

# The Property Tax Base and The Great Recession

by Catherine Collins and Geoffrey Propheter

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The institute partners with the Lincoln Institute of Land Policy in Cambridge, Mass., in a joint venture creating Significant Features of the Property Tax. This web-based data set includes extensive multiyear information covering a wide range of property tax topics.

The Great Recession left its mark on nearly every aspect of state and local governments — from revenue and spending<sup>1</sup> to budgeting<sup>2</sup> to employee compensation.<sup>3</sup> Property taxes were no exception. Local governments were forced to increase their reliance on property tax revenues as state assistance and other local revenues were adversely affected.<sup>4</sup> Recent empirical work has demonstrated that property tax revenues were generally unaffected by falling home prices, since local policymakers offset the shrinking tax base with higher tax rates.<sup>5</sup>

<sup>1</sup>Howard Chernick, Adam Langley, and Andrew Reschovsky, “The Impact of the Great Recession and the Housing Crisis on the Financing of America’s Largest Cities,” *Regional Science and Urban Economics* 41(4): 372-381 (2011).

<sup>2</sup>James K. Conant, “Introduction: The ‘Great Recession,’ State Budgets, and State Budget Deficits,” *Public Budgeting & Finance* 30(1): 1-14 (2010).

<sup>3</sup>Helisse Levine and Eric Scorsone, “The Great Recession’s Institutional Change in the Public Employment Relationship: Implications for State and Local Governments,” *State and Local Government Review* 43(3): 208-214 (2011).

<sup>4</sup>James Alm, Robert D. Buschman, and David L. Sjoquist, “Rethinking Local Government Reliance on the Property Tax,” *Regional Science and Urban Economics* 41(4): 320-331 (2011).

<sup>5</sup>Byron F. Lutz, Raven Molloy, and Hui Shan, “The Housing Crisis and State and Local Government Tax Revenue: Five Channels,” *Regional Science and Urban Economics* 41(4): 306-319 (2011).

This review looks at the housing bubble expansion and collapse in the context of much longer-term property tax trends. While data on the tax base nationwide are not fully available for the entire trend line, Figure 1 nonetheless illustrates the dramatic effect of the Great Recession, reversing over 60 years of continuous tax base expansion. From calendar years 1956 to 2008, regardless of the business cycle, the growth in the tax base remained positive.<sup>6</sup> At the time when most jurisdictions were preparing their tax assessments based on values as of January 1, 2008,<sup>7</sup> the economy had just entered the recessionary period. Not surprisingly, the property tax base peaked at this time at \$22.4 trillion (in 2010 dollars), a 36 percent increase over 2003 levels, when housing prices began their price run-up.<sup>8</sup> This dramatic increase is the second greatest growth in the last 60 years, eclipsed only by the 49 percent growth between 1976 and 1981.

By 2009, the Great Recession had made a noticeable, albeit small, impact on the tax base. The nationwide base showed its first recorded contraction since the mid-1950s, declining \$708 billion. Within two years, the base shrank an additional \$1.6 trillion. Over these three years, the taxable base had lost over a tenth of its value.<sup>9</sup>

Ever since the U.S. Census Bureau discontinued publication of taxable property value reports in the early 1990s, tracking the property tax base’s performance across states has been a challenge. An alternative data source did not exist before the joint efforts of the Lincoln Institute of Land Policy and

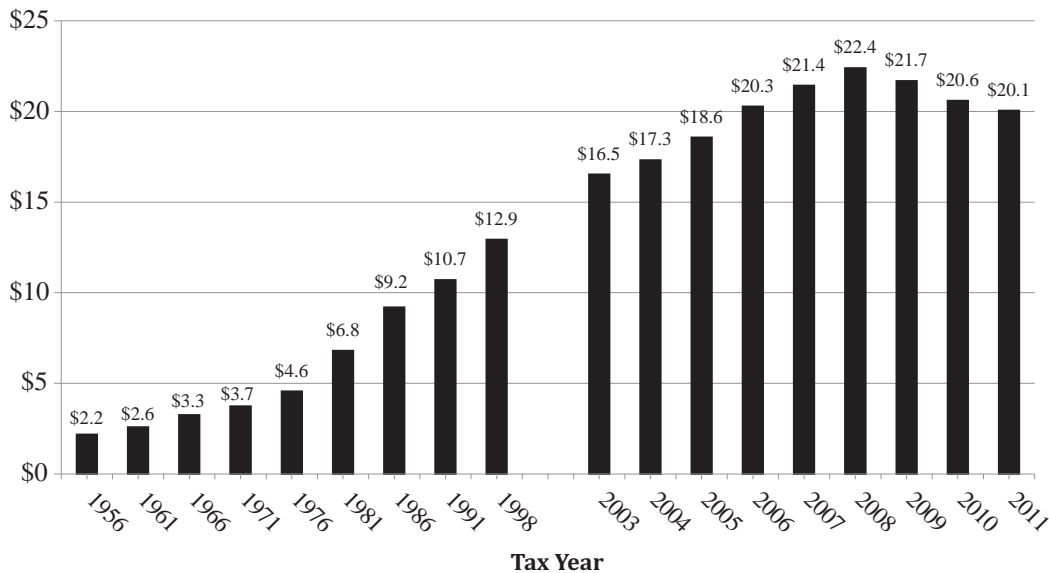
<sup>6</sup>For most states, calendar years and tax years are contemporaneous with taxes payable for the following fiscal year.

