Yet, taxpayers seldom see their property tax bills shrink. Why? To understand this seeming anomaly, the fiscal relationships of state and local governments deserve a close look.

"Sorting out"—reviewing which level of government provides which services—is an important step. This report describes state and local tax systems and changes that are occurring in them. It discusses local government reliance on the property tax to pay for local services and schools. It reviews various pressures on the property tax and how governments have responded to them. It considers the implications of a shift away from property taxes. The report provides 50-state comparative information about property taxes that is a starting point for more research on questions about the nature and role of property taxes in the state-local finance system.

The property tax is one of the three major taxes in the American tax system; the others are income taxes and consumption (sales) taxes. The property tax is a levy on the value of land, buildings and some personal property. Its revenues most often are used to fund schools and local government services. Its traditional role in funding public schools is a focus of this report because of frequent legal challenges to state school funding approaches and interest in other ways of paying for public education. Examples of the ways six states use property taxes in paying for elementary and secondary education are included in the report.

The property tax is an important component of a tax system for a number of reasons:

- It is considered stable and predictable, especially in periods of slow economic growth.
- The real property tax base—land and permanent improvements—is not portable, which helps with assessment and compliance.
- It makes the connection between tax and service—such as fire and police protection, schools and streets—more obvious than do other taxes.

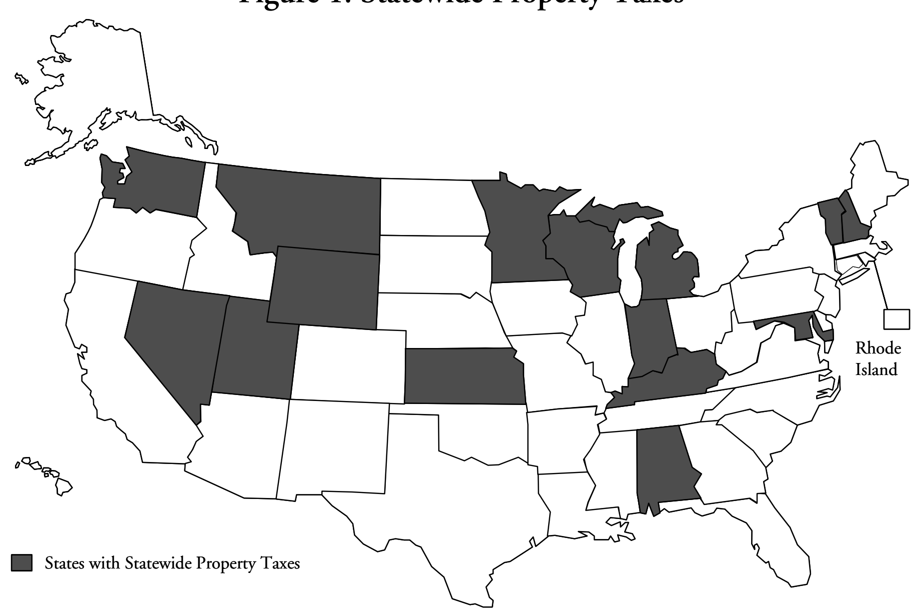
- It demonstrates the benefit principle of taxation by financing services that provide benefits to property.

The property tax is important to state officials, even though property taxes are not a significant source of state revenue and most states do not collect property taxes directly. State laws determine the extent, nature and jurisdictions of local governments and their ability to raise revenues. Property tax revenues help determine the level of state education aid in most states. State laws also usually control the kinds of property local governments can tax (the property tax base), how they must assess this property (the method of valuation) for taxation, and legal appeals procedures. State legislatures choose the menu of alternative tax sources—local sales and income taxes, for example—that are available to local governments. State legislators generally are knowledgeable about property tax matters and endeavor to respond to constituent concerns about them.

Property taxes are especially important in funding schools. States, under considerable pressure to improve the adequacy of education under numerous legal challenges, are taking new funding approaches, including the adoption of statewide property taxes. In fact, states may be tempted to encroach even more on the property tax base.[1] In the 15 states that have adopted a statewide property tax (see figure 1), revenues are most often directed to education. The states are: Alabama, Indiana, Kansas, Kentucky, Maryland, Michigan, Minnesota, Montana, Nevada, New Hampshire, Utah, Vermont, Washington, Wisconsin and Wyoming. In many states, taxes for state purposes are payable directly to state officials, and the portion based upon local levies, if any, is then distributed to the local districts.

The property tax's role in financing public schools, intertwined with its local financing responsibilities (public safety, sanitation and streets), creates a complex pattern of revenues and service delivery. State actions designed to lessen property tax burdens—either by providing taxpayer relief or by taking on more local responsibilities—may have far-reaching effects that can be difficult to gauge in advance.

Figure 1. Statewide Property Taxes



Source: *A Guide to Property Taxes: An Overview*. National Conference of State Legislatures, 2002.

Important Points About the Property Tax

A number of significant issues related to property taxes merit attention from the legislative standpoint.

- Local governments and school districts still depend more on property taxes than on any other revenue source.
- Discontent about government and taxes often focuses on the property tax.
- Property tax relief measures, particularly for the poor, the elderly and the farmers, have reduced many complaints and helped lessen anti-tax fervor.
- Caps and limitations approved by voters and adopted by legislatures have restricted tax burden growth in some states.
- Assessment practices that received considerable criticism in the past have greatly improved and, with technology, are likely to improve even more.
- Court decisions about school finance and the property tax have occupied legislatures in the majority of states as they attempt to ensure equitable and adequate education funding.
- Legislatures in states such as Indiana, Minnesota, Vermont and Wisconsin have recently shifted more responsibility for school financing from local property taxes to state sources, much as Michigan did in 1994.

State-Local Revenue Relationships

State and local revenues should be considered together. They are interdependent, and state legislatures play an important role in determining the composition of both state and local revenues. State governments experienced significant fiscal stress in the beginning of the 21st century, primarily because of significant reductions in revenues related to a national economic downturn. Income tax collections dropped well below forecasts in 2001 and remained sluggish in 2003. Although local governments also experienced budget pressures, they were less affected by revenue problems than were states, partially because of the stability of property tax collections. Property taxes are not as responsive to economic expansions and downturns as are income and, to a lesser extent, general sales taxes.

The downturn in state revenues demonstrated how economic trends affect various taxes differently. A high-quality revenue system balances the revenue productivity and instability of different taxes. Experts recommend spreading the state-local tax burden among different sources of income and wealth in order to:

- Stabilize the revenue flow in good times and bad, since different taxes react differently to recessions and growth;
- Equalize the effect of taxes on different forms of economic activity, since income, property and sales taxes are levied upon different tax bases; and
- Keep rates for each kind of tax as low as possible through the use of broad tax bases.

Tax experts generally approve of broad-based taxes with low rates because they minimize economic effects and make it possible to increase revenues, if necessary, with small rate adjustments.

There is no standard way to measure revenue system balance. It frequently focuses on the proportion of tax collections from personal income, sales and property taxes.

State-Local Reliance on Three Major Taxes

Significant regional variations are apparent when only the three major taxes—property, sales and personal income—are considered, as table 1 shows. The New England states are above the national average in property tax reliance and below the national average in sales tax reliance, reflecting the importance of property taxes in maintaining local control and the lack of local option tax alternatives. Southeastern states have very low property tax reliance and very high sales tax reliance, primarily due to the widespread use of local sales taxes and the region's aversion to property taxes. States outside the Northeast tend to rely less on property taxes unless they lack another major tax altogether.

Table 1. Collections as a Percent of Three Major State-Local Taxes by State, FY 2000

State/Jurisdiction	Property Tax	Sales Tax	Personal Income Tax
U.S. Average	32.4%	40.2%	27.4%
Alabama	16.6	56.7	26.7
Alaska	72.9	27.1	-
Arizona	31.8	49.5	18.7
Arkansas	17.9	54.8	27.3
California	24.9	37.6	37.5
Colorado	30.3	39.9	29.9
Connecticut	37.5	35.0	27.5
Delaware	26.3	20.5	53.3
Florida	38.8	61.2	-
Georgia	27.5	43.1	29.5
Hawaii	15.8	56.2	28.0
Idaho	29.9	36.9	33.3
Illinois	40.9	37.7	21.5
Indiana	37.2	34.2	28.6
Iowa	36.0	37.3	26.7
Kansas	31.4	41.7	27.0
Kentucky	19.4	41.6	39.0
Louisiana	18.2	65.2	16.7
Maine	41.3	30.9	27.8
Maryland	29.0	27.9	43.1
Massachusetts	35.0	23.6	41.4
Michigan	35.0	36.5	28.5
Minnesota	28.5	36.9	34.6
Mississippi	25.8	56.5	17.8
Missouri	26.0	44.6	29.4
Montana	51.3	19.5	29.2
Nebraska	35.1	38.3	26.6
Nevada	28.6	71.4	-
New Hampshire	76.5	21.0	2.5
New Jersey	48.3	27.5	24.2
New Mexico	15.8	61.9	22.4
New York	33.0	29.4	37.5
North Carolina	24.2	37.9	37.9
North Dakota	36.6	49.6	13.8
Ohio	30.5	33.0	36.5
Oklahoma	19.5	48.5	32.0
Oregon	35.8	11.7	52.5
Pennsylvania	33.4	35.9	30.8

Table 1. Collections as a Percent of Three Major State-Local Taxes by State, FY 2000			
State/Jurisdiction	**Property Tax**	**Sales Tax**	**Personal Income Tax**
Rhode Island	42.6%	31.5%	26.0%
South Carolina	31.1	40.4	28.4
South Dakota	42.0	58.0	-
Tennessee	27.8	70.5	1.7
Texas	42.7	57.3	-
Utah	24.2	45.1	30.7
Vermont	46.0	28.5	25.4
Virginia	31.9	31.8	36.4
Washington	32.4	67.6	-
West Virginia	23.4	50.2	26.4
Wisconsin	33.5	31.4	35.1
Wyoming	46.8	53.2	-
Source: U.S. Census Bureau, 2003.			

