

# THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

UNIVERSITY AT ALBANY State University of New York

### HIGHLIGHTS

- The property tax is, by far, the most significant revenue source used to finance critical local services such as K-12 education, police and fire protection, and other front-line public services.
- Although the property tax is generally a stable revenue source, the Great Recession, the housing bubble, and tax limits have combined to weaken tax collections significantly.
- Local property tax revenues declined by 0.9 percent in nominal terms in the first quarter of 2012, after two consecutive quarters of growth. However, after adjusting for inflation, local property taxes actually declined by 2.8 percent in the first quarter of 2012, marking the sixth consecutive quarterly decline in real collections.
- Prolonged weakness in the property tax, combined with continued budget stress at the state level and the prospect of deep spending cuts in Washington, raise the prospect of serious budget problems and service cutbacks in local governments in many parts of the country.
- Wide variations exist among, and even within, the states in their reliance on the property tax, the impact of state-imposed tax limits, and the severity of the housing crisis.

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## The Impact of the Great Recession on Local Property Taxes

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ocal property taxes remained relatively strong during and immediately after the Great Recession. But trends are now shifting, due in part to the lagged impact of falling housing prices on property assessments and tax collections. Because the property tax is such a vital revenue source for most local governments and school districts, tracking developments in local property taxes is necessary and timely. This report examines recent developments in local government property tax collections. It is the first in a series that will review quarterly local government property tax revenues and complement the Rockefeller Institute's long-established quarterly state tax revenue reports. Subsequent reports will examine how underlying economic forces and institutional structures are affecting property tax collections.

#### **Data Sources**

Currently there are no published data showing how property tax revenues are being affected by the recession and recovery. Unfortunately, the most recent, comprehensive data are for FY 2009. The only timely data on property tax revenue that are rigorously and comprehensively collected come from the Census Bureau's Quarterly Summary of State and Local Government Tax Revenue survey.¹ Based on this survey, the Census Bureau publishes quarterly estimates of property tax collections for the nation as a whole.

We use this survey to examine recent trends in local property tax collections at the national level. Since property tax revenues are based on a sample of local governments rather than the universe of governments there are some complications involved in using these data to examine state or city patterns. We discuss these complications on p. 12.

### **Local Services Rely Heavily on the Property Tax**

The property tax is the financial backbone of local governments and school districts, accounting for nearly three-quarters of total local tax collections. It is the most significant local revenue source for financing K-12 education, police, fire, parks, and other services provided by local governments. In 2010, about 29 percent of total K-12 funding was supported by local property taxes. In

Table 1. Property Taxes in State and Local Government Budgets, FY 2009 (\$ billions)

Τ Ι 2003 (ψ Βιιιίοτια)								
	Property	General	Individual	Other taxes	Total Taxes			
	tax	sales tax	income tax	other taxes	rotar raxes			
Local Gov.	\$411.0	\$62.3	\$24.6	\$57.9	\$555.9			
State-Local Gov.	\$424.0	\$291.0	\$270.5	\$285.8	\$1,271.4			
Local Gov.	73.9%	11.2%	4.4%	10.4%	100.0%			
State-Local Gov.	33.4%	22.9%	21.3%	22.5%	100.0%			

Source: U.S. Census Bureau, Annual State and Local Government Finances.

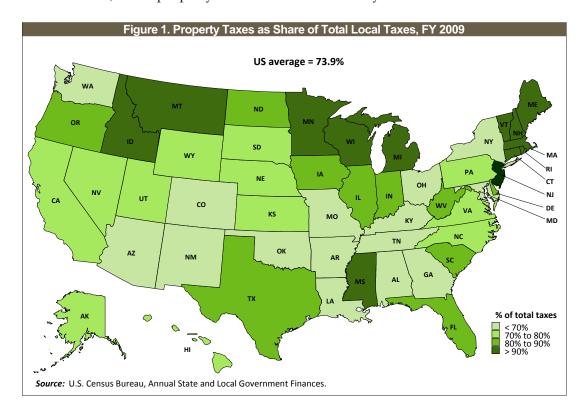
ten states, property taxes account for a greater share of K-12 revenue than state aid.

Table 1 shows the amount and share of property taxes compared to other major revenue sources for local governments (including schools) and state and local governments combined. Although the property tax is tra-

ditionally considered the domain of local governments, some 15 states actually impose real property taxes. In fiscal 2009, local governments collected \$411 billion and state governments another \$13 billion, for a total of \$424 billion in property taxes. Property taxes made up nearly three-quarters, 73.9 percent, of all local government tax collections, and 33.4 percent of taxes for state-local governments combined. In addition, because of tax limit rules in some states, the state government can also control the distribution of property tax revenues across local governments.

