Homeowners See Taxes Rise as Property Values Sink Amid Deficits

By Jerry Hart

March 12 (Bloomberg) -- Americans battered by the biggest slump in home prices on record are facing higher property taxes as local governments struggle to plug budget deficits.

Municipal finance officers budgeted for a 3.6 percent drop in revenue from residential taxes this fiscal year, a survey by the U.S. League of Cities in September shows. With home prices down 12.4 percent in the fourth quarter from a year earlier, the most ever for an index compiled by the National Association of Realtors, cities and counties are compensating with higher tax rates or appraisals, even where laws cap property-tax growth.

"The value you pay your taxes on went up while market value went down on half our properties," said Chris Jones, the appraiser for Escambia County in Florida's northwest tip. "Try to explain that to a homeowner."

Cities and towns need to raise rates after their main sources of income -- sales, income and property taxes -- declined together in 2008 for the first time in 12 years, the League of Cities survey said. Higher costs may strap consumers who've cut spending in six of the last seven months, the Commerce Department's Personal Consumption Index shows.

Fairfax County, Virginia, a Washington D.C. suburb, expects real-estate-tax income to drop 3.5 percent this year from 2008, contributing to a $650 million gap in the 2010 budget that begins July 1. County Executive Anthony Griffin wants to close it with spending cuts and by raising property taxes 12 cents per $100 of assessed value. The average tax bill will increase $14, limited by the drop in home prices, he said.

Little Solace

That's little solace for residents whose property taxes doubled from 2001 to 2007 as prices soared, said Arthur Purves, president of the Fairfax County Taxpayers Alliance. Real estate levies per household increased an average of 5.7 percent a year from 2003 to 2008, the county's 2009 budget document shows.

"They're maintaining a housing-tax bubble even though values are falling," Purves said from Vienna, Virginia. "If spending hadn't increased faster than population growth, there wouldn't be a budget crisis now."

In New York City, where revenues are projected to lag expenses by $4 billion over the next 18 months, property tax rates were raised 7 percent in December. That's even as Manhattan apartment sellers cut prices 4.1 percent in 2008, the most in five years, appraiser Miller Samuel Inc. and broker Prudential Douglas Elliman said on March 3.

While Virginia and New York don't have laws limiting property-tax increases, 43 states do, inspired by California's Proposition 13 in 1978, according to the National Tax Journal. Georgia lawmakers are considering one for their state that would cap gains in property assessments to 3 percent.

Homeowners Caps

The caps meant property taxes didn't soar as much as the 62 percent rise in existing-home prices in the first six years of the decade, as measured by the National Association of Realtors Index. Caps also protect municipalities by allowing room for higher taxes even when property values go down.

In Michigan, where prices in Saginaw declined 41 percent in the fourth quarter, some taxes will rise as much as 4.4 percent this year because the tax cap provides for an increase linked to a state-calculated consumer-price index.

"Assessments are going out now, but most people don't pay attention until the bills come," said Ken

Parrish, treasurer of Kent County, which includes Grand Rapids. “That won’t happen until July, and then we’ll have some unhappy taxpayers.”

Maricopa County, Arizona, cut the assessed value of more than 900,000 homes for the current budget year. Taxes can still rise as much as 2 percent under the state’s cap, which is tied to local-government spending.

Rising Budget Expenditures

“If the budget goes up 2 percent, even if property values stay the same, the tax rate goes up 2 percent,” said Charles Hoskins, treasurer of Maricopa, which includes Phoenix and Scottsdale.

Florida’s property-tax rule allows assessed values to rise at least by the inflation rate. Even though home values dropped as much as 50 percent in 2008, assessments can go up 0.1 percent this year, raising some taxes.

“You’re going to see tax rates across the state go up to make up for falls in values,” said Kurt Wenner, tax research director for Florida Tax Watch, a private lobbyist. “That’s going to be a bitter pill for some people to swallow.”

Homeowners are swamping assessors with appeals. Counties across New Jersey got 32,976 appeals last year, 40 percent more than in 2007, according to the State Treasurer’s office.

Proposition 13 in California, a state with five of the 10 cities where home-values declined the most last quarter, allows annual assessments to rise by 2 percent even if market prices fall. The law sets the tax on the assessed value at 1 percent.

Right of Appeal

“If your market value falls below your assessed value, you can appeal,” said Terri Sexton, associate director of the Institute of Governmental Affairs at the University of California at Davis. “But as long as market value remains above assessed value, the tax can go up as much as the cap allows.”

The gap between market and assessed values is shrinking as prices reset lower when properties change hands, especially through foreclosures, said Gus Kramer, the assessor of Contra Costa County, east of San Francisco.

“When a bank takes the property back, that’s a change of ownership so the value goes down,” Kramer said. “It then sells at a deep discount, which further pushes the value down and locks it in for the new owner.”

Tumbling Values

Falling home values mean Contra Costa County’s budgeted property-tax income will fall short by $5 million in the current fiscal year, projections by Chief Administrator David Twa show.

Nationwide, home values dropped $3.3 trillion last year, according to a Feb. 3 report from Zillow.com, an online database. With more declines expected, the revenue outlook for cities and counties will worsen, analysts said.

“The full effects won’t be felt for another six to 12 months as property-tax assessments and revenues catch up to changes in the market,” Michael Pagano, dean of public administration at the University of Illinois at Chicago, said in the League of Cities report of last September. “The negative impact will continue through 2010.”

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Last Updated: March 12, 2009 00:01 EDT