Total Revenue Mix

State and local governments collect slightly more than half of their own-source revenue from a combination of property, sales and personal income taxes, as table 2 shows. At 20 percent, the property tax provides the largest proportion of the three. It is apparent that property taxes play a larger role in some states than in others, sometimes because one of the other major taxes is not levied.

Table 2. Collections as a Percent of State and Local Own-Source General Revenues, FY 2000				
State/Jurisdiction	**Property Tax**	**General Sales Tax**	**Personal Income Tax**	**Other Taxes & Revenues**
U.S. Average	20%	17%	17%	46%
Alabama	8	18	14	60
Alaska	10	1	-	89
Arizona	21	26	12	40
Arkansas	11	25	17	47
California	15	18	23	43
Colorado	19	19	18	44
Connecticut	28	18	20	34
Delaware	9	-	18	74
District of Columbia	17	16	27	40
Florida	22	24	0	54
Georgia	18	23	20	39
Hawaii	10	26	18	45
Idaho	18	15	20	48
Illinois	27	14	14	45
Indiana	23	15	17	45
Iowa	21	15	16	48

Table 2. Collections as a Percent of State and Local Own-Source General Revenues, FY 2000

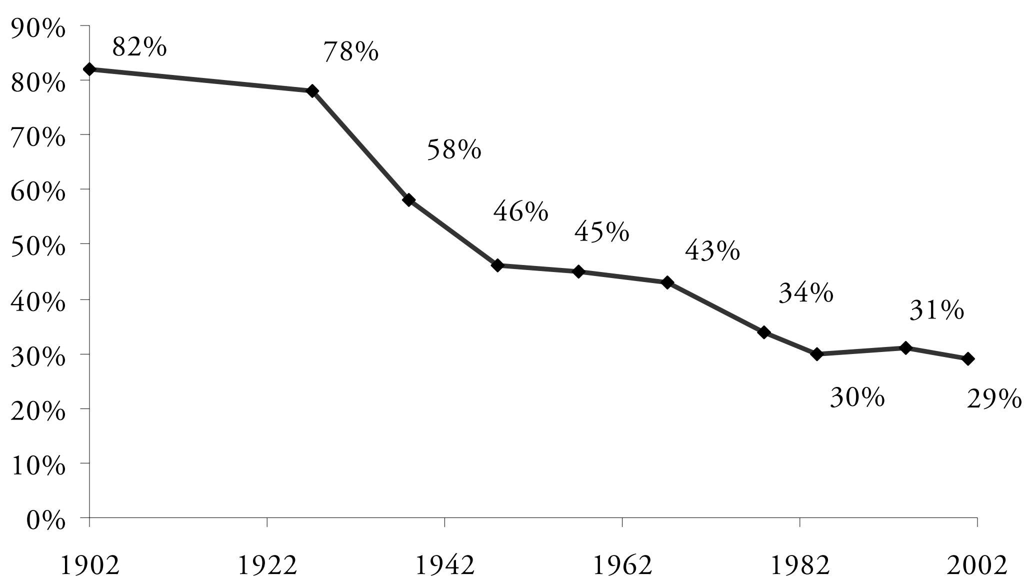
State/Jurisdiction	Property Tax	General Sales Tax	Personal Income Tax	Other Taxes & Revenues
Kansas	20%	20%	17%	43%
Kentucky	12	15	23	50
Louisiana	10	25	9	56
Maine	28	15	19	39
Maryland	20	10	29	41
Massachusetts	24	11	28	36
Michigan	21	17	17	46
Minnesota	17	14	21	47
Mississippi	15	23	10	52
Missouri	17	20	19	44
Montana	26	-	15	60
Nebraska	21	17	16	46
Nevada	17	25	-	58
New Hampshire	43	-	1	55
New Jersey	33	13	17	38
New Mexico	8	24	11	56
New York	22	14	25	39
North Carolina	14	14	22	49
North Dakota	19	14	7	60
Ohio	20	15	24	41
Oklahoma	10	19	17	53
Oregon	18	-	26	56
Pennsylvania	19	14	18	49
Rhode Island	30	14	18	38
South Carolina	17	17	16	50
South Dakota	24	24	-	52
Tennessee	16	31	1	53
Texas	26	23	-	52
Utah	14	20	18	47
Vermont	30	8	17	45
Virginia	20	11	22	47
Washington	20	32	-	48
West Virginia	13	14	15	58
Wisconsin	22	14	23	40
Wyoming	19	17	-	63

Source: U.S. Census Bureau, 2003.

How Reliance on the Property Tax Is Changing

It is important to note first of all the overall decline of the property tax as a proportion of state and local tax collections. The property tax has a long history in the United States. Figure 2 shows that in 1902 the property tax provided 82 percent of total state and local tax collections. Yet by the mid-1940s it was providing less than half. This change was primarily due to the expansion of sales and income taxes. The property tax continued to lose ground as state governments replaced it with other revenue sources.

Figure 2. Property Tax Collections as a Percent of Total State and Local Tax Collections



Sources: J. Richard Aronson and John Hilley, *Financing State and Local Governments*. (Washington, D.C.: The Brookings Institution, 1986); U.S. Census Bureau, *Government Finances*, selected years.

Property taxes as a proportion of total state-local tax collections declined from 34 percent in 1978 to 29 percent in 2001, the most recent year for which data are available. Property taxes dropped from about 4 percent of personal income in 1978 to 3 percent in 2001.

Most Significant Local Tax

State and local government revenues include not only taxes but also charges and fees, interest and federal aid, among others. Although the state-local general revenue picture in the past 30 years has changed, particularly with respect to the property tax, the property tax has continued as the mainstay of local taxes, as table 3 shows. Local governments collected $354 billion in taxes in fiscal year 2001. Property taxes amounted to $253 billion, or 71 percent, of the total. More than $100 billion came from other taxes, including $62 billion in local sales and gross receipts taxes and $22 billion in local income taxes.

Table 3. State and Local Government Own-Source General Revenue, Tax Revenue and Property Tax Revenue, FY 2001

Government Unit	**Amount** (millions of dollars)			**Property Tax as a Percent of:**	
	General Own-Source Revenue	Tax Revenue	Property Tax	General Own-Source Revenue	Tax Revenue
State	$743.7	$559.7	$10.4	1.4%	1.9%
Local	579.5	354.4	253.3	43.7	71.4
State-Local	1,323.1	914.1	263.7	19.9	28.8

Source: U.S. Census Bureau, *Government Finances*, 2000-2001.

Clearly, the property tax remains the most important source of tax revenue for municipalities, counties and school districts, even though it is declining in importance as other revenue sources gain. Local dependence on the property tax varies from 39 percent of local tax collections in Alabama to nearly 99 percent in Connecticut, as shown in table 4.

Table 4. Local Property Taxes as a Percent of Local Taxes, FY 2000

Rank	State/Jurisdiction	Percent	Rank	State/Jurisdiction	Percent
1	Connecticut	98.7%	27	Nebraska	77.5%
2	Rhode Island	98.6	28	Kansas	76.8
3	New Jersey	98.3	29	Wyoming	76.0
4	New Hampshire	98.2	30	North Carolina	75.2
5	Maine	97.9		**United States**	**72.1**
6	Massachusetts	96.9	31	Virginia	70.6
7	Vermont	96.2	32	Pennsylvania	70.5
8	Montana	95.6	33	Arizona	69.0
9	Idaho	94.6	34	Utah	68.8
10	Minnesota	94.2	35	Ohio	65.4
11	Wisconsin	93.8	36	Nevada	63.8
12	Mississippi	92.0	37	California	63.2
13	Iowa	89.5	38	Washington	61.5
14	Michigan	89.4	38	Tennessee	61.5
15	Indiana	88.6	40	Georgia	60.4
16	North Dakota	88.1	41	Colorado	59.9

Table 4. Local Property Taxes as a Percent of Local Taxes, FY 2000

Rank	State/Jurisdiction	Percent	Rank	State/Jurisdiction	Percent
17	South Carolina	84.4%	42	Missouri	59.0%
18	West Virginia	83.6	43	Maryland	57.4
19	Illinois	82.8	44	New York	55.8
20	Alaska	80.7	45	New Mexico	55.4
21	Oregon	80.5	46	Oklahoma	54.0
22	Texas	79.9	47	Kentucky	53.8
23	Delaware	78.6	48	Arkansas	44.4
23	Hawaii	78.6	49	Louisiana	39.3
25	South Dakota	78.2	50	Alabama	39.0
26	Florida	77.9			

Source: *State Policy Reports* 20, no. 21; (Washington, D.C.: Federal Funds Information for States, November 2002); based on U.S. Census Bureau data, 2002.

In addition to generating funds for municipal, county and school district services, property taxes, through the assessment process, set guidelines for other financial responsibilities. For example, assessment/sales ratio studies and equalization of assessments provide a uniform basis for the distribution of state aid to schools and other state grant-in-aid programs and also provide a comparable base for the applications of tax rate and bonded indebtedness limitations for units of local government.