There is wide variation across states in terms of local property tax revenue. As Figure 1 shows, reliance on the property tax as a revenue source is greater in the Northeast and upper Midwest, and lower in the South and Southwest. In 13 states, fiscal 2009 local property taxes made up over 90 percent of total local taxes, and were highest in Maine at 99 percent. Conversely, such taxes accounted for less than 70 percent in 15 states, with the lowest being Alabama at 41 percent.

Table 2 shows state-by-state figures for total and per capita local property tax collections for fiscal years 2007-09 and state



	able 2. Total and Per Capita Loc			Rank, Per Capita Property Taxes				Pank
State	FY 2007	Property Taxes, \$ millions FY 2007 FY 2008 FY 2009		FY 2009	FY 2007	FY 2008	FY 2009	Rank,
United States	\$376,080	\$396,283	FY 2009 \$411,050	FY 2009	\$1,247	\$1,302	\$1,339	FY 2009
Northeast	100,401	104,480	108,256		1,829	1,898	1,958	
Connecticut	8,116	8,374	8,789	14		2,391	2,498	3
Maine	2,027	2,129	2,140	36	2,326 1,539	2,591 1,614	1,623	10
Massachusetts	11,036	11,659	12,162	10	1,698	1,782	1,845	7
		•				•		
New Hampshire	2,526	2,669	2,819	30	1,917	2,019	2,128	4
New Jersey	21,475	22,700	23,258	5	2,487	2,620	2,671	5
New York	38,065	39,058	41,140	2 7	1,960	2,006	2,105	
Pennsylvania	14,844	15,466	15,450		1,185	1,231	1,226	23
Rhode Island	1,962	2,063	2,126 372	37	1,860	1,958	2,019 599	6
Vermont	350	362		51	564	583		46
Midwest	81,912	84,980	88,152		1,234	1,276	1,319	0
Illinois	20,394	21,265	22,700	6	1,596	1,656	1,758	9
Indiana	6,204	6,951	7,231	16	978	1,088	1,126	28
lowa	3,605	3,708	3,946	26	1,210	1,239	1,312	19
Kansas	3,385	3,606	3,736	27	1,220	1,289	1,325	18
Michigan	12,230	11,873	12,247	9	1,217	1,187	1,228	22
Minnesota	5,441	5,916	6,371	17	1,048	1,131	1,210	24
Missouri	5,170	5,382	5,490	22	875	904	917	37
Nebraska	2,387	2,464	2,591	31	1,348	1,383	1,442	15
North Dakota	691	730	768	49	1,083	1,139	1,188	25
Ohio	13,311	13,522	13,080	8	1,155	1,173	1,133	27
South Dakota	823	862	892	47	1,032	1,071	1,098	29
Wisconsin	8,271	8,700	9,099	13	1,477	1,546	1,609	11
West	77,549	84,280	87,256		1,112	1,192	1,219	
Alaska	969	987	1,086	44	1,421	1,434	1,555	13
Arizona	5,308	5,808	6,226	20	834	894	944	36
California	46,338	50,472	51,544	1	1,279	1,380	1,395	17
Colorado	5,604	6,043	6,298	19	1,157	1,224	1,253	20
Hawaii	1,137	1,280	1,316	40	890	994	1,016	33
Idaho	1,089	1,164	1,255	42	726	762	812	40
Montana	896	950	1,040	45	936	981	1,067	31
Nevada	2,690	3,024	3,288	28	1,048	1,156	1,244	21
New Mexico	944	1,055	1,162	43	479	531	578	48
Oregon	3,935	4,267	4,419	24	1,054	1,128	1,155	26
Utah	2,036	2,216	2,323	34	764	812	834	39
Washington	5,673	6,033	6,322	18	877	919	949	35
Wyoming	930	981	976	46	1,778	1,841	1,794	8
South	116,218	122,542	127,386		1,051	1,094	1,124	
Alabama	1,810	2,008	2,068	38	390	429	439	50
Arkansas	709	775	851	48	249	270	294	51
Delaware	567	607	632	50	656	693	714	44
District of Col.	1,516	1,728	1,790	39	2,585	2,929	2,985	1
Florida	26,833	30,279	29,536	4	1,468	1,643	1,593	12
Georgia	9,443	10,139	10,356	12	990	1,045	1,054	32
Kentucky	2,077	2,264	2,341	32	488	528	543	49
Louisiana	2,570	2,791	3,071	29	587	627	684	45
Maryland	5,240	5,528	6,187	21	930	977	1,086	30
Mississippi	2,152	2,241	2,338	33	737	762	792	41
North Carolina	7,311	7,875	8,137	15	807	852	867	38
Oklahoma	1,934	2,125	2,206	35	535	583	598	47
South Carolina	4,243	4,212	4,413	25	959	935	968	34
Tennessee	4,533	4,684	4,698	23	734	751	746	42
Texas	34,151	33,504	36,219	3	1,433	1,379	1,461	14
Virginia	9,997	10,547	11,242	11	1,295	1,353	1,426	16
West Virginia	1,133	1,234	1,302	41	626	680	715	43
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rankings based on fiscal 2009 numbers. As shown on Table 2, there is a wide variation across states, particularly in terms of the magnitude of total property tax collections versus per capita collections. For example, California collects the largest amount of local property tax revenues, 12.5 percent of all such taxes nationwide, but ranks only 17th on a per capita basis. On the other hand, the District of Columbia ranks first in terms of per capita property tax collections, but only 39th in total property tax collections. At \$1,958 per capita, local property taxes are much higher in the Northeast than in any other region, nearly 50 percent higher than the next highest region and 74 percent higher than the \$1,124 per capita in the lowest region (the South). The Northeast has seven of the ten highest states.