<sup>7</sup>While January 1 is the most common assessment date, other dates often used are April 1, July 1, October 1, and December 31.

<sup>8</sup>Federal Housing Finance Agency, House Price Index.

<sup>9</sup>Georgia, Rhode Island, and South Carolina are not included in the 2011 (fiscal 2012) values because data were not available at the time of publication. In the 2010 assessment year, these states accounted for less than 2 percent of the property tax base nationwide.

**Figure 1.**  
**Property Tax Base Nationwide, Calendar Years 1956-2011**



*Note:* Values expressed in trillions of 2010 dollars. Georgia, Rhode Island, and South Carolina omitted in 2011 due to unavailability of data. Those states combined to make up about 2 percent of the property tax base nationwide in 2010.

*Sources:* 1956-1976 values: 1977 Census of governments: Taxable property values and assessment/sales ratios, Table A. 1981-1991 values: 1992 Census of governments: Assessed valuations for local general property taxation, Table A.

the George Washington Institute of Public Policy in the mid-2000s to create and maintain a database of property tax laws, programs, and statistics. The Significant Features of the Property Tax database currently contains annual tax base data for each state from calendar year 2005 (fiscal 2006, generally) to 2011 (fiscal 2012).<sup>10</sup> The combination of recent data from the Significant Features database and historical data from Census Bureau reports, supplemented with data for interim years from additional research, has helped produce a clearer picture of the tax base nationwide over the last half century.<sup>11</sup>

<sup>10</sup>In the Significant Features database, the property tax base is defined as the value of property liable to taxation, which implies that exemptions have been deducted.

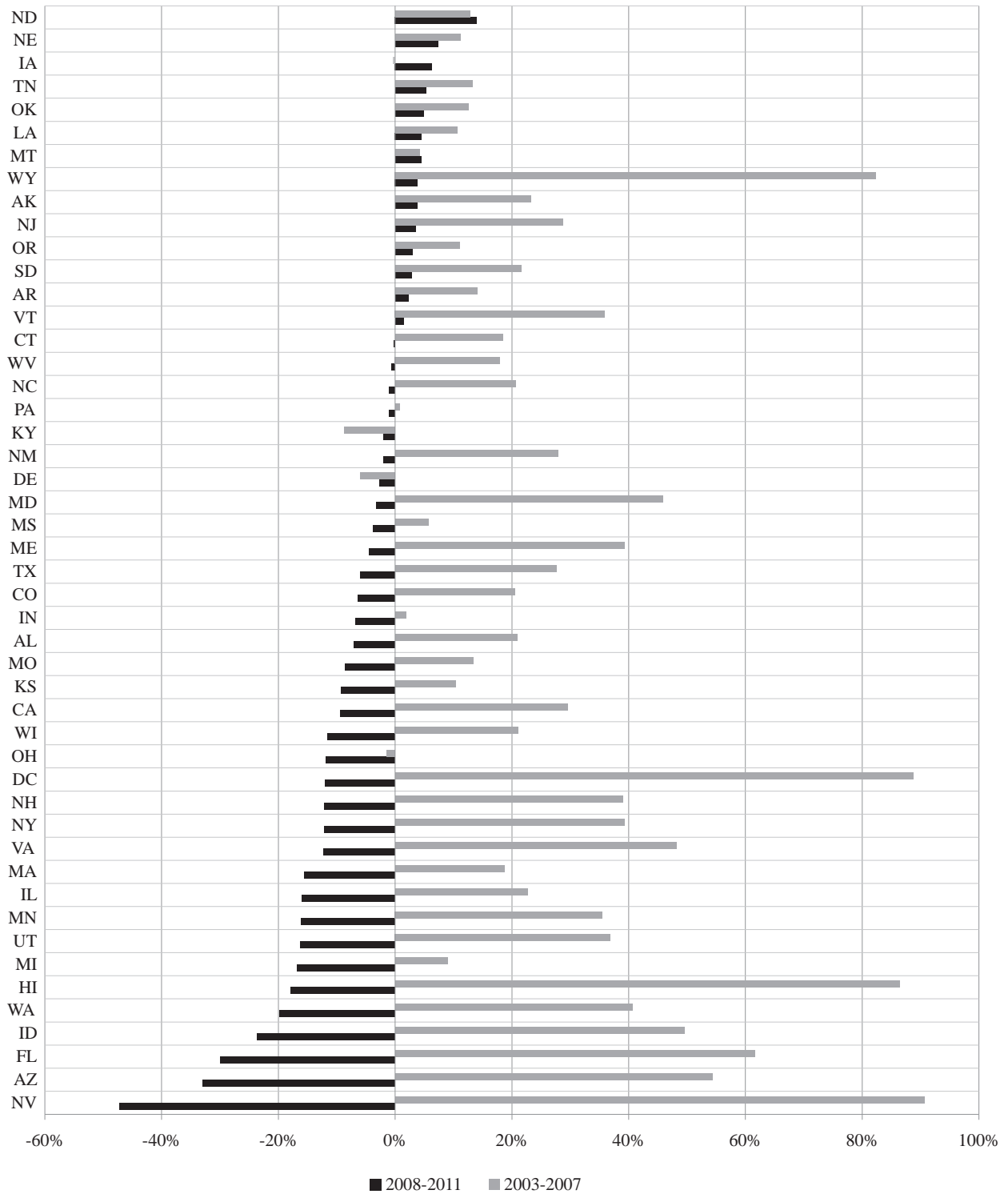
<sup>11</sup>Because states report their property tax base data differently, the reported aggregate (nationwide) taxable value for all states is only an estimate of the actual taxable value. Some states, for instance, only report assessed values (before exemptions are applied) rather than taxable values (after exemptions are applied). Other states report equalized base value rather than assessed or taxable values. However, since