PRESSURES ON THE PROPERTY TAX

A number of factors contribute to the decline of property taxes in the revenue mix. These factors include limits on property tax levels and growth, exemptions directed primarily to elderly or lower-income taxpayers, exclusions and exemptions granted to businesses to encourage economic growth, and expansion of other taxes and revenues in response to new spending needs and higher costs.

Opposition

The property tax often is a focus of resentment for several reasons. One is that property taxes are inherently complex. Property tax systems involve a series of procedures for assessment, valuation, budget determination and rate setting (mill levies). Residential tax bills across the country show significant differences, as table 5 demonstrates, partly because of variations in these systems.

Table 5. Residential Property Taxes in Each State's Largest City, 2002

Rank by Rate	City	State	Nominal Rate per $100*	Assessment Level**	Effective Rate per $100	Estimated Property Tax Burden***
1	Bridgeport	CT	$5.52	70.0%	$3.86	$5,737
2	Newark	NJ	24.95	11.8	2.95	5,705
3	Providence	RI	3.41	80.0	2.73	2,876
4	Milwaukee	WI	2.72	98.1	2.67	2,608
5	Philadelphia	PA	8.26	32.0	2.64	2,131
6	Houston	TX	2.62	100.0	2.62	1,823
7	Manchester	NH	2.38	100.0	2.38	2,721
8	Baltimore	MD	2.33	100.0	2.33	2,270
9	Des Moines	IA	4.44	51.4	2.28	1,771
10	Fargo	ND	49.00	4.1	2.00	1,955
11	Jacksonville	FL	1.96	100.0	1.96	1,331
12	Omaha	NE	2.09	93.0	1.94	1,748
13	Burlington	VT	2.55	75.5	1.92	2,741
14	Portland	ME	2.43	78.0	1.90	2,356
15	Atlanta	GA	4.57	40.0	1.83	2,521
16	Phoenix	AZ	18.20	10.0	1.82	1,705
17	Detroit	MI	6.77	26.5	1.79	1,685

Table 5. Residential Property Taxes in Each State's Largest City, 2002

Rank by Rate	City	State	Nominal Rate per $100*	Assessment Level**	Effective Rate per $100	Estimated Property Tax Burden***
18	Memphis	TN	$7.02	25.0%	$1.76	$1,691
19	Boise	ID	1.78	96.3	1.72	1,133
20	New Orleans	LA	17.00	10.0	1.70	1,020
21	Jackson	MS	16.91	10.0	1.69	1,213
22	Chicago	IL	7.63	22.1	1.69	2,268
23	Anchorage	AK	1.72	95.0	1.63	2,058
24	Billings	MT	1.94	82.0	1.59	1,218
25	Sioux Falls	SD	1.82	85.0	1.55	1,529
26	Columbus	OH	5.21	29.6	1.54	1,441
27	Indianapolis	IN	10.00	15.0	1.50	1,206
28	Portland	OR	2.02	72.2	1.46	2,247
29	Columbia	SC	36.35	4.0	1.45	1,409
30	Salt Lake City	UT	1.45	99.0	1.43	1,338
31	Little Rock	AR	6.90	20.0	1.38	1,299
32	Wilmington	DE	2.59	53.1	1.38	1,525
33	Wichita	KS	11.35	11.5	1.31	785
34	Minneapolis	MN	1.47	86.4	1.27	1,639
35	Charlotte	NC	1.40	87.6	1.22	1,454
36	Louisville	KY	1.21	100.0	1.21	1,034
37	Albuquerque	NM	3.54	33.3	1.18	1,530
38	Oklahoma City	OK	10.50	11.0	1.16	981
39	Kansas City	MO	6.02	19.0	1.14	1,044
40	Las Vegas	NV	3.25	35.0	1.14	1,548
41	Virginia Beach	VA	1.22	90.6	1.11	1,279
42	Boston	MA	1.10	100.0	1.10	1,901
43	Los Angeles	CA	1.08	100.0	1.08	2,907
44	Seattle	WA	1.12	90.6	1.01	2,118
45	Washington	DC	0.96	100.0	0.96	1,342
46	New York City	NY	11.63	8.0	0.93	2,074
47	Charleston	WV	1.24	60.0	0.74	786
48	Birmingham	AL	6.95	10.0	0.70	650
49	Cheyenne	WY	6.47	9.5	0.61	673
50	Denver	CO	6.15	9.2	0.56	968
51	Honolulu	HI	0.37	100.0	0.37	1,107
Avg.			**$6.70**	**55.9%**	**$1.61**	

*City assessor.
**City assessor or state board of equalization.
***Estimated annual property tax burden for a family of four with a $50,000 annual income.
Source: Government of the District of Columbia, Department of Tax and Revenue, *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison* (Washington, D.C.: Government of the District of Columbia, 2002), at http://www.cfo.dc.gov/services/studies/index.shtm.

Another point of contention is that residential property taxes must be paid once or twice each year (unless they are included with monthly mortgage payments), rather than being spread over time or transactions, as are many income and sales taxes. The people most likely to make annual or semi-annual property tax payments are those who own their homes outright, often older people on fixed incomes. Property taxes may present a hardship for these individuals. In addition, all owners must pay property taxes at the same rate, whether or not they have children in public schools—the major recipients of property tax funds. The democratic ideal of benefits associated with a well-educated populace, of course, is a rationale for public funding of schools. Property tax relief provisions based on income, disability or age help address these concerns.

National tax experts point out that a property tax bill stems from both an assessment and a tax rate, and that policymakers—school boards, city councils, county commissioners—determine the tax rate based on their budgetary needs.[2] The process of doing so has many similarities across the country. (See box: "Setting the Property Tax Levy.") With the variety of restrictions and limitations that now are imposed on local taxing authorities, they may tend to tailor spending closely to available revenues. Voter approval often is needed to achieve a tax rate increase, and without that, revenue growth depends solely on tax base growth.

Setting the Property Tax Levy

A property tax bill derives from both an assessment and a tax rate. Local government and school district budgetary needs drive the tax rate. For example, the Ramsey County, Minnesota, budget plan proposes raising property taxes 4.9 percent for 2005. The $513.9 million plan would increase spending by about 2.9 percent over 2004, compared with Consumer Price Index estimated growth of about 2.7 percent. Tax collections would rise from $193.3 million to $202.9 million, slightly above the 10-year average increase of about 3.9 percent.

Reasons for the tax increase include inflation, a need for technology upgrades in financial management and property records, and a $12 million decrease in state aid. Moreover, the state Department of Corrections, by shifting short-term prisoners back to county jails, is costing the county more than $1 million in the current year.

The county plans to add several positions to open a new library branch, with other county libraries remaining open with no reductions in hours. The county also has nearly $200 million in obligations for future retiree health benefits and must put aside more money to meet that burden.

A public hearing on the budget and setting of an initial levy were scheduled for September 2004. A "truth-in-taxation" hearing and final adoption were set for December.

Source: *St. Paul Pioneer Press*, July 28, 2004.

According to the District of Columbia's Department of Tax and Revenue, the "real property tax is a function of housing values, real estate tax rates, assessment levels, homeowner exemptions and credits. Nominal rates … represent the 'announced' rates levied by the jurisdiction, while effective rates consider the various assessment levels in the cities … Assessment levels vary dramatically … Housing values at the same income level vary a great deal …." The technical aspects of the property tax make it difficult for citizens to gauge the fairness of their property taxes, although almost all seem to believe that they are too high. Some may be justified in this belief: The District of Columbia's hypothetical family of four pays more in real property taxes than any other tax in the study at the income levels of $25,000 and $50,000.

Market Forces

Market forces affect property taxes in ways that mostly are beyond the control of both citizens and governments. Growth in property values usually increases assessment levels based on market value, and if rates (mill levies) are not adjusted downward, property owners may experience automatic increases in their property tax bills. Such growth has prompted taxpayer-led efforts to limit or freeze property taxes. (For more detailed information, see the second report in this series, *A Guide to Property Taxes: Property Tax Relief.*)

Market forces also can reduce property tax collections. In the Northeast, the property tax base has declined with the decline in manufacturing. Many manufacturing firms and their employees have departed from the large cities or ceased doing business entirely. Their exodus represents a shifting of the tax base to other jurisdictions and may force different categories of property taxpayers to assume a growing share of the tax burden.

This movement especially affects central cities, including state capitals. These cities must deal not only with the loss of industry, but also significant tax-exempt property such as parks, libraries, museums, hospitals, college campuses and government buildings. Urban service costs also may be high. Efforts to match the service levels of more wealthy areas by taxing a large proportion of the wealth base may cause emigration from the city.

Property Tax Base Sharing

Property tax sharing addresses local fiscal disparities—differences in revenue-raising capacity due to growth and development. New Jersey's intermunicipal property tax sharing plan was designed to tap the benefits of both development and land preservation. Under the 1970 legislation, towns that have environmentally sensitive lands receive compensation for protecting those lands from towns that are permitted to grow and develop. About half the towns in the tax-sharing district pay into the fund and the other half receive funds from it. Some mayors in the tax-sharing district have called for the state to abolish the tax-sharing formula, arguing that fluctuations in the amounts they must contribute to the $5 million state fund make it impossible to plan local budgets. Not surprisingly, towns that traditionally benefit want the formula to remain intact.