The role of property taxes is particularly important in financing K-12 education. Table 3 shows that in 2010, total revenue for public elementary and secondary education was \$591 billion, of which 43.5 percent came as state aid, 44 percent was from local sources, and 12.5 percent was federal aid. Nearly two-thirds of all local-source school funding came from the property tax; this source accounted for 28.5 percent of all school funding in 2010.

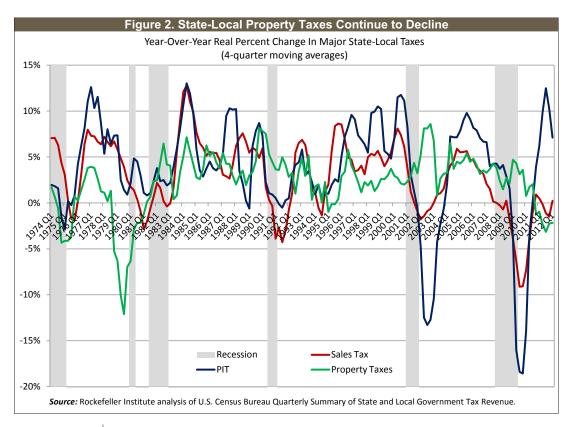
There is wide variation across regions and states in terms of property tax reliance for K-12 funding. States in the Midwest region reported the greatest reliance on property taxes for K-12 funding, 36.2 percent of all revenue, while in the West region this number was only 25.2 percent. Among individual states, Illinois and New Jersey had the highest share of K-12 revenue from property taxes at 49.9 and 46.5 percent, respectively. School districts in the District of Columbia and nine states — Alaska, Connecticut, Hawaii, Maryland, Massachusetts, North Carolina, Tennessee, Vermont, and Virginia — do not themselves collect local property taxes. It should be noted that in certain cases, schools may not levy property taxes directly but may receive property tax revenue levied by the state government, or by other local governments, in cases, for example, where the school district is fiscally dependent on another local government.

### The Great Recession Brought Steep Declines in Property Taxes

In the past, local property taxes have held relatively stable across the business cycle. It takes time for any reductions in housing values to ripple through the property tax system. Local governments and school districts in many states have also been able to mitigate the impact of declining property values by raising property tax rates, at least temporarily.

Figure 2 compares the year-over-year percent changes in property, sales, and personal income taxes collected by state and local governments during the nearly 40 years since 1974. Property tax revenue has shown sustained weakness during two periods: the late 1970s through the early 1980s and the Great Recession. We believe the earlier reductions in inflation-adjusted property

