Assessment Limits and Changing Property Values

CATHERINE F. COLLINS

GEORGE WASHINGTON INSTITUTION OF PUBIC POLICY

Assessment Limits Smooth Out Value Increases

- Limit is on increases in tax base
- Not a limit on tax increases per se
- A taxpayer's "insurance" against increases

Assessment Limits Shift Burden

- Burden shifts
  - From properties that have market value increasing above the cap compared to those that grow less than the cap
  - From properties that are capped to those that are not capped
- Raises issues of horizontal equity
- Therefore what assessments are constrained and how much they are constrained matter

17 Limits 17 Ways

- Sixteen states and the District of Columbia have assessment limits and all but one have either a rate or levy limit or both
- Among the seventeen limits:
  - Different ways to measure growth
  - Apply the limit to different types of property
  - May or may not capture market value growth
  - Allow local governments to decide what they want

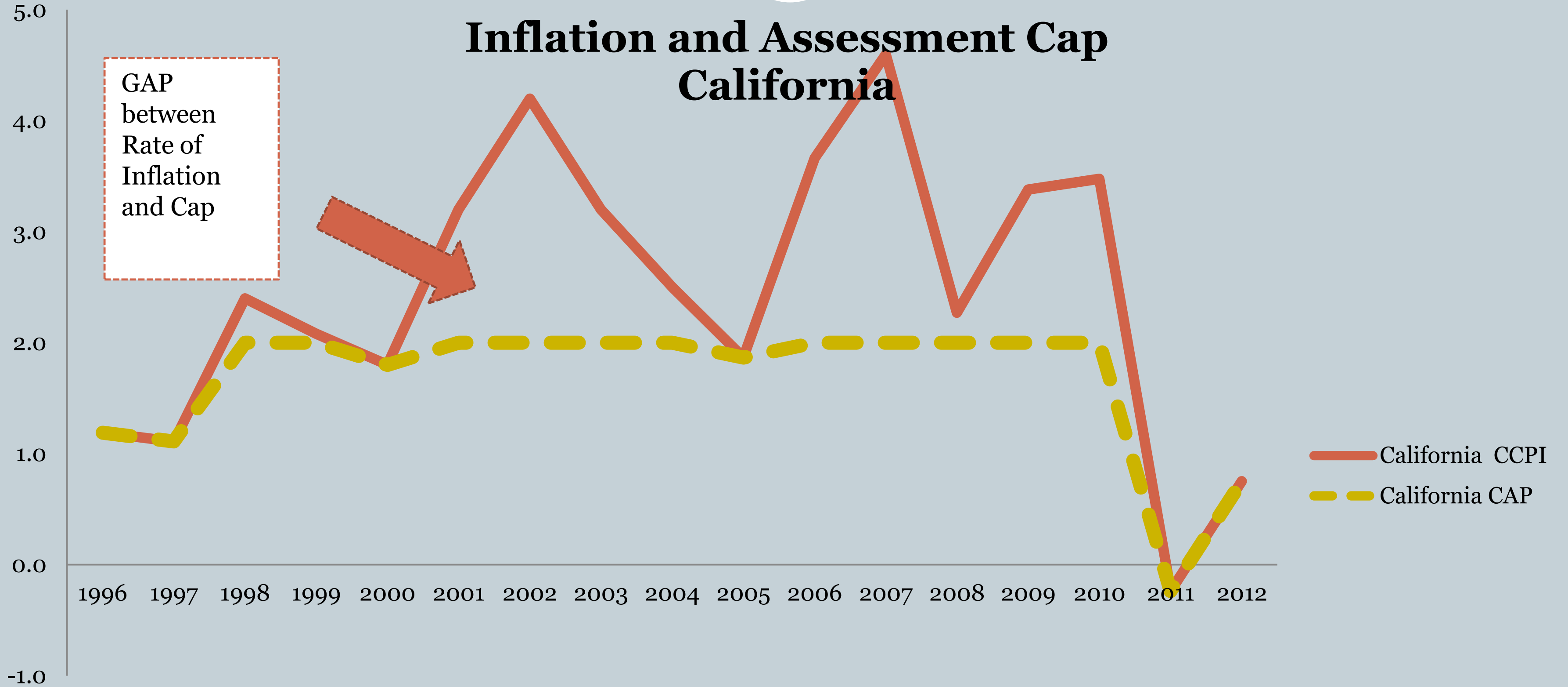
Critical Components: Measure of Growth and Applicable Base