The classic example of property tax sharing is Minnesota's Fiscal Disparities Program, approved by the Legislature in 1971 and implemented in 1975. The law requires each of 300 taxing jurisdictions in the seven-county area around the twin cities of Minneapolis and St. Paul to contribute 40 percent of the growth in the commercial/industrial property tax base since the 1971 assessment to an areawide pool. Growth is the total net change in net tax capacity, including the effects of new construction, inflation, demolition, revaluation, appreciation and depreciation. There is no distinction between "new" and "old" property. The funds collected from the shared property tax base then are redistributed to municipalities by a formula that uses population and market value of taxable real property. The formula is based on the relative fiscal capacity of municipalities; there is no measure of spending need. The Fiscal Disparities Program involves considerable administration by both state and local governments.

Exemptions

A third pressure on property tax revenues is legislatively granted exemptions, often adopted to attract business investment and improve the local, regional or state economy. One such example is so-called enterprise zones, where property tax breaks are granted to encourage business establishment in targeted areas. The value of property removed from the property tax base through exemptions is not known. One study, however, indicated that the market value of exempt property in Oregon ranged from 15 percent to 28 percent of the total market value of taxable property in 1998-1999.[3]

Exemptions from property taxes also are allowed (usually constitutionally) to nonprofit religious, charitable and educational institutions on the assumption that they provide services—in some cases substituting for government—that promote public welfare. Growth in the amount of tax-exempt property—including government property, institutions of higher education and health care institutions—has helped reduce the property tax base. The New York State Conference of Mayors and Municipal Officials reported in 1996 that 64 percent of cities and large villages had experienced a decline in total taxable assessed value in the previous decade, necessitating property tax rate increases to raise the same amount of money. The conference identified several factors in the acceleration of the tax base decline, including property tax exemptions for state-owned property and nonprofit property and an explosion in administrative and judicial assessment challenges resulting in selective downward reassessments.

RESPONSES TO PRESSURES ON THE PROPERTY TAX

Limits

The property tax has been the subject of more tax-specific limits than any other kind of tax. The approval of Proposition 13 by California voters in 1978 reduced property tax collections by $3 billion in 1979. Under Proposition 13, the value of property is tied to its 1975-76 value plus an annual increase of no more than 2 percent per year until the property is sold, at which time it is assessed at current market value. Interest in Proposition 13 led to a wave of anti-property tax measures by voters, primarily in western states where constitutions allow the direct voter initiative.

The tax revolt also forced many legislatures, even in states that do not have the initiative process, to adopt property tax relief measures. Although a number of states had limited property taxes before 1978, many added more stringent restrictions on the ability of local governments to increase property taxes. Many states also have restructured the tax and improved administration.

Procedural Improvements

Local officials have improved assessment practices by increasing the frequency of assessments and adopting statewide standards. They have clarified on billing statements the services for which property taxes pay. A number of state and local governments also explain their property tax processes on the Internet for the convenience of taxpayers. The Texas Comptroller's Property Tax Division and the Wisconsin Department of Revenue's Division of State and Local Finance offer excellent examples of these efforts. (Internet addresses are included in the References section of this publication.)

Local governments have taken steps to encourage the development of agreements with tax-exempt organizations for service payments or payments in lieu of taxes (PILOTs). A number of higher education institutions, exempt by law from paying property taxes, have made arrangements to pay some portion of the costs of public services they receive from local governments. For example, Dartmouth, Harvard, the Massachusetts Institute of Technology, Princeton and the University of California-Berkeley compensate city treasuries for property taxes they are not legally required to pay because of their exempt status.[4]

State Aid

State governments provided local governments with $342 billion in FY 2000, representing the largest component of state expenditures. Education aid makes up a significant part of that state aid. Funds provided to local governments vary widely because of variations in the mix of state and local responsibilities, local revenue-raising authority and geographic differences. As table 6 demonstrates, total local revenue per capita, including state aid, varied from a high of $5,107 in New York to a low of $1,253 in Hawaii. The portion of local revenue received from the state varied from a high of 58 percent in Vermont to a low of 10 percent in Hawaii. Hawaii's position can be explained largely by the fact that the state, rather than local governments, funds the schools.

Table 6. Local General Revenues,* 2000

State	Local Revenue Per Capita	Portion of Local Revenue Received from State
Alabama	$2,490	37.4%
Alaska	4,156	34.1
Arizona	2,827	38.8
Arkansas	1,922	51.5
California	3,989	44.5
Colorado	3,198	23.4
Connecticut	3,008	32.8
Delaware	2,206	47.5
Florida	3,061	29.3
Georgia	2,889	30.9
Hawaii	1,253	10.0
Idaho	2,438	40.5
Illinois	3,119	31.3
Indiana	2,743	33.7
Iowa	2,876	36.5
Kansas	2,862	36.8
Kentucky	1,917	38.1
Louisiana	2,529	33.4
Maine	2,433	29.9
Maryland	2,908	26.9
Massachusetts	2,868	38.3
Michigan	3,294	47.7
Minnesota	3,525	42.0
Mississippi	2,413	40.6
Missouri	2,455	31.0
Montana	2,277	32.8
Nebraska	2,762	29.3
Nevada	3,319	37.0
New Hampshire	2,531	34.7

Table 6. Local General Revenues,* 2000

State	Local Revenue Per Capita	Portion of Local Revenue Received from State
New Jersey	$3,376	30.7%
New Mexico	2,575	52.4
New York	5,107	32.5
North Carolina	2,901	40.4
North Dakota	2,659	32.9
Ohio	3,122	34.9
Oklahoma	2,259	35.9
Oregon	3,222	37.1
Pennsylvania	2,879	35.0
Rhode Island	2,185	25.1
South Carolina	2,457	31.7
South Dakota	2,189	26.1
Tennessee	2,288	30.5
Texas	2,752	28.9
Utah	2,426	35.0
Vermont	2,309	57.7
Virginia	2,702	32.7
Washington	3,244	35.8
West Virginia	2,008	43.2
Wisconsin	3,289	46.2
Wyoming	4,005	38.9
U.S. Average	**$3,158**	**35.7%**

*Includes taxes, charges and miscellaneous general revenue; excludes utility, liquor store and insurance trust revenue.
Source: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 1999-2000*, with calculations by the National Conference of State Legislatures.

When facing new or increased local spending needs, local officials may seek to have the state fund a greater portion of local government services, especially if the state has mandated those services. Minnesota, for example, implemented a new statewide property tax as part of a larger tax relief and reform package during its 2001 legislative session. Included under the new law were state assumption of the state-mandated general education levy, property tax reductions, classification rate reductions, and an expanded property tax refund.

Some northeastern states replace lost property tax revenue by making payments in lieu of taxes to local governments that host both state-owned and other types of tax-exempt property. Connecticut and Rhode Island do so, although budget pressures cause those policies to be revisited periodically. Vermont makes payments to towns in lieu of property taxes for state lands, natural resources and facilities.

Diversification

Expanding local nonproperty taxes represents one potential method of reducing property taxes. Compared with other methods, it has the advantages of not burdening the state budget and maintaining a relatively high degree of local autonomy. On the other hand, there is no guarantee that the total tax burden will not increase. Local option taxes reduce state control over these tax sources. They affect the extent to which state governments can tap these sources for their own purposes. And, although local tax collections may grow, diversification alters the tax burden on residents and may lead to interlocal competition for revenues.

The expansion of local option taxes has been limited primarily to local sales and income taxes. Two-thirds of the states allow local governments to levy local sales taxes and one-third permit local personal income taxes, as table 7 shows. At least 14 states also allow local business taxes. General sales taxes made up about 12 percent of local tax revenues in 2001, with income taxes contributing another 6 percent.

Table 7. States that Permit Local Sales and Income Taxes

State	Local Sales Taxes	Local Income Taxes	State	Local Sales Taxes	Local Income Taxes
Alabama	✓	✓	Montana	✓	
Alaska	✓		Nebraska	✓	
Arizona	✓		Nevada	✓	
Arkansas	✓	✓	New Hampshire		
California	✓	✓	New Jersey		✓
Colorado	✓		New Mexico	✓	
Connecticut			New York	✓	✓
Delaware		✓	North Carolina	✓	
Florida	✓		North Dakota	✓	
Georgia	✓	✓	Ohio	✓	✓
Hawaii			Oklahoma	✓	
Idaho	✓		Oregon	✓	✓
Illinois	✓		Pennsylvania	✓	✓
Indiana		✓	Rhode Island		
Iowa	✓	✓	South Carolina	✓	
Kansas	✓		South Dakota	✓	
Kentucky		✓	Tennessee	✓	
Louisiana	✓		Texas	✓	
Maine			Utah	✓	
Maryland		✓	Vermont	✓	
Massachusetts			Virginia	✓	
Michigan		✓	Washington	✓	✓
Minnesota	✓		West Virginia		
Mississippi	✓		Wisconsin	✓	
Missouri	✓	✓	Wyoming	✓	
			Totals:	37	17

Sources: Commerce Clearing House *State Tax Guide*, 2003; National Conference of State Legislatures telephone survey, 2003.

Both state and local governments also have expanded fees and other charges. User charges grew in the last two decades of the 20th century as a proportion of state and local own-source revenue, as table 8 shows. User charges made up one-quarter of local own-source revenue in 2001. By comparison, property taxes represented 44 percent of local own-source revenues, generating $253 billion for local governments, compared to $146 billion in user charges.

Table 8. User Charges as a Percent of Own-Source Revenue

	FY 1980	FY 2001
State	9.8%	12.5%
Local	21.4%	25.3%
County	not available	29.3%
Municipal	not available	23.9%
All State-Local	14.8%	18.1%

Source: U.S. Census Bureau, 2003.