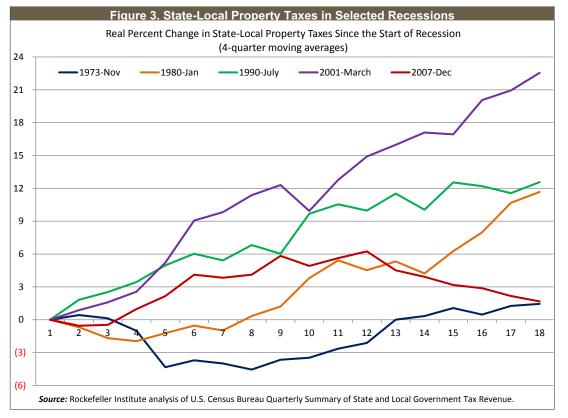
	Table 3. Distribu	ıtion of Public k	K-12 School Re	venue, 2010		
State	Total	Federal	State	Local Share		
	Total			Total Local	Property Tax	
United States	\$593,682,351	12.5%	43.5%	44.0%	28.5%	
Northeast	141,733,812	8.4	39.2	52.4	29.1	
Connecticut	9,544,243	8.6	33.9	57.5	0.0	
Maine	2,668,585	12.0	40.6	47.4	25.4	
Massachusetts	15,490,236	7.1	41.6	51.3	0.0	
New Hampshire	2,803,441	6.6	37.8	55.5	45.0	
New Jersey	25,785,093	9.3	35.1	55.6	46.5	
New York	55,244,109	6.7	41.8	51.5	28.8	
Pennsylvania	26,432,628	11.3	35.7	53.1	42.6	
Rhode Island	2,193,345	11.3	33.6	55.1	4.8	
Vermont	1,572,132	11.0	84.4	4.6	0.1	
Midwest	130,216,887	12.4	44.0	43.5	36.2	
Illinois	27,530,500	13.8	31.6	54.6	49.9	
Indiana	13,722,748	10.8	53.5	35.7	26.8	
Iowa	5,533,487	13.2	40.1	46.8	32.1	
Kansas	5,452,260	12.4	52.5	35.2	28.1	
Michigan	18,408,579	12.9	52.7	34.4	29.8	
Minnesota	10,224,729	12.2	58.5	29.3	18.8	
Missouri	9,508,380	15.0	36.5	48.4	38.0	
Nebraska	3,643,592	12.8	32.5	54.7	44.7	
North Dakota	1,260,887	22.0	43.8	34.1	25.8	
Ohio	22,592,809	10.2	44.2	45.6	37.1	
South Dakota	1,289,528	19.4	30.9	49.7	41.5	
Wisconsin	11,049,388	10.1	44.8	45.1	41.1	
West	122,902,071	14.2	52.2	33.6	25.2	
Alaska	2,230,140	16.5	60.8	22.7	0.0	
Arizona	8,733,504	18.1	35.9	46.0	37.1	
California	64,981,631	15.0	52.6	32.5	22.9	
Colorado	8,741,450	8.2	43.7	48.2	39.9	
Hawaii	2,564,856	14.9	81.6	3.5	0.0	
Idaho	2,177,156	20.4	56.6	23.0	18.3	
Montana	1,609,439	15.9	46.3	37.8	23.5	
Nevada	4,261,391	8.4	55.0	36.6	33.7	
New Mexico	3,638,592	20.7	63.4	15.9	12.6	
Oregon	6,171,946	13.2	47.8	39.1	31.6	
Utah	4,246,006	13.4	51.2	35.4	31.1	
Washington	11,830,765	11.8	58.6	29.6	24.3	
Wyoming <b>South</b>	1,715,195	7.2	51.4 <b>40.8</b>	41.4	27.2 <b>25.2</b>	
Alabama	<b>198,829,581</b> 7,279,751	<b>14.3</b> 15.6	52.2	<b>44.8</b> 32.2	14.6	
Arkansas	5,049,414	15.6	67.6	16.8	11.9	
Delaware	1,695,556	10.7	58.5	30.8	25.9	
District of Col						
Florida	1,195,934	6.7 16.0	0.0	93.3 52.7	0.0 44.0	
	26,223,878	14.6	31.3		32.9	
Georgia	17,835,820		37.8	47.6		
Kentucky	6,960,662	16.4	52.6 41.6	31.0	22.2	
Louisiana	8,038,981	19.3	41.6	39.1	15.8	
Maryland	13,321,816	7.5	41.6	50.8	0.0	
Mississippi	4,454,915	21.2	47.3	31.4	24.7	
North Carolina	16,621,268	11.6	44.8	43.6	0.0	
Oklahoma	5,777,769	13.3	46.0	40.7	30.8	
South Carolina	7,742,335	13.7	43.6	42.7	33.5	
Tennessee -	8,371,308	13.1	45.8	41.1	0.0	
Texas	50,391,053	15.8	37.5	46.6	42.7	
Virginia	14,693,082	10.4	37.4	52.2	0.0	
West Virginia	3,176,039	16.2	52.8	31.0	28.3	
Source: U.S. Census	s Bureau, Public Elem	nentary–Secondar	y Education Finan	ce Data.		



tax revenue reflected two phenomena. One was the advent of statutory limits on the level or growth of property taxes in several states, including California's Proposition 13 enacted in 1978. The steep property tax declines likely reflect those new limits but also are a function of the very high inflation during this time. Average inflation rates during 1979, 1980, and 1981 exceeded 10 percent and these high rates caused inflation-adjusted property tax revenue to decline sharply during this period. With the exception of this period, and one quarter in 1995, aggregate state-local property tax collections had not declined since the early 1980s until the Great Recession.