- Measure Growth
  - Inflation
  - Set percentage
  - Fixed amount
- Base
  - Statewide or individual properties
  - All properties, only residential, just homesteads
- Year of Baseline
  - Upon sale
  - Prior year
  - No change

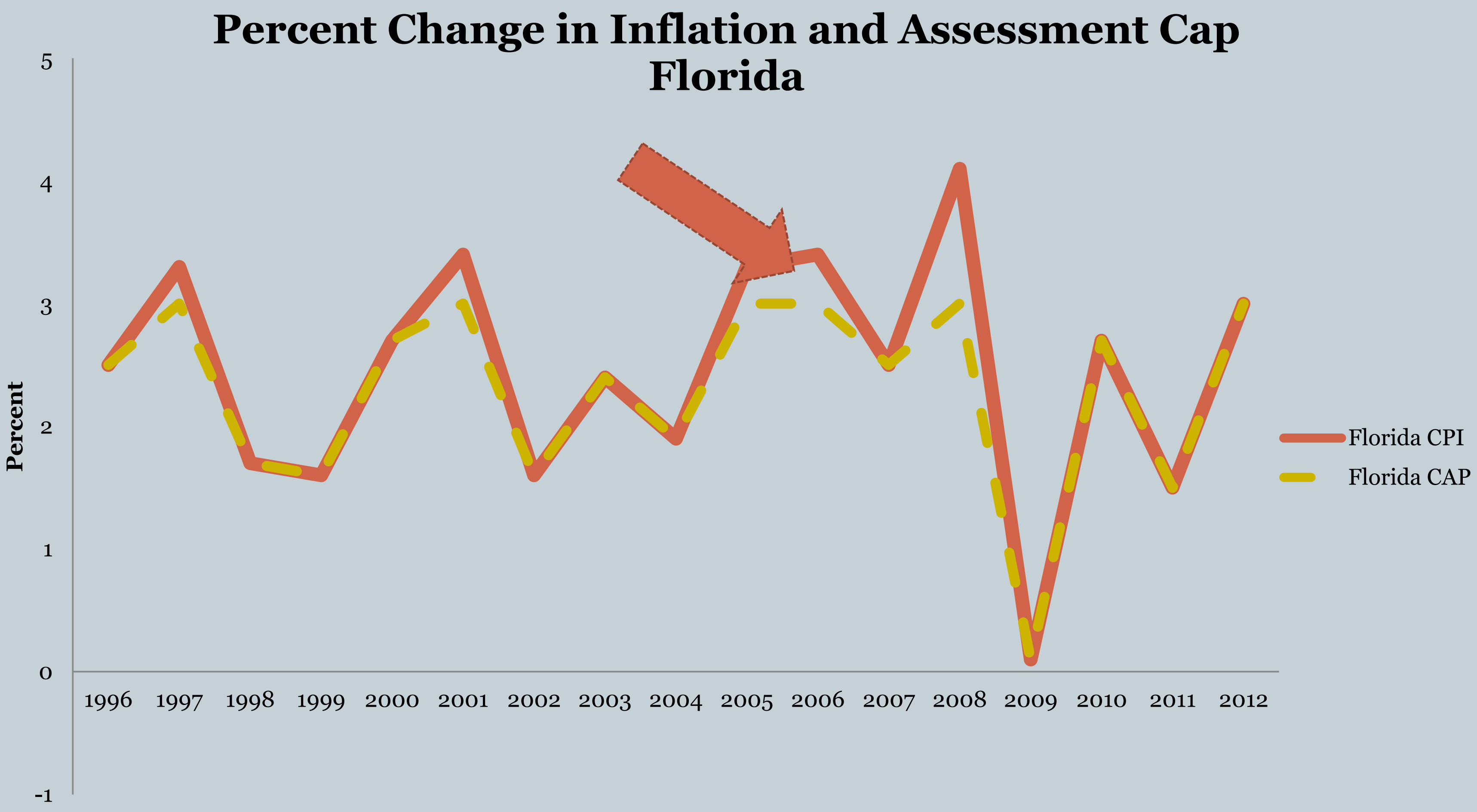
Measures of Growth

Do they matter?

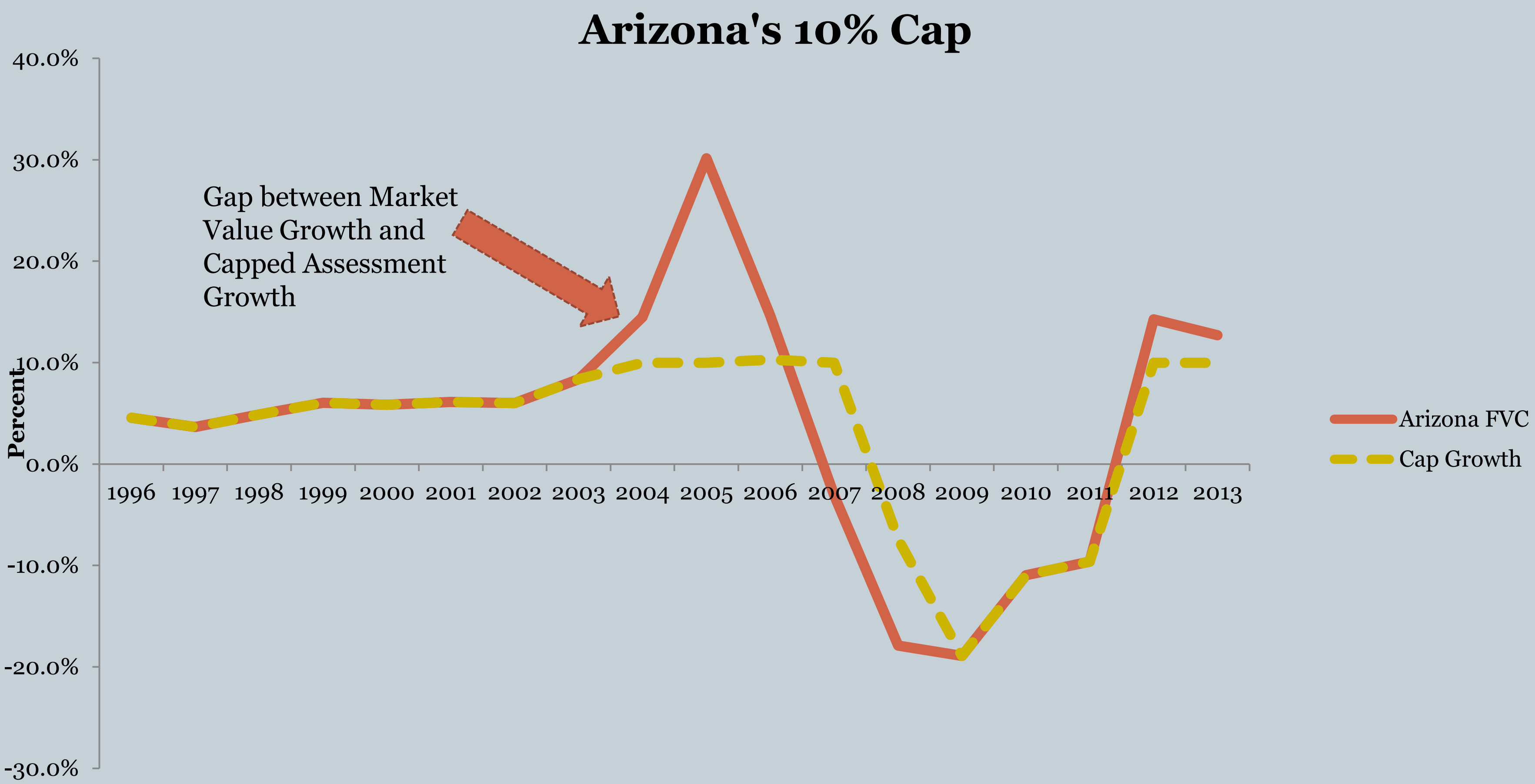
California's 2% Cap More Often Less than Inflation