Implications of a Property Tax Shift

The property tax is one of the most stable revenue sources. Yet, the property tax share of local tax collections continues to decline. Reduced local reliance on the property tax is a double-edged sword for state-local finance.

As states substitute state taxes and spending for local spending financed through property taxes, the shift away from property taxes may help reduce the regressivity of state-local tax systems (although experts disagree on this point). It also may ameliorate fiscal disparities among rich and poor local governments. However, shifting the revenue burden to sales and income taxes may exacerbate revenue fluctuations caused by economic cycles and worsen the fiscal problems of state and local governments. Moreover, to the extent that local governments share state tax bases through local option sales and income taxes, states' revenue-raising potential is narrowed. Finally, sorting out governmental responsibilities for service delivery and financing becomes more complicated as lines between state and local revenues become blurred.

Since local revenue needs are not likely to decrease, these possibilities are worthy of state policymakers' consideration.

- Local governments will increasingly attempt to diversify their revenue bases by requesting authority from legislatures to expand local option tax alternatives.
- Interest in reviewing and reassigning state and local responsibilities will grow.
- Pressure will increase on other sources of state and local revenue.
- Improvements in property tax administration and communication about it will need to continue to help address misunderstandings and confusion about how property taxes work.
- Differing amounts and types of property in cities and counties will make it difficult for some places to finance services without extremely high tax rates, while other locales will garner higher revenue with lower tax rates.
- Local governments will expect state governments to absorb more local government expenses.
- School funding will continue as the focus of much of the discussion around property taxes and the state-local fiscal relationship.

PROPERTY TAXES AND PUBLIC SCHOOL FUNDING

The role of property taxes in supporting public elementary and secondary schools is paramount in most states, so this report includes discussion of school funding. State aid also plays a prominent role in school finance because of differences among localities' ability to pay for public schools and state aid's importance in making up local revenue lost to property tax relief measures. On average, states contribute about half the funding for schools, with local sources providing 43 percent of the balance. The federal government contributes around 8 percent.

In spite of the importance of property taxes to public education in most states, nine states place little reliance on local property taxes to fund schools. In some, such as Hawaii, the state foots the bill for K-12 education. In others, such as Maryland and Virginia, school systems are run as a part of general purpose local governments (mainly counties) and are directly funded by those governments. Property tax revenue may fall into the mix of revenues used to finance schools, but it is not earmarked for school district use, as occurs in most states.[5]

Table 9 shows the three major funding sources—federal, state and local—and the percentage of funding from each used to finance public schools in each state. Census statistics for 2001–2002 are the most recent and may not indicate changes adopted, for example, in Indiana, Minnesota and Vermont in recent legislative sessions when new legislation provided a larger role for those states in funding schools. Hawaii provides the largest share of state support at 89.1 percent.

Table 9. Summary of Public School System Finances for K-12 Education by State, FY 2001–2002

State/ Jurisdiction	Percent of Total Funds from Federal Sources	Percent of Total Funds from State Sources	Percent of Total Funds from Local Sources
United States	7.8%	49.4%	42.8%
Alabama	9.9	58.7	31.4
Alaska	18.1	56.1	25.8
Arizona	10.1	45.8	44.1
Arkansas	10.6	74.4	15.0
California	9.6	58.5	31.9
Colorado	5.8	42.3	51.9

Table 9. Summary of Public School System Finances for K-12 Education by State, FY 2001–2002			
State/ Jurisdiction	**Percent of Total Funds from Federal Sources**	**Percent of Total Funds from State Sources**	**Percent of Total Funds from Local Sources**
Connecticut	4.4%	38.1%	57.4%
Delaware	7.5	66.6	25.9
Florida	9.5	46.1	44.4
Georgia	6.9	48.8	44.3
Hawaii	9.0	89.1	1.9
Idaho	8.6	60.9	30.6
Illinois	7.7	36.7	55.6
Indiana	5.8	49.2	45.0
Iowa	6.8	48.3	45.0
Kansas	7.4	59.8	32.8
Kentucky	10.5	59.4	30.1
Louisiana	12.8	48.5	38.7
Maine	7.2	43.6	49.2
Maryland	6.3	37.2	56.5
Massachusetts	5.4	42.1	52.5
Michigan	7.2	64.4	28.4
Minnesota	5.2	61.1	33.7
Mississippi	14.5	54.2	31.3
Missouri	7.4	45.3	47.4
Montana	13.1	47.7	39.2
Nebraska	8.1	35.6	56.3
Nevada	5.9	61.2	32.9
New Hampshire	4.7	52.9	43.5
New Jersey	4.1	42.0	53.9
New Mexico	13.9	72.2	13.8
New York	6.2	48.7	45.1
North Carolina	8.0	61.1	30.9
North Dakota	13.8	37.6	48.6
Ohio	5.6	44.8	49.5
Oklahoma	11.4	53.7	34.9
Oregon	8.4	56.2	35.4
Pennsylvania	7.3	37.4	55.3
Rhode Island	5.9	41.6	52.5
South Carolina	8.8	50.9	40.3
South Dakota	13.7	37.3	49.0
Tennessee	9.6	44.2	46.3
Texas	9.0	39.6	51.4
Utah	8.3	58.7	33.0
Vermont	6.4	71.5	22.1
Virginia	6.4	41.0	52.6
Washington	7.8	63.1	29.1
West Virginia	10.7	60.1	29.2
Wisconsin	5.3	54.8	39.9
Wyoming	8.3	48.9	42.8

Table 9. Summary of Public School System Finances for K-12 Education by State, FY 2001–2002			
State/ Jurisdiction	**Percent of Total Funds from Federal Sources**	**Percent of Total Funds from State Sources**	**Percent of Total Funds from Local Sources**
District of Columbia	12.4%	0.0%	87.6%

Source: U.S. Census Bureau, *Public Education Finances 2001-02, Annual Survey of Local Government Finances,* (Washington, D.C.: U.S. Census Bureau, 2004), http://www.census.gov/www.school02.html.

Spending on elementary and secondary education varies by state, as would be expected. Table 10 shows the states' annual spending on public elementary and secondary education by pupil and as a portion of personal income. As would be expected, wealthy states tend to have high spending and poorer states tend to have low spending.

Table 10. Spending on Public K-12 Education by State, FY 2001–2002

State/ Jurisdiction	Total Annual Spending per Pupil	Rank	Spending per $1,000 Personal Income*	Rank
U.S. Average	**$ 7,701**	—	**$42.10**	—
Alabama	6,115	44	40.50	32
Alaska	9,586	7	64.90	1
Arizona	5,524	49	34.60	48
Arkansas	6,119	43	44.70	19
California	7,511	23	41.00	31
Colorado	6,884	34	34.50	49
Connecticut	10,001	4	38.70	41
Delaware	9,271	8	40.10	34
Florida	6,056	45	31.90	51
Georgia	7,340	26	44.80	17
Hawaii	7,253	28	38.00	42
Idaho	5,923	48	44.90	15
Illinois	8,022	17	40.00	35
Indiana	7,580	22	44.40	21
Iowa	7,305	27	44.40	20
Kansas	7,052	29	43.10	25
Kentucky	6,493	40	41.90	29
Louisiana	6,519	38	43.10	23
Maine	8,351	15	52.00	5
Maryland	8,507	13	38.70	40
Massachusetts	9,856	5	39.60	38
Michigan	8,489	14	49.30	7
Minnesota	7,691	20	39.30	39
Mississippi	5,382	50	42.60	28
Missouri	7,018	31	40.30	33
Montana	7,027	30	49.20	8
Nebraska	7,418	25	42.70	27
Nevada	6,034	46	34.20	50
New Hampshire	7,750	18	37.80	43

Table 10. Spending on Public K-12 Education by State, FY 2001–2002				
State/ Jurisdiction	**Total Annual Spending per Pupil**	**Rank**	**Spending per $1,000 Personal Income***	**Rank**
New Jersey	$11,436	3	$48.20	10
New Mexico	6,606	37	50.00	6
New York	11,546	2	48.80	9
North Carolina	6,511	39	37.50	44
North Dakota	6,728	36	43.40	22
Ohio	8,100	16	44.70	18
Oklahoma	6,256	42	44.80	16
Oregon	7,621	21	43.10	24
Pennsylvania	8,841	10	41.60	30
Rhode Island	9,178	9	46.50	13
South Carolina	6,984	32	46.60	12
South Dakota	6,319	41	39.80	36
Tennessee	5,984	47	34.70	47
Texas	6,746	35	45.50	14
Utah	4,890	51	42.80	26
Vermont	9,678	6	56.00	2
Virginia	7,501	24	37.40	45
Washington	6,894	33	36.30	46
West Virginia	7,748	19	53.00	3
Wisconsin	8,574	12	47.50	11
Wyoming	8,667	11	52.40	4
District of Columbia	13,187	1	39.70	37

*Dollar amounts are rounded, resulting in identical amounts for some states. Rankings are based on the Census Bureau's more detailed calculations.
Source: U.S. Census Bureau, *Public Education Finances 2001-02, Annual Survey of Local Government Finances* (Washington, D.C.: U.S. Census Bureau, 2004), http://www.census.gov/govs/www.school02.html.