The significant declines in housing prices caused by the Great Recession had a noticeable impact on local property tax revenues. Recent research suggests that property taxes respond to housing price declines, but often with a lag of three years or more.<sup>2</sup> Overall, local property taxes declined by 0.9 percent in the first quarter of 2012 compared to the same quarter of 2011. After adjusting for inflation, local property tax collections showed a 2.8 percent decline in the first quarter of 2012 compared to the same quarter of 2011, marking the sixth consecutive quarterly decline in real revenues.

As shown in Figure 2, during the worst years of the Great Recession, inflation-adjusted personal income taxes and sales taxes dropped sharply while, conversely, state-local property tax collections held steady. But whereas the more economically sensitive personal income and sales taxes rebounded along with economic growth, property tax revenue declined. Year-over-year growth in

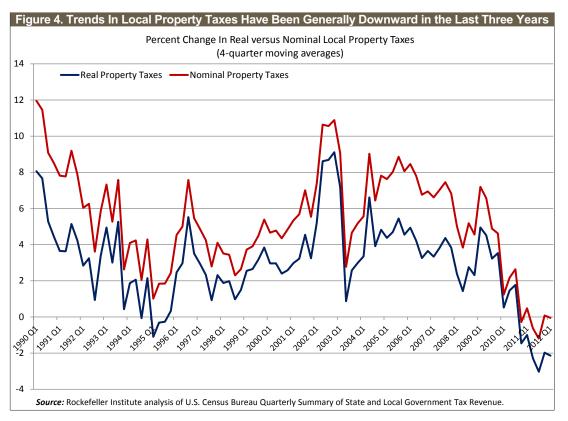


property tax collections began to slow and then decline starting in the fourth guarter of 2010. Collections declined during six consecutive quarters from the fourth quarter of 2010 to the first quarter of 2012. During the same period, personal income and sales tax collections continued to rebound. This same pattern held true during the recessions of 2002 and 1991.

Figure 3 shows the real percent change in state-local property taxes in the months following the start of each of the last six recessions dating back to 1973. As shown in Figure 3, the largest and most sustained decline in state-local property taxes occurred after the 1973 recession. While the declines in state-local property taxes have not been as severe during the Great Recession, recent collections have exhibited a much longer lag from the end of the economic downturn. Property taxes are clearly trending downward and are likely to fall further in the coming quarters.

Figure 4 shows the year-over-year percent change for local property taxes, in both nominal and real (inflation-adjusted) dollars.<sup>3</sup> By these measures, local property taxes show a downward trend since the first quarter of 2009. Moreover, nominal local property taxes recorded a decline of 0.1 percent in the fourth quarter of 2010. This was the first time in the last two decades that local property taxes in nominal terms showed negative growth, a trend that continued throughout the first quarter of 2012.

Table 4 shows for all states the percent change in total and per capita nominal property taxes between 2007-08 and 2008-09. While local property tax revenues grew in most states over these three years, that growth slowed between 2008 and 2009. Table 4 illustrates the general deterioration in local property tax collections in FY 2009. Whereas this important revenue source grew 5.4 percent nationally from FY 2007 to FY 2008, that rate of growth slowed to 3.7 percent in FY 2009. In 2009, 34 states plus the District of Columbia reported slower growth in total property tax collections



compared to 2008, and 33 states plus the District reported less growth in per capita property tax collections. There is also wide variation across the regions and among states. The growth in both total and per capita property taxes softened in the Western states, from 8.7 percent (7.3 percent in per capita terms) in 2008 to 3.5 percent (2.3) percent per capita) in 2009, es-

pecially in states that had experienced less increase in property values in the period leading up to the Great Recession. The drop-off in collections growth was particularly acute in Florida, the District of Columbia, Indiana, Hawaii, Alabama, and California. But collections soared in Texas, Alaska, Maryland, and Michigan.

