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Property-Tax Frustration Builds

States, Cities Revise Strategy
 As Homeowners Protest Rising Levies

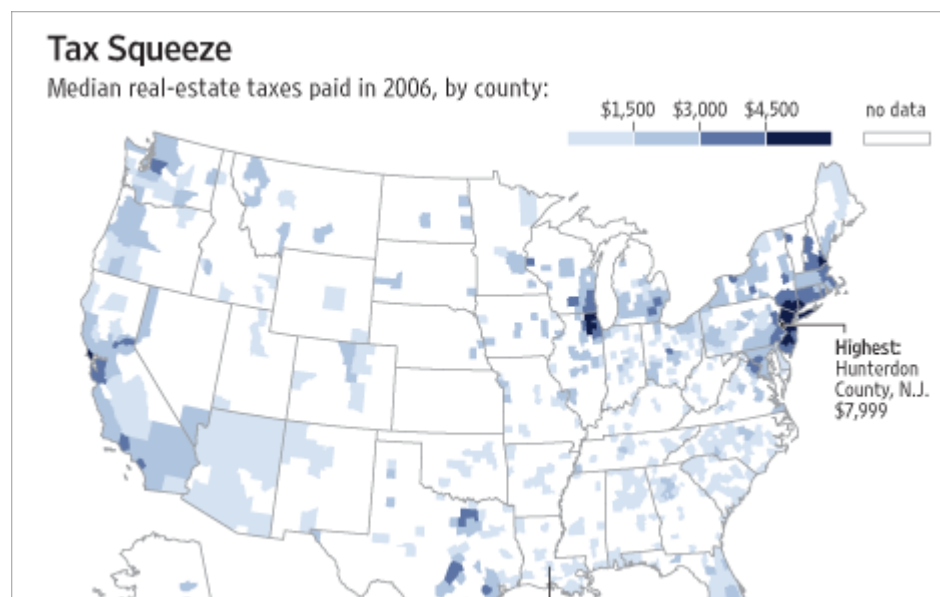
By **AMY MERRICK**
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Falling home values and rising property taxes in many parts of the country are generating the loudest complaints about property levies since the 1970s, forcing state and local officials to address the outcry even as the housing-market slump eats into many sources of their revenue.

Indiana residents held public protests this summer against a surge in property taxes and acted on their frustration by ousting the mayor of Indianapolis. Florida voters will decide next month whether to adopt massive property-tax cuts, in a debate that has pitted part-time residents against full-time Floridians.

In California, thousands of homeowners are having their assessments reduced under a decades-old state law, and lower tax revenue due to the weaker housing market is likely to force an emergency budget session.


Falling real-estate prices and turmoil in the mortgage market are expected to reduce property values for U.S. homeowners by a total of \$1.2 trillion next year, according to Global Insight Inc., a research-and-consulting firm in Lexington, Mass.



Unless tax rates are changed, California could lose \$2.96 billion in property taxes over several years because of the housing bust, the firm predicted. New York could lose \$686 million; Florida, \$589 million.

Nationwide, falling real-estate prices mean local property-tax growth probably

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will slow significantly, and taxes could even fall in many places, Global Insight said in a report released last month by the U.S. Conference of Mayors.

In some markets where real-estate values had been rising sharply for years, property taxes are still climbing. That is because it can take a long time for assessments, which commonly are based on a property's estimated market value, to catch up with the realities of the real-estate market.

The lag time has led to an outcry to cut property taxes reminiscent of the 1970s, says Gerald Prante, an economist with the Tax Foundation, a nonprofit, nonpartisan research group in Washington.

"In many cases, incomes were growing faster than property-tax bills in the 1990s," Mr. Prante says. "Recently, property-tax bills have grown faster than incomes, on average."

State and local property-tax collections increased 50% from 2000-06, according to Census Bureau data. During the same time period, the median household income rose 15%, before adjustment for inflation.

In Indiana, a spike in real-estate tax bills for Marion County, which includes the state capital of Indianapolis, caused a backlash this summer. In some neighborhoods, property-tax bills as much as doubled. Residents staged a rally at which they dunked a giant tea bag in a canal -- a reference to the Boston Tea Party -- and a July 4 protest outside the governor's mansion.

"I was holding a microphone and saying, 'I'm right there with you,' " said Michael Rodman, Marion County treasurer, who joined protesters after seeing his property-tax bill jump 80%.

Property taxes in the county were increased by new assessments, the elimination of a business-inventory tax that shifted more of the tax burden to homeowners, and greater spending by local government and schools.

Indiana Gov. Mitch Daniels stepped in, freezing tax bills for Marion and several other counties at 2006 levels pending a new round of assessments.

In October, the governor released a plan that would cap homeowners' property taxes at 1% of assessed value, shift the full cost of school and child-welfare operations to the state, and require voter approval of major building projects. But voters could face a rise in the state sales tax to 7% from 6% under the plan, which the state legislature has discussed in committee hearings this month.

Despite efforts to address voter outrage, Indianapolis Mayor Bart Peterson, considered a shoo-in before the revolt, was defeated in a Nov. 6 election by Greg Ballard, a little-known Republican challenger whose campaign, as of mid-April, had reported less than \$10,000 in cash on hand.

In Florida, where the falling housing market has gouged the state's economy, residents are debating massive property-tax cuts that will be voted on Jan. 29. Implementing the proposed changes would require amending the state's constitution. The plan, which strongly favors longtime homeowners over new buyers and part-time residents, has sparked opposition.

In Washington state last month, legislators held a special session to reinstate a cap on property

taxes that would limit the growth in property-tax revenue from the existing tax base to 1% annually. Earlier in November, the state Supreme Court threw out a 2001 referendum on the cap, saying voters weren't adequately informed about what they were choosing.

Across the U.S., concerns about property taxes have reached levels not seen since the passage of California's Proposition 13 in 1978. That landmark law capped property taxes at 1% of assessed value and said the base assessment on a home couldn't increase more than 2% a year until it is sold. A companion initiative, Proposition 8, allows homeowners to get assessments temporarily reduced during a weak housing market, until home prices recover.

This year, thousands of California homeowners -- primarily those who bought their homes in the past few years, at the market's peak -- are getting a tax break because of Proposition 8. Assessors in counties such as Ventura and Contra Costa decided to review thousands of properties sold since 2005 and reduced many of the tax bills mailed this fall.

California has been hit so hard by housing-related problems that Gov. Arnold Schwarzenegger said Friday that he plans to declare a state of "fiscal emergency," in order to address a projected \$10 billion to \$14 billion budget shortfall during the next 18 months. Slower-than-expected growth in property-tax revenue is partly to blame for the expected gap.

In several states, there has been a push against sharp property-tax reductions. The most extreme plan was floated in Georgia, where House Speaker Glenn Richardson last month proposed eliminating all property taxes. But after touring the state to get feedback from residents, he has scaled back his plans and hopes to eliminate property taxes over time, starting with a few measures that he presented to the state House last week. He would offset the lost revenue by eliminating sales-tax exemptions on lottery tickets and groceries, and by adding taxes to consumer services.

In New Jersey this fall, residents received the largest property-tax rebate checks in state history, with 1.8 million homeowners getting an average \$1,000 refund. But on Nov. 6, voters turned down an amendment that would dedicate a portion of last year's sales-tax increase to reducing property taxes further. Initially, the proposed measure was expected to pass easily, but critics called it a gimmick, at a time when New Jersey is facing a \$3 billion budget deficit.

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