Levels of education spending reflect many factors, including the priority placed on having good schools and perhaps the strength of unionization among teachers. Two factors are especially important: state fiscal capacity and the proportion of the population that is of school age. One of the main reasons that some states have low per capita income is that they contain many children. States with an unusually large proportion of their population in the under-18-year-old age group tend to spend less per pupil than other states. Arizona, California, Idaho, Louisiana, Mississippi, New Mexico, Texas and Utah are prime examples, since they are states with a high proportion of under-age-18 populations and most are among the lowest spenders on K-12 education. States in the opposite situation are Massachusetts, New York, Pennsylvania and Rhode Island. They are among the top 10 in spending on K-12 education and rank low in their proportion of those under age 18.[6] Some of these states also have relatively large enrollment in private schools, so their educational burden is even lighter than the demographic figures imply.

State Examples

Among the states, there are 50 property tax systems and 50 ways of financing public school systems. During the past 30 years, court rulings concerning education finance have shaped the agenda of school reformers and legislatures alike and have clarified the roles of different levels of government in the provision of education.

This section provides examples that attempt to describe the interaction of property taxes with state-local school finance systems, with emphasis on the property tax system. The states were chosen because each demonstrates a particular aspect of property tax funding for education. The six states are Arizona, Michigan, Oregon, Texas, Vermont and Washington.

- Arizona uses a property tax classification system and has strict limitations on school spending.
- Michigan passed legislation in 1993 to eliminate local property taxes as an operating revenue source for schools.
- Oregon has no sales tax, and voters have put stringent constitutional limits on property taxes.
- Texas has no income tax and limits growth in property appraisal value to 10 percent per year for most homeowners.
- Vermont has instituted a statewide property tax to help equalize the local property tax system in funding schools.
- Washington has no personal income tax, the constitution limits property taxes to 1 percent of market value, and the state covers nearly two-thirds of school spending.

Some of the descriptions for the state examples were excerpted from material written by various authors under the auspices of the National Center for Education Statistics and published on its Web site at www.nces.ed.gov.

Arizona

The state share of school district revenues in Arizona was estimated to be 46 percent in 2001-2002, with the primary revenue sources the sales and income taxes in the state general fund. State land revenues are an additional source of funding. The property tax is the only local revenue source for schools except for in-lieu-of tax payments from a large public utility.

The state has two tax levies—a primary levy that does not require voter approval, and a secondary levy that does require voter approval. Thirty-five percent of the primary property tax levy on an owner-occupied residence is forgiven and paid from state funds.

For tax purposes, property is grouped into 13 classes, and tax rates are applied to varying percentages of real value, i.e., owner-occupied residences at 10 percent; agricultural at 16 percent; rental property at 10 percent; mines and utilities at 26 percent; railroads at 22 percent; and commercial property at 25 percent. County tax assessors determine property values. Arizona does not have a state program for comparing assessment practices and determining the equalized assessment values of real property among school districts.

Since 1982, Arizona has had a constitutional limit on the total spending by all local school districts. The limit is on maintenance and operation or current operations and does not include federal grants, capital levies or debt service; however, state special projects and federal impact aid payments are included in the limitation. Increases are permitted each year based on the increases or decreases in the number of students and the changes in the gross national product price deflator. The constitution was amended in 1986 to permanently increase the limit by an additional 10 percent. The limit may be exceeded by vote of a two-thirds majority of the House and the Senate; this approval is required annually.

In addition to the constitutional limitation, the expenditure control provisions in the Arizona foundation program are among the most stringent in the nation. Irrespective of the taxable property in the individual school district, per-student spending limits for maintenance and operation stipulated in the state equalization program cannot be exceeded except under specified conditions.

In 1994, the state's school finance system was found to be unconstitutional by the Arizona Supreme Court. The case focused on school capital finance, and the system was found to be unconstitutional because of the inequities created by the heavy reliance on local property wealth to provide funding to meet the capital needs of school districts. After three attempts to pass legislation to satisfy the Court (in 1996, 1997 and April 1998), the Legislature enacted the "Students FIRST" school capital finance system. It was deemed constitutional by the Arizona Supreme Court in July 1998. In 1997, the Legislature enacted a tuition tax credit for private schools. This law was challenged by petition to the Arizona Supreme Court. The Court found the tax credit to be constitutional.

Source: Excerpted from material written by Judy Richardson, first vice president, School Finance Consulting, Peacock, Hislop, Staley and Given Inc.; and Rita Sauv, director of Finance Policy/economist, Arizona Department of Education, and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

Michigan

Michigan school finance reforms have resulted in a substantial shift in funding responsibility from the local level to the state level, as well as a shift away from the property tax as a school revenue source. Michigan voters in 1994 approved a constitutional amendment (Proposal A of 1994) to increase the state sales tax from 4 percent to 6 percent. The flat rate income tax also was lowered from 4.6 percent to 4.4 percent, the cigarette tax was raised from 25 cents per pack to 75 cents per pack, and a per-parcel cap on assessment growth was set at the lesser of inflation or 5 percent (reassessed at 50 percent of market value on sale). State property taxes for school operations were reduced in most districts to 6 mills on homestead property and to 24 mills on non-homestead property (all property except owner-occupied residences and "qualified agricultural property").

The state portion of revenues for education increased from 28 percent in 1994–94 to 64 percent in 2001-02, while local education revenues dropped from 65 percent to 28 percent.

The general sales tax is now the major source of state revenue for K-12 education. The School Aid Fund collects 60 percent of the revenue generated by the first 4 percent tax on general sales, plus 100 percent of the revenue from the additional 2 percent sales tax. Other revenues dedicated to the fund include all proceeds from the 6-mill state property tax established as part of the 1994 reforms, a portion of the state personal income tax, some of the tobacco tax, the liquor tax, the tax on commercial and industrial facilities, other miscellaneous taxes, and all profits from the state lottery. The balance of annual state aid requirements is transferred from the state general fund.

Although it was not eliminated by the 1994 reforms, the local property tax has been substantially deemphasized as a school revenue source. Local districts are expected to levy 18 mills (or the 1993–94 general operating millage rate if less than 18), with voter approval, on all non-homestead property. These revenues constitute the local district's contribution under the new foundation approach. In addition to this basic local levy on non-homesteads, local districts also may be subject to one or two additional property tax levies, both of which require voter approval.

Michigan's reforms also included several new revenue limitations. First, the constitutional amendment includes a "super-majority" requirement (three-fourths vote by each chamber of the Legislature) to change the 18-mill local rate on non-homestead property and the 6-mill state levy on all property. Second, limitations are imposed on the dollar increases in some local districts' combined state and local revenue. Third, annual increases in the assessed values of individual parcels of property are limited to 5 percent or the rate of inflation, whichever is less. On resale, the property is reassessed at 50 percent of market value.

Despite its declining role, the property tax is the only local tax that funds schools. Under the Michigan Constitution, assessment ratios on all taxable property must be uniform throughout the state and must not exceed 50 percent of true cash value. A separate statute requires that the ratio of assessed value to true cash value equal 50 percent. Local assessors at the township, village and city levels conduct the initial assessments. The aggregate local unit assessments are adjusted or equalized at both the county and state levels, and the resulting figures are termed state equalized valuations.

Michigan addressed property tax regressivity through the adoption in 1973 of the Michigan Homestead Property Tax Credit, the so-called "circuit breaker." Under the circuit breaker, a refundable state income tax credit is available to taxpayers who pay more than 3.5 percent of their household income in property taxes; for renters, 20 percent of their gross rent is considered to be property tax. The credit is equal to 60 percent of the difference between the property tax paid on the principal household residence and 3.5 percent of the total household income. There is a maximum credit of $1,200, a phasing-out of the credit for those whose household income exceeds $73,650, and no credit for those whose household income is more than $82,650.

Michigan also set limits on the aggregate tax rates that can be levied on property. The Michigan Constitution (Art. IX, §6) places a limit of 15 mills—or 18 mills in those counties where the voters have approved the higher limit—on the aggregate tax rate levied by school districts, townships and counties.

Michigan voters in 1978 approved the so-called "Headlee Amendment" (Michigan Constitution Art. IX §§25-33), which mandates that local property tax rates be rolled back if increases in tax revenues (other than from new construction) from one year to the next exceed the rate of inflation as measured by the consumer price index. However, a majority of local voters can "override" the rollback and retain the existing millage rate. Constraints on state government include prohibiting state-mandated requirements for any new or expanded activities by local government without also providing full state financing for these activities and prohibiting reductions in the portion of state spending paid to local governments below 41.6 percent, the share in place at the time of the adoption of the amendment.

Source: Excerpted from material written by Michael F. Addonizio, Wayne State University; Elaine Madigan Mills, Michigan Department of Education; and C. Philip Kearney, National Teacher Certification Board; and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

Oregon

State funds for the public school system in Oregon are derived primarily from the state income tax. The state does not have a sales tax. During the 1990s, several critical pieces of legislation that affected property taxes were passed in Oregon. A property tax dollar limit per $1,000 of assessed value was passed, followed by a cap on value growth. The legislature also changed the school funding distribution formula. What had been primarily a locally funded school system became a state-funded system.

Oregon voters in 1990 approved Ballot Measure 5, constitutionally limiting property tax rates (Oregon Constitution., Article XI, §11b), which became effective July 1, 1991. Under this measure, non-school taxes on any parcel of property cannot exceed $10 per $1,000 of real market value, and school taxes cannot exceed $5 per $1,000. Voters cannot approve operating taxes outside these limits. The measure took effect over a five-year period. The state was technically required to replace the local property tax losses to the districts and, in doing so, control of local school funding was effectively moved to the state. It limits the number of dollars per $1,000 that education districts (local K-12 school districts, education service districts and community colleges) can assess on local property for operations only (not capital/bonded debt).