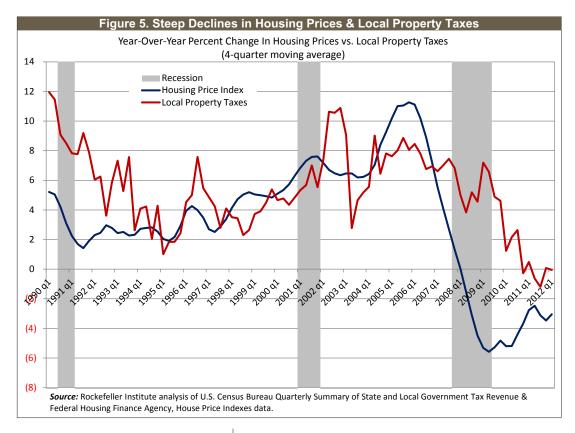
### **Property Taxes Declined in Step With Housing Prices**

As discussed above, there is a natural and causal relationship between property values and real property tax collections. A material decline in property values in an assessing jurisdiction produces a decline in the property tax base on which the tax is levied. If this decline is sustained, and the government cannot or chooses not to offset the decline in the tax base with an increase in the tax rate, then tax collections will drop as well. The decline in housing prices associated with the Great Recession has been both deep and sustained.

Nationally, housing prices of single-family homes (using the "all transactions" housing price index measured by the Federal Housing Finance Agency) peaked in the first quarter of 2007 in nominal terms, and then fell 16.7 percent through the first quarter of 2012.<sup>4</sup> Figure 5 shows the year-over-year percent change in the four-quarter moving average housing price index and local property taxes for the nation. As shown on Figure 5, the housing price index fell steeply after the second quarter of 2005. At the end of the first quarter of 2012, the housing price indexes remained 3.0 percent below the same quarter of 2010. Figure 5 also shows that

	cent Change in		er Capita Loc					
State	Property Taxes FY 2007-08 FY 2008-09 Difference			FY 2007-08	Per Capita Property Taxes FY 2007-08 FY 2008-09 Difference			
United States	5.4	3.7	(1.6)	4.4	2.8	(1.6)		
Northeast	4.1	3.6	(0.4)	3.7	3.2	(0.5)		
Connecticut	3.2	5.0	1.8	2.8	4.5	1.7		
Maine	5.0	0.5	(4.5)	4.9	0.6	(4.3)		
Massachusetts	5.6	4.3	(1.3)	4.9	3.5	(1.4)		
New Hampshire	5.7	5.6	(0.1)	5.3	5.4	0.1		
New Jersey	5.7	2.5	(3.2)	5.4	1.9	(3.4)		
New York	2.6	5.3	2.7	2.4	4.9	2.6		
Pennsylvania	4.2	(0.1)	(4.3)	3.8	(0.4)	(4.2)		
Rhode Island	5.1	3.1	(2.0)	5.3	3.1	(2.2)		
Vermont	3.5	2.9	(0.5)	3.4	2.8	(0.6)		
Midwest	3.7	3.7	(0.0)	3.4	3.4	(0.0)		
Illinois	4.3	6.7	2.5	3.8	6.2	2.4		
Indiana	12.0	4.0	(8.0)	11.3	3.5	(7.8)		
Iowa	2.9	6.4	3.6	2.3	5.9	3.6		
Kansas	6.5	3.6	(2.9)	5.7	2.8	(2.9)		
Michigan	(2.9)	3.1	6.1	(2.4)	3.5	5.9		
Minnesota	8.7	7.7	(1.0)	7.9	7.0	(0.9)		
Missouri	4.1	2.0	(2.1)	3.3	1.5	(1.8)		
Nebraska	3.3	5.1	1.9	2.6	4.3	1.7		
North Dakota	5.6	5.2	(0.4)	5.1	4.3	(0.8)		
Ohio	1.6	(3.3)	(4.9)	1.5	(3.4)	(4.9)		
South Dakota	4.8	3.5	(1.3)	3.8	2.5	(1.3)		
Wisconsin	5.2	4.6	(0.6)	4.7	4.1	(0.6)		
West	8.7	3.5	(5.2)	7.3	2.3	(5.0)		
Alaska	1.8	10.1	8.3	1.0	8.4	7.5		
Arizona	9.4	7.2	(2.3)	7.1	5.6	(1.5)		
California	8.9	2.1	(6.8)	7.9	1.1	(6.8)		
Colorado	7.8	4.2	(3.6)	5.8	2.4	(3.4)		
Hawaii	12.6	2.8	(9.8)	11.7	2.2	(9.5)		
Idaho	6.9	7.8	0.9	4.9	6.5	1.6		
Montana	5.9	9.5	3.6	4.7	8.8	4.0		
Nevada	12.4	8.7	(3.7)	10.3	7.6	(2.7)		
New Mexico	11.8	10.1	(1.8)	10.8	8.8	(2.0)		
Oregon	8.4	3.6	(4.9)	7.0	2.4	(4.6)		
Utah	8.8	4.8	(4.0)	6.3	2.7	(3.6)		
Washington	6.3	4.8	(1.5)	4.7	3.3	(1.5)		
Wyoming	5.5	(0.5)	(6.0)	3.6	(2.6)	(6.2)		
South	5.4	4.0	(1.5)	4.1	2.8	(1.3)		
Alabama	11.0	3.0	(8.0)	10.0	2.3	(7.7)		
Arkansas	9.4	9.7	0.3	8.4	8.9	0.4		
Delaware	7.1	4.1	(3.0)	5.7	3.0	(2.7)		
District of Col.	14.0	3.6	(10.4)	13.3	1.9	(11.4)		
Florida	12.8	(2.5)	(15.3)	11.9	(3.1)	(15.0)		
Georgia	7.4	2.1	(5.2)	5.6	0.8	(4.8)		
Kentucky	9.0	3.4	(5.6)	8.2	2.8	(5.4)		
Louisiana	8.6	10.0	1.5	6.7	9.0	2.3		
Maryland	5.5	11.9	6.4	5.0	11.1	6.1		
, Mississippi	4.2	4.3	0.1	3.5	3.9	0.4		
North Carolina	7.7	3.3	(4.4)	5.6	1.8	(3.7)		
Oklahoma	9.9	3.8	(6.1)	9.0	2.6	(6.4)		
South Carolina	(0.7)	4.8	5.5	(2.5)	3.4	5.9		
Tennessee	3.3	0.3	(3.0)	2.2	(0.6)	(2.8)		
Texas	(1.9)	8.1	10.0	(3.8)	6.0	9.8		
Virginia	5.5	6.6	1.1	4.5	5.4	0.9		
West Virginia	8.9	5.5	(3.4)	8.7	5.2	(3.5)		
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Rockefeller Institute Page 9 www.rockinst.org