Florida's Inflation Rarely Exceeded the 3% Limit



With Higher Cap, Less Gap



What Happens When Market Values Decline

- Depends on the Gap between Market Value and Limit Value
- That's a function of
  - How long program has been in effect
  - How much of a constraint the limit has been
  - How long since Limit Value was adjusted to Market Value
    - Recapture upon sale
    - Portability of "Tax Savings"

What Does it Look Like When Market Value Falls below Assessed Value

- Depends upon Gap and rate of Compression
- As long as Assessed Value is below Market Value, Assessed Value can increase
- Once Market Value falls below Assessed Value, Market Value becomes Assessed Value
- How long does the taxpayer enjoy lower assessed values
  - DEPENDS…….

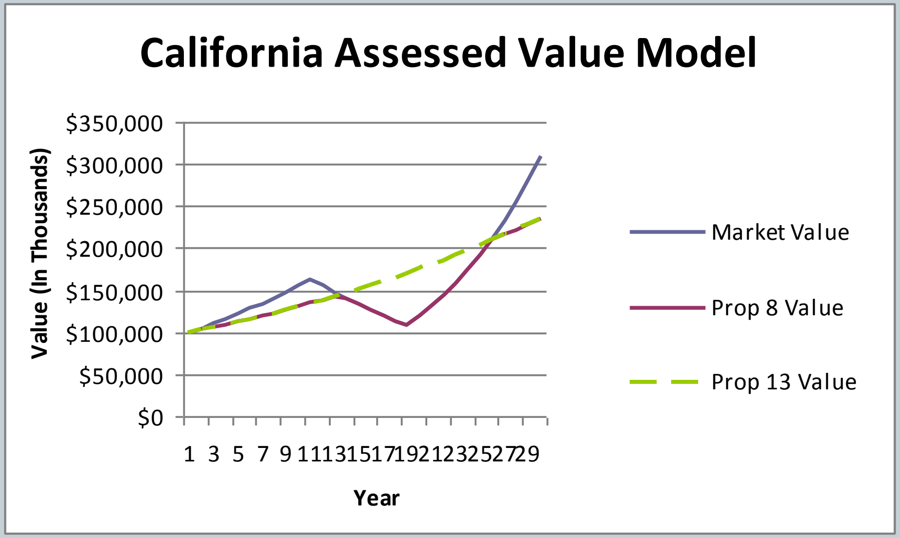
Starting Point for Measuring Growth

- Looked at two models:
  - Prop 13 where growth is measured from a BASE year
  - Save our Homes where growth is measured from PRIOR year's assessed value

Consideration for Falling Housing Value

- California Proposition 8 (1978) initially called Post-Disaster Taxation addressed what happen if property value declined below Prop 13 level because of disaster.
- Wasn’t until 2004 state court decision that established that lower housing value could be below Prop 13 level and therefore becomes the assessed value