The national view shows a relatively symmetrical growth and decline during the housing bubble expansion and collapse. Yet, the picture for each state's property tax base varied substantially. These differences are evident in Figure 2. The percentage change in each state's base during the run-up of prices (2003-2007) and the decline (2008-2011) are displayed, arranged by the percentage change between 2008 and 2011. During the Great Recession, the three states with the steepest declines — Nevada (-47.2 percent), Arizona (-33.0 percent), and Florida (-29.9 percent) — each experienced declines more than four times the national average. In contrast, the best performing state, North Dakota, experienced no decline, but rather an increase in real terms (14.3 percent) that surpassed its growth in the previous period — the only state to do so. In fact, the growth in North Dakota was about twice that of the next two fastest-growing states, Nebraska (7.3 percent) and Iowa (6.3 percent).

most states report base data net of exemptions, the nationwide estimate's variance is presumed to be minimal.

(Footnote continued in next column.)

**Figure 2.**  
**Percentage Change in the Property Tax Base by State**



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States that experienced the greatest housing contractions (those at the bottom of the chart) in general were not the states that experienced the greatest housing growth during the bubble expansion. Only six of the top 10 states with the largest contractions were also in the top 10 with the largest expansions: Arizona, Florida, Hawaii, Idaho, Nevada, and Washington. Contraction in three of the four other states — Michigan, Minnesota, and Illinois — may be explained in part by general economic decline within these states, with Utah being the fourth.

Despite the property tax base declining during the Great Recession, the 2011 base remained greater than the base in 2004, when housing prices began to rise.<sup>12</sup> The four-year contraction brought about by the housing market collapse (2008-2011) was, on average for the states, 7 percent. This contrasts with the average four-year expansion between 2004 and 2007 of 27 percent. In real terms, the aggregate

property tax base declined \$2.3 trillion from 2008 to 2011 but it grew \$4.1 trillion from 2004 to 2007.

The recession's adverse effect on the property tax base is still not clear. While the tax base comprises more than just housing, the residential sector makes up the largest component. Therefore, what happens to housing prices drives the tax base. National housing price index data indicate that annual price declines arrested in the first quarter of 2012, with the remainder of the year showing minor price increases (Q2 = 0.02 percent; Q3 = 0.36 percent; and Q4 = 0.64 percent). Thus, because most states' assessments take place in the first quarter of each calendar year, the aggregate property tax base is likely to show further contraction in 2012 assessments (generally, fiscal 2013). With home prices showing a much larger annual increase in the Q1 2013 (2.01 percent), property tax base expansions are not expected to be visible until the 2013 calendar year. Whether the recession's effects extend beyond 2013 assessments (fiscal 2014) — that is, if there is a double dip — will depend on the performance of housing prices for the remainder of this year. ☆

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<sup>12</sup>Federal Housing Finance Agency, House Price Index.