the decline in local property taxes lagged the decline in housing prices.

National housing prices declined 15.6 percent between the last quarter of 2007 and the first quarter of 2012. However, there has been significant variation among the states. Housing prices declined in 45 states and rose in only five during the seventeen quarter period ending in the first quarter

of 2012. The four hardest-hit states — Arizona, California, Florida, and Nevada — all had declines of more than 30 percent in state-

Figure 6. Housing Price Indexes Declined in 45 States and District of Columbia

Percent Change in Housing Price Index, 2007 Q4 vs 2012 Q1

US average: -15.6%

WARRING TO THE PRICE OF THE

wide average housing prices. Nevada had the greatest decline, 50.2 percent. Another 20 states reported declines of over 10 percent for the same period. On the other hand, statewide housing price indexes increased in five states, ranging from a 0.5 percent increase in Alaska to 11.6 percent in North Dakota. Figure 6 shows the state-by-state percent change in housing price

indexes at the end of the first quarter of 2012 compared to the fourth quarter of 2007.

#### The Outlook

This analysis shows that the local property tax is under threat. The housing bust that helped trigger the Great Recession was deeper and broader than any housing decline since the Great Depression. It will have profound effects on the property tax, effects that will vary in timing and severity around the country. Many local governments, particularly in states such as California, Florida, Michigan, and Nevada, have been feeling for years the damage caused by the Great Recession. More local governments will share such pain as property tax revenue collections decline.

This weakness in property tax revenue comes at a tough time for local governments. Budget pressures are coming at local governments from every angle and affect both the revenue and spending side of municipal and school budgets. The sluggish economic recovery continues to push up the number of Americans who need assistance. The National League of Cities reported recently that demands for social safety net services, "...have increased dramatically in the past year..." according to approximately one-third of the cities surveyed. Even more cities report cuts in personnel. And increases in pension and retiree health care costs have been well documented.

Local governments looked historically to intergovernmental aid to weather these budget pressures, and the federal stimulus did provide some assistance in the early years of the Great Recession. However, the federal government is in the process of examining ways to trim its budget deficit and various options have been advanced that would cut deeply in domestic discretionary programs. Even the least severe of these plans would impose cuts that weaken local services still further. And although state revenues have rebounded after years of declines, as shown in the Rockefeller Institute's April 2012 report on state revenue trends, states are still cutting aid to localities.<sup>6</sup> As Federal Reserve Chairman Bernanke said in March 2011, "...many localities have been hard hit by reductions in state aid." It is clear that little further help is on the horizon for beleaguered local governments.