Voters in 1997 passed Measure 50, now Oregon Constitution, Article XI, §1la, which replaced all previous limitations except for Measure 5 (Oregon Constitution, Article XI, §11a (11) and §11b). Measure 50 clarified that the property tax system was to shift from a tax base system to a tax rate system. State revenue officers calculated the assessed values of all taxed property, implemented the statewide 17 percent reduction promised under the earlier measure, and established a permanent tax rate per $1,000 assessed value for each taxing district and each property classification.

Property taxes thus are subject to two separate limits. Under Measure 50, each district has a fixed, permanent tax rate for operations. Districts may not increase this rate. Measure 50 also limits property values. Each property's maximum 1997–1998 assessed value was rolled back to its 1995–1996 value less 10 percent. This maximum value can grow up to 3 percent per year. Assessed value cannot exceed real market value. New property is assessed at the average ratio of assessed to market value of existing property of the same class in the same area. The Measure 5 and Measure 50 limits do not apply to general obligation bonds. Bonds, however, must be approved at a general election or an election in which at least 50 percent of eligible voters cast a ballot.

The property tax is the only local tax used to fund schools. Property is assessed as a percent of real market value. Oregon statute provides for exemption or special assessment for certain types of property. County assessors determine the value of property in each of the 36 counties, except that utilities and some large industrial properties are centrally assessed at the state level. Statute requires that each property be physically re-appraised every six years.

Some property, although taxable, is taxed at lower values. This "specially assessed" property includes some forest land, farm land, and open space land. These properties are assessed at their value in the restricted use and are subject to penalties if not continued in the use for which they are specially assessed.

The statewide school distribution formula requires that any increase in local property tax revenue be offset by a decrease in state funding for K-12 school districts. The amount that the state distributes to K-12 districts is determined by the amount the legislature approves in its biennial K-12 budget.

Local districts may collect more total local property taxes as the property values increase, because the permanent tax rate is applied across the board on a per $1,000 basis. There is no limit on the total amount of taxes collected.

Under Oregon's 2 percent surplus kicker provision, general fund money is divided into two sources, corporate taxes and all other revenues. At the end of each biennium, if the actual collections in either of these two is more than 2 percent higher than was forecast at the close of the regular session, then a refund or credit must be paid to income taxpayers. The 2 percent kicker, adopted in 1979, first kicked in 1985. The legislature suspended refunds due to individuals in 1991 and to corporations in 1993. The increased general fund revenues were allocated to state school support to help with Measure 5 replacement costs.

Source: Excerpted from material written by Frank P. McNamara, Confederation of Oregon School Administrators, and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

Texas

State and local governments each provide approximately half the funding for Texas schools. The state's share is financed primarily through general revenue funds, with the sales tax providing 55 percent of those funds. The remaining 45 percent of the general revenue fund comes from the corporate franchise tax, the motor fuels tax, natural gas and oil taxes, excise taxes, insurance and utility taxes, and other fees and charges. Lottery proceeds, dedicated to public education, also go into the general fund. Texas does not impose either a personal or a business income tax.

The local share of education funding for 1,042 public school districts comes almost exclusively from property taxes. Other local taxing units may have additional revenue sources such as a local sales tax, but Texas school districts may not do so.

Real property (business and residential) and business personal property are taxable. In addition to real property improvements, land and natural resources (e.g., oil, gas and minerals) are taxable property. For tax purposes, agricultural land is valued at productivity value. Texas does not have a state property tax.

A county appraisal district determines the market value of property between January 1 and April 30 and provides each taxing unit—school district, county, city and special district—a list of taxable property. Reappraisal is required at least every four years. Elected officials of the local taxing units determine what it will cost to provide services and set property tax rates in August or September, according to the units' budgets. The levy is the result of the local tax base times the tax rate.

The state comptroller's property tax division conducts an annual property value study for each school district for state funding purposes. This legislatively mandated, independent estimate aims to ensure that property values in a school district are close to market value for equitable school funding. The state sends more money to those districts that are less able to raise money locally because of insufficient taxable property. The comptroller's values do not directly affect locally determined values or property taxes. However, when local values are more than 5 percent below state values, the school district could receive fewer state dollars than expected because funding formulas will use state values to calculate state funding.

Texas does not use assessment ratios. Taxable value may differ from market value if the property is subject to an exemption. Law mandates school district homestead exemptions of $15,000 for all homeowners. It also provides taxpayers age 65 and older with an additional exemption of $10,000 and a limit or "ceiling" on total school taxes: school taxes cannot increase as long as the taxpayer owns and lives in the home. The tax ceiling is set at the amount paid in the year the taxpayer qualified for the over-65 homeowner exemption.

In the 1997 legislative session, the tax code was changed to permit appraisal of homesteads to be limited to the lesser of market value or the last appraised value plus 10 percent per year, plus the market value of any improvements. This adjustment in the law limits appraisal increases to 10 percent per year for most homeowners.

Taxable value of property within each school district is the only measure of local fiscal capacity. School districts with wealth in excess of $295,000 per weighted student must reduce district wealth to that level. Although it technically is not a tax or spending limit, the wealth equalization level limits the ability of very high-wealth districts to raise and spend money. High-wealth districts are allowed to retain as much local wealth in excess of the equalized wealth level as is necessary to maintain revenue at the 1992–1993 level at a tax rate of $1.50, minus the annual distribution per weighted student from the available school fund (roughly $300 per student).

The Texas Supreme Court in 1995 held that the school finance system was constitutional in all respects. Plaintiffs returned to court in 1998, claiming that the system has implemented new inequities in the system, allowing the gap between property-rich and property-poor districts to grow. The case is pending.

Sources: Property Tax Division, Texas Comptroller, 2004. Web address: http://www.window.state.tx.us/taxinfo/proptax/proptax.html; portions also excerpted from material written by Catherine Clark, Texas Center for Education Research, and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

Vermont

About 16 percent of Vermont's school revenues are from local sources that are raised almost exclusively through local property taxes. State revenues are generated by the statewide property tax, income tax, sales tax and miscellaneous smaller taxes and fees. State and local property taxes are based on per $100 of fair market value.

The largest earmarked contributor is the statewide property tax. All lottery revenues and certain percentages of a number of taxes and fees are dedicated to the education fund. Among these are room, meal and alcoholic beverage tax revenues less a portion for tourism; corporation income tax revenues; bank franchise fees; telecommunications revenues; brokerage fees; motor fuels; and purchase and use taxes.

With Act 60 of 1997, Vermont instituted a statewide property tax to equalize the local property tax system. Vermont's Act 60 Reform Bill takes effect in the 2004-2005 school year. It provides for a statewide property tax rate of $1.10 per $100 of assessed value for homeowners and $1.59 per $100 in assessed value on businesses and second homes. At the same time, the state sales tax will increase from 5 percent to 6 percent, the telecommunications tax will go up, and new lottery revenues will be earmarked for education. On average, the plan is expected to reduce property taxes for homeowners by 20 percent. This funding package will support a per-pupil grant of $6,800. Localities that wish to spend more than this amount will be free to increase the property tax rate on homeowners to do so. For example, a community that wishes to spend $8,000 per pupil would need to levy a tax rate of about $1.29 per $100 of assessed value of primary residences. The tax rate for businesses and second homes is fixed and can be changed only by action of the state legislature.

The primary units for educational funding are the 252 town, city and incorporated school districts. Except for some categorical funds and grants, all state money goes to the towns. Although most towns operate schools, some towns send students to other towns under a variety of contractual and voucher arrangements. In addition, there are 32 union school districts, four unified districts and two joint operating districts. These combinations allow towns to combine resources to provide educational services.

Of the 252 towns, 151 are eligible to receive property tax revenue supplements from the education fund (or guaranteed yield pool). The 13 towns that spend below the state's block grant level are not eligible to receive yield funds.

The guaranteed yield is a sliding scale adjusted by the ratio of the town's per-pupil property wealth to the state's per-pupil average property wealth. Towns where the property bases cannot produce the needed level of revenues are assisted by the state. Towns that produce more than their guaranteed yield pay the difference to the education trust fund.

As part of the transition provisions in Act 60, local option taxes could be voted to alleviate the effects of property tax increases in wealthier and lower tax towns. To prevent disturbing the recapture provisions of the yield, local option taxes were authorized for municipal purposes only. Authorization for local option taxes expires on Dec. 31, 2004.

For households with incomes of less than $75,000, education taxes were capped at no more than 2 percent of income to support the General State Support Grant (Block Grant). For the 239 towns (95 percent of the towns) that voted a budget above the block grant amount, the taxes were proportionately higher, based on the yield coefficient for that town. Nevertheless, the average total tax burden for education in almost every town was below 3 percent of income. A "prebate" check was issued to homestead owners (house and two acres) to pay for homestead property taxes in excess of the cap. Local towns collect the state and local property taxes. Eligibility for the 2 percent tax cap was extended to homestead values of $160,000 or less for households earning over $75,000.

Homeowner or Renter Rebate: The "Super Circuit Breaker" caps the combined education and municipal assessed tax burden at between 3.5 percent and 5 percent of household income, provided that the sum of all household incomes is below $47,000. The limit applies only to homesteads (house and two acres) used as the primary domicile. The lowest increment is a maximum tax of 3.5 percent for all municipal and education property taxes for incomes of less than $5,000. Refunds are provided through filing the annual state income tax form. Renters' property taxes are calculated as 21 percent of the rent paid.