Recovery Back to Prop 13 Level



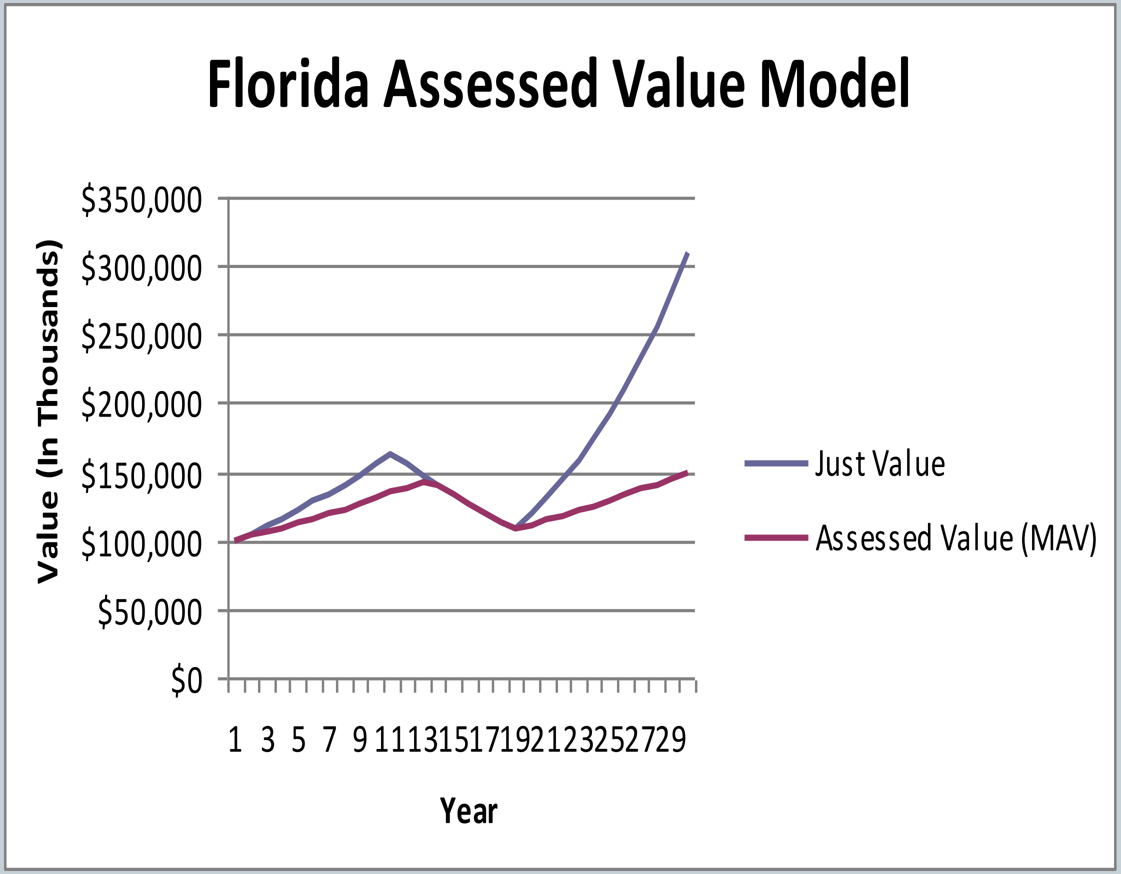
Save our Homes

- Assessment growth is measured from prior year's assessed value
- As long as assessed value is below market value, assessed value will increase