### Issues Related to Census Bureau's Quarterly Property Tax Survey Data

The Census Bureau provides quarterly data on property tax collections at the national level, based on a sample of approximately 5,500 tax collecting units. Data are not published for states or local governments. Although the sample is designed to produce estimates of property tax collections for the nation as a whole, the Census Bureau recently began making the detailed data available. Data from individual units in the sample can provide valuable insight into variations around the nation, creating an opportunity to examine subnational trends.

Using the Census Bureau's quarterly property tax survey data requires certain cautionary notes. First, the data do not represent revenue for individual local governments. Rather, they represent revenue collected by individual local governments, often on their own behalf, but sometimes on behalf of other governments as well, and the data reflect the total of these collections. For example, counties often collect taxes for lower levels of government such as cities and towns. Furthermore, these relationships can change over time so that it is possible for a county to collect for three other governments in one quarter and five governments in another, although we believe these structural shifts are not frequent.

Second, property tax collections can be subject to erratic changes in timing. For example, in the first quarter of 2010 the data show a 31 percent decline in New York City from the same quarter a year earlier, but this was simply a technical issue that didn't reflect the underlying economy. A year earlier, New York City sent its property tax bills out late due to computer system problems. This delayed payments in a way that artificially boosted revenue in the first quarter of 2009, making the first quarter of 2010 look weak by comparison. It will be important to look for and take into account significant shifts in timing.

Third, the quarterly property tax survey is voluntary — the Census Bureau cannot compel governments to comply, although by and large they do. However, if they are late in responding or submit implausible data, the Census Bureau imputes missing data. They do this using methods that are sufficient for developing reasonable estimates of national totals, but that do not necessarily capture local conditions. Thus, it is important to examine the data carefully to understand when, and by what methods, values have been imputed. In this report, we have omitted all the local governments for which Census Bureau imputed values.

Finally, beginning with the fourth quarter of 2008, the Census Bureau changed its property tax sample and its data editing and imputation procedures quite significantly. The result was an upward shift of about 4 to 8 percent in their estimates of total national property tax collections. This primarily affects estimates of year-to-year growth in property taxes for the nation as a whole. However, it does not have much impact on estimates of property taxes collected by individual governments. In this report, we have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent.

### **Endnotes**

- 1 See <a href="http://www.census.gov/govs/qtax/">http://www.census.gov/govs/qtax/</a>.
- For analysis of property taxes and the economy, see Byron F. Lutz, "The Connection Between House Price Appreciation and Property Tax Revenues" (Washington, DC: Federal Reserve Board, Finance and Economics Discussion Series (FEDS), 2008-48), http://www.federalreserve.gov/pubs/feds/2008/200848/200848pap.pdf.
- We have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent, consistent with the higher level of property tax revenue in the new sample compared with the previous sample, as reported in the Census Bureau's "bridge study." For more information on methodological changes to the local property tax and the results of the bridge study, please see <a href="http://www2.census.gov/govs/qtax/bridgestudy.pdf">http://www2.census.gov/govs/qtax/bridgestudy.pdf</a>.
- 4 Based on the Federal Housing Finance Agency's "All Transactions" housing price index. The FHFA price indexes have the advantage of offering estimates of price changes for the nation as a whole and for individual states.
- National League of Cities Statement issued March 9, 2012. See <a href="http://www.nlc.org/news-center/press-room/press-releases/2012/feb-jobs-stmt-2012">http://www.nlc.org/news-center/press-room/press-releases/2012/feb-jobs-stmt-2012</a>.
- Lucy Dadayan, "Tax Revenues Surpass Previous Peak But Growth Softens Once Again" (Albany, NY: The Nelson A. Rockefeller Institute of Government, April 2012. See <a href="https://www.rockinst.org/pdf/government\_finance/state\_revenue\_report/2012-04-19-SRR\_87.pdf">www.rockinst.org/pdf/government\_finance/state\_revenue\_report/2012-04-19-SRR\_87.pdf</a>
- 7 Chairman Ben S. Bernanke, "Challenges for State and Local Governments," Address to the Citizens Budget Commission, March 2, 2011. See <a href="http://www.federalreserve.gov/newsevents/speech/bernanke20110302a.htm">http://www.federalreserve.gov/newsevents/speech/bernanke20110302a.htm</a>.

### About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the University at Albany, State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Lucy Dadayan, senior policy analyst. Thomas Gais, director of the Institute, Donald J. Boyd, senior fellow of the Institute, and Brian Stenson, former deputy director of the Institute, provided valuable feedback on the report. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michael Charbonneau.

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