Current Use Program. This program was established to protect the environment, the tourist industry, agriculture and the property owner. The market value of certain farm and forest land often is greater for development purposes than it is for its current use. Taxes are assessed on the lower current use value of the property rather than on the higher market value. For municipal taxes, the state reimburses the town the difference between the use value and the fair market value. For school taxes, the lower current use value translates into higher state aid. Timelines and restrictions apply to prevent exploitation of the program.

Source: Excerpted from material written by William J. Mathis, Rutland Northeast Supervisory Union, University of Vermont, and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

Washington

For the past two decades, Washington's funding of K-12 schools has been achieved through a full state funding model (Washington Revenue Code §§28A.150, 28A.510). A state property tax for schools (based on $3.60 per $1,000 assessed valuation adjusted by the county indicated ratio) is deposited into the state's general fund for the support of schools. Property tax revenues are not specifically earmarked for K-12 public education; however, approximately 46 percent of state general fund spending is for K-12 education.

State resources for basic education account for approximately 83 percent of total basic education expenditures. Local resources contributed approximately 14 percent of resources for basic education expenditures. The amount of state aid to which a district is entitled is determined according to a statutory formula. The state funding formula for school construction projects is designed to provide a district with an assessed property valuation per pupil that is equal to the state average with state support for 50 percent of eligible construction costs. Local districts are responsible for the difference between the amount generated by the state matching formula and the actual expenditures incurred.

The Basic Education Act of 1977 defined full funding of basic education primarily through the use of staff-to-student ratios used to allocate resources to school districts. In addition to the Basic Education Act, the Legislature also passed the Levy Lid Act in 1977. The Levy Lid Act imposed limitations on local revenue raised by a district's special property tax levies and restricted a district's capacity to use special levy funds for employee compensation.

The Legislature in 1987 added another component of state funding called local effort assistance, or levy equalization aid. Local effort assistance provides a guaranteed yield for local levies to those districts that levy above-average local tax rates to compensate for low property tax wealth. Funds are distributed according to a formula driven by the extent to which a district's local tax effort exceeds the state average tax effort.

The Legislature has given the 296 school districts authority to levy local property taxes to fund programs, activities and support services that the state is not required to fund under its constitutional obligation.

The local special levy property tax is the major source of local revenue for schools and the only local tax source used to fund schools. It accounts for four-fifths of total local school revenue, not including debt service, transportation or capital projects. Four types of levies exist: 1) maintenance and operations levies are multi-year levies (one to four years) used for the day-to-day operations of the school district; 2) debt service levies are multi-year levies used to pay principal and interest on general obligation bonds sold to finance school construction and remodeling; 3) capital projects levies are one- to six-year levies used to pay for school construction or remodeling; and 4) transportation vehicle levies are one- or two-year levies used to pay for school buses or other school transportation needs. For general fund levies, the state limits the district's maximum levy authority percentage.

There are no local income or sales taxes. The primary sources of local non-tax revenue for school districts are investment earnings and food service fees. By investing the proceeds of school funding allocation payments in U.S. government securities for the period of time before payments must be made to contractors, suppliers and district employees, school districts generate interest.

All taxable property must be valued at 100 percent of its market value. Tax rates are expressed in terms of dollars per $1,000 valuation. All timber growing on privately owned land is exempt from property taxes. In lieu of the property tax, private timber is subject to an excise tax at the time it is harvested. Tax revenues on private timber are distributed to the local taxing districts that contain harvestable timber and applied toward the districts' local special levy amounts, thereby lowering the special levy property tax rates in these districts.

The Washington Constitution (Article VII, §2) limits the regular property taxes paid by any taxpayer to 1 percent of the market value (school district special levies are exempt). Since 1975, the Legislature has further controlled regular property taxes by setting the authorized limit (0.915 percent below the constitutional limit). In addition, state law curbs the growth of any taxing district's regular property tax revenue to no more than 6 percent above the highest level reached in the last three years, exclusive of new construction.

The Legislature limits voter-approved school district maintenance and operations (M&O) special levies to a fixed percentage of state and federal revenues received in the prior school year. The original "levy lid" passed in 1977 sought to limit a school district's M&O special levy authority to 10 percent of each school district's state basic education allocation received in the prior school year. Since 1978, the Legislature has repeatedly amended the Levy Lid Act of 1977 through the following strategies: 1) expanding the definition of state funding applicable to the limit; 2) making special allowances for districts that are experiencing declining enrollment; 3) extending the "leveling down" period for districts to meet the levy lid requirements; and 4) temporarily freezing levy lid amounts. During the period from 1980 to 1998, the Levy Lid Law was amended 12 times. Under current law, districts can raise local levy amounts up to 24 percent of their state and federal allocation.

Local school boards may ask voters to impose a special levy property tax to generate a specific dollar amount. (See explanation above of the four types of special levies.) Levy approval requires two elements: 1) voter turnout equal to at least 40 percent of the previous general election total in the district (validation), and 2) a favorable margin of at least 60 percent of the votes cast on the special levy proposal (passage).

Source: Excerpted from material written by Margaret L. Plecki, University of Washington, and published by the National Center for Education Statistics on its Web site at www.nces.ed.gov.

NOTES

1. Daphne A. Kenyon, "Are State Governments Encroaching on the Local Property Tax?" *State Tax Notes* 28, no. 13 (June 30, 2003).

2. National Education Association, *Understanding the Property Tax* (Washington, D.C.: NEA, 1998).

3. Dick Netzer, "Local Government Finance and the Economics of Property Tax Exemption," in *State Tax Notes* (June 23, 2003): 1053–1068.

4. Cynthia F. Burns, "Higher Education Institutions and Property Taxation: The Hidden Costs of Local Community Financial Stress," unpublished manuscript (Williamsburg, Va.: College of William and Mary, October 1995).

5. State Policy Reports 20, no. 21: (Washington, D.C.: Federal Funds Information for States, November 2002); based on U.S. Census Bureau data, 2002.

6. Statistical Abstract of the United States, http://www.census.gov/statab/www.

REFERENCES

Aronson, J. Richard, and John Hilley. *Financing State and Local Governments.* Washington, D.C.: The Brookings Institution, 1986.

Brunori, David. *Local Tax Policy: A Federalist Perspective.* Washington, D.C.: The Urban Institute Press, 2003.

Burns, Cynthia F. "Higher Education Institutions and Property Taxation: The Hidden Costs of Local Community Financial Stress." Unpublished manuscript. Williamsburg, Va.: College of William and Mary, Williamsburg, Virginia, October 1995.

Commerce Clearing House, *State Tax Guide* 2003–2004.

Federal Funds Information for States. *State Policy Reports* (various dates). Washington, D.C.: National Governors Association and National Conference of State Legislatures.

Gold, Steven D. *Reforming State-Local Relations: A Practical Guide*. Denver, Colo.: National Conference of State Legislatures, 1989.

Government of the District of Columbia, Department of Tax and Revenue. *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison.* Washington, D.C.: Government of the District of Columbia, Department of Tax and Revenue, 2002, http://www.cfo.dc.gov/services/studies/index.shtm.

Kelly, Janet M. "Fiscal Centralization." Unpublished manuscript. Cleveland, Ohio: Cleveland State University, Levin College of Urban Affairs, 2004.

Kenyon, Daphne A. "Are State Governments Encroaching on the Local Property Tax?" *State Tax Notes.* 28, no. 13 (June 30, 2003).

Mackey, Scott, and Karen Carter. *State Tax Policy and Senior Citizens*, 2nd ed. Denver, Colo.: National Conference of State Legislatures, 1994.

National Center for Education Statistics, www.ncses.ed.gov.

National Conference of State Legislatures. *A Guide to Property Taxes: Property Tax Relief.* Denver, Colo.: National Conference of State Legislatures, 2002.

National Education Association. *Understanding the Property Tax*. Washington, D.C.: NEA, 1998.

Netzer, Dick. "Local Government Finance and the Economics of Property Tax Exemption." *State Tax Notes* (June 23, 2003).

Rafool, Mandy. *A Guide to Property Taxes: An Overview*. Denver, Colo.: National Conference of State Legislatures, 2002.

Report of the Special Commission on Tax-Exempt Property. Albany, N.Y.: City of Albany, New York, 1995.

Reschovsky, Andrew. "The Impact of State Government Fiscal Crises on Local Governments and Schools." Unpublished manuscript. Madison, Wis.: University of Wisconsin-Madison Robert M. La Follette School of Public Affairs, December 2003.

Snell, Ronald, ed. *Financing State Governments in the 1990s*. Denver, Colo.: National Conference of State Legislatures and National Governors Association, 1993.

Snell, Ronald. *New Realities in State Finance*. Denver, Colo.: National Conference of State Legislatures, 2004.

Statistical Abstract of the United States, http://www.census.gov/statab/www.

Texas Comptroller, Property Tax Division, http://www.window.state.tax.us/taxinfo/proptax/proptax.html.

Washington Research Council. *Special Report: Property Taxes: An Interstate Comparison.* Olympia, Wash.: Washington Research Council, August 5, 1996.

Wisconsin Department of Revenue, Division of State and Local Finance, Office of Assessment Practices, http://www.dor.state.wi.us/html/govpub.html.

U.S. Census Bureau. *State and Local Government Finances by Level of Government and by State*. Washington, D.C.: U.S. Census Bureau, various years.

U.S. Census Bureau. *Public Education Finances 2001–2002. Annual Survey of Local Government Finances*, Washington, D.C.: U.S. Census Bureau, 2004, http://www.census.gov/www.school02.html.