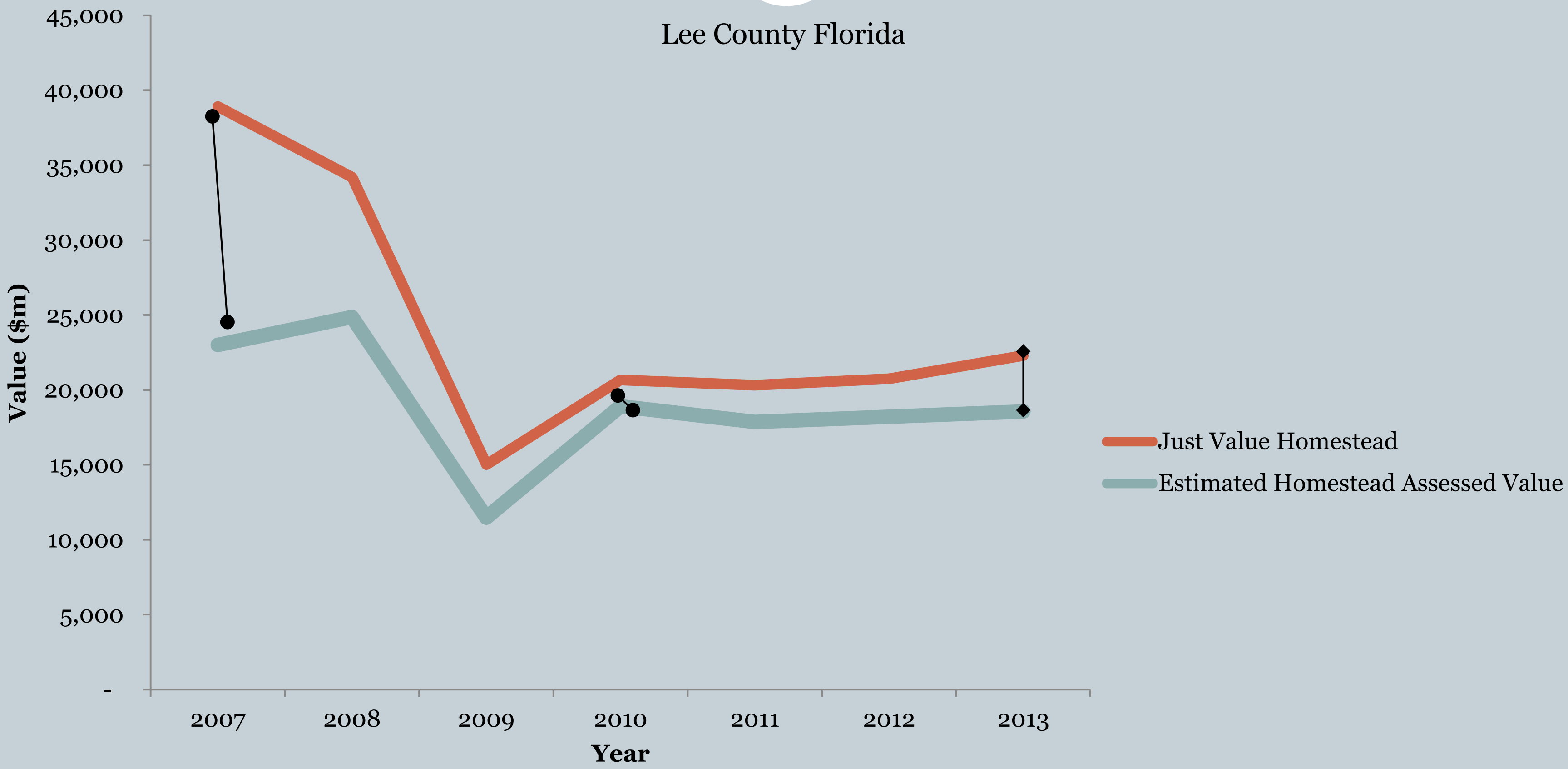
Compression

- Taxable value will continue to increase even when housing values decline
- Homeowners raise a ruckus
- Generally not considered when these limits were put in place

Ratchet Down to Lowest Level



As Market Value Falls, Gap is Compressed



The Long Term Impact on Assessed Values from Property Value Declines

- As seen in Florida's case, when assessed value growth is calculated based on the prior year's level, the tax payer enjoys a long-term benefit
- This is not the case in California. Assessed value goes back to the Prop 13 level
- Arizona is an interesting case. Starting in 2015 they will be changing their methodology. Two major changes, there will no longer be two tax bases—primary and secondary– which will help simplify a rather complex structure. They will also reduce the cap from 10% to 5% and like Florida will be based on prior year's assessed value