Property taxes to start falling

Analysis: Breaks will be seen on devalued homes

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USA TODAY

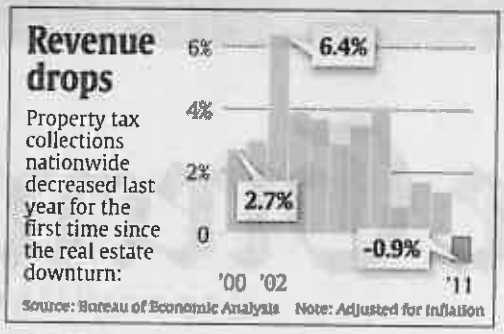
More than five years after real estate prices began to tumble, Americans are finally starting to get property tax breaks on their devalued homes, a USA TODAY analysis finds.

Cities, counties and school districts today collect about 20% more in property taxes than they did in 2006, when home values were one-third higher than now, but the tax tide is slowly starting to recede.

Last year, property tax collections rose just 1.2% — and actually declined 0.9% when adjusted for inflation, according to data from the federal Bureau of Economic Analysis. That's the first time property tax collections have fallen below the inflation rate since 1995 and only the third time in 40 years.

If the downward trend continues, property taxes may actually bring in fewer dollars this year than last — even before adjusting for inflation. That hasn't happened since the Great Depression.

Property taxes generated $436 billion last year, about $5 billion more than in 2010 and $66 billion more than in 2006 when home values peaked. Public schools get about 40% of this money. The rest flows to other local governments.



Most states have complex laws that make property tax declines rare, small or long-delayed, even when home values plummet. This makes the property tax stable during economic turmoil, unlike the income or sales tax. Income tax collections dropped 21% in 2008 alone.

"People say, 'Hey, my house value went down. How about my tax bill going down?' But it doesn't work that way," says Robert Ross, chief assessment officer for McHenry County, Ill., near Chicago. In Illinois, assessments are based on a formula that considers home values as far back as seven years.

School districts, already suffering from reduced state funding, are feeling the property tax squeeze most. Public schools have cut 270,000 employees — 3.3% of their workforce — since July 2008.

"We're doing everything we can to save classroom teachers," says Alexandra Nicholson, superintendent of West Northfield School District 31 in Northbrook, Ill., which gets nearly all revenue from property taxes.

The district will ask voters to approve a property tax hike on March 20 to avoid the elimination of sports, band, busing and educational assistants.

Factors delaying lower property taxes:

▸ **Tax limits.** Most laws that cap property tax hikes have a little-known flip side: limits on decreases.

▸ **Delayed assessments.** Many states base tax assessments on a home's value three, six or even 10 years ago — or on an average of multiple years.

The practice protects homeowners from fast-rising taxes when home values soar, but it also delays tax cuts when values fall. It also reduces the administrative burden of assessing every home annually.

▸ **Shared sacrifice.** New York, Ohio and many other states automatically raise property tax rates when real estate values fall and cut rates automatically when values rise, a practice called equalization.

During the real estate boom, this practice automatically lowered property tax rates when values rose to prevent taxes from rising too quickly.

DREAM bank to stall deportation