

BERKSHIRE HOME&STYLE

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This is the fifth article of a monthly column on the real estate market and related issues in the upper Hudson River Valley. It also appears in Capital District HomeStyle Magazine.



Real property taxation

Real property tax is the largest source of tax revenue in New York, over 26 billion dollars a year. It funds all levels of local government and about half of the local school budgets (the remainder coming from state and federal funds). It is also locally administered: elected or appointed assessors evaluate (assess) properties and local government and school boards pass annual budgets and determine the tax rate to raise the necessary funds.

How this works is like a train of cars all coupled together, as one moved they all move: properties are sold by owners which establishes the market value of all other properties which becomes the basis for the new assessment, which is done on a uniform percentage of market value in each taxing unit (city, town etc). For example, if the average home in a given year sells for \$250,000, up 15% from the year before, then one would expect assessment to go up the same percentage. In fact it may or may not for reasons discussed in last month's real estate column.

The taxing authority (town, city, school etc) then takes the total assessed value of its jurisdiction and divides that into the total budget figure of funds to be raised, to get a percentage tax rate. In my town the school board's 2004-5 budget is \$13,587,522. (an increase of 9.9% from the year before) on a total assessment of properties of \$218,845,370. Divide the budget by the total assessment and you find they need to raise .016% of assessed value in taxes. So if you own a home assessed at \$250,000, you multiply that figure by the rate (.016%, also expressed as 16.106349 per \$1000 assessment) to get school taxes of \$4000.

That's simple enough in theory but there are some gremlins in the details. Mindful that the burden of taxation falls disproportionately on certain citizens (low income, fixed income, senior citizen, etc), government units in New York State have enacted as many as 200 different statutory exemptions or partial exemptions from what you would otherwise pay in real property taxes.

This alone keeps an assessor busy determining who is eligible. Those exemptions are popular with voters and tend to get expanded, at least in New York State (in many states they are being cut back). The School Tax Relief Exemption (STAR), other senior citizen exemptions, and veteran exemptions are the most prominent in New York State. As our population ages, eligible seniors will increase (veterans are decreasing) such that non-seniors will shoulder a great share of the taxes.

Inequities in what individuals pay in real property taxes can come from other sources than what governments decide is right. A Wall Street Journal study showed that in sample municipalities, more residential properties sold for a higher premium to their assessed value than lower priced homes. In other words, expensive house owners were enjoying lower taxes than they should have paid. Why so? Assessors use a formula to help them calculate assessments, the high end properties often have features which are hard to fit in the formula, nor are comparable sales often found. As a result those very expensive kitchen and bath fixtures may not be paying their way in taxes.

As discussed in the prior column, inequities may creep into the administrative process. Assessors complain, often with good reason, that they are understaffed, under budgeted, and/or over worked, resulting in some properties not being kept up to a uni-

form percentage of fair market value. This can apply to whole neighborhoods if an assessor can't reassess all parcels in a year but tries to do in stages over more than one year. Those who were reassessed earliest in this cycle will pay more than their share. It is not what New York State law calls for but locally there may be some missing cogs in the wheel of assessment or tax administration.

Lets take a look outside the local community, to how counties in New York fare with regard to taxes. The New York City Independent Budget Office (IBO) did a study in 2000 which measured the homeowner tax burden across New York State. Mindful of their constituency, they actually compared New York City to NYC suburbs, and to upstate counties collectively. For property taxes in 1997 the average homeowner paid \$1730 in NYC, \$3582 in the NYC suburbs, and \$2211 upstate. Why the bargain tax rate in NYC? In fact the "total tax burden" for homeowners in NYC is much higher as they pay a personal income and other taxes. When you add in all the local tax burden, NYC homeowners paid \$6295, NYC suburbanites paid \$5700, and upstaters paid \$3693.

The IBO took pains to point out that if you divide these figures by aggregate gross income the tax burden on NYC homeowners was only slightly higher than those outside the city and upstate. So if NYC folks are buying second homes in the Hudson River Valley it is not for reasons of the taxes they are paying at home. From an upstater's perspective, the more densely populated an area (NYC and suburbs), the higher the tax burden. NYC has reduced its property tax by having other taxes to cover municipal services. It does this because it chose to give unusually favorable property tax rates to home owners (one to three family properties) just as it has given the benefit of rent-control rates to non-owners. For upstaters now panicking over increasing property taxes, NYC is an inspiration for what an aroused citizenry can accomplish in the way of tax reform.

Indeed there is a growing anti-real property tax movement abroad in our land. Like many reform ideas, it got its legislative start in California in the 1970s with the Proposition 13 referendum which rolled back property taxes and limited the ability of government to increase it. The result was a severe cut back in school spending and municipal services. Even still, Californians like their proposition. Like NYC, however, the burden may have just shifted to other tax sources.

If there is going to be a tax revolt, it got its first surge thanks to the annual assessment letter, which in our region arrived in early May, just in time to effect the one direct say citizens have in determining their taxes - the school budget vote. Shocked by an increase in assessment which varied from 15 to 75%, neighbors found common ground where before they were squabbling over permits at the last planning board meeting. Many mistook the assessment increase percent for their tax increase. Not so, of course, as taxes go up about 4-8% a year on average. But in this confusion is a dark cloud which needs to be explored.

Tax revenues at all levels fluctuate with economic activity, the more prosperity the more revenues from all taxes. In a recession, however, revenues decrease and governments at all levels have to scramble to meet their budgets, or cut them. The

2001 recession was true to form, Federal and State revenues lagged and they cut disbursements to local governments who had no choice but to make up the difference from the one major source of revenue they have, real property taxes. Usually this is a short term crunch, but not so this time.

Since 2001 the Federal government has actually cut taxes and increased expenses, some of the latter being mandates which are expected to be picked up by state and local governments. As a result there has been three years of fiscal crisis which has been born most heavily by increased property taxes. At the same time real estate has gone up sharply in value, especially on the two coasts, and including the Hudson River Valley where values are twice what they were four or five years ago. This accounts for why assessments are up sharply, if belatedly, the last two years, and will go up sharply next year and likely the year after as well. Increase assessments has made is possible for local governments to increase taxes while apparently reducing tax rates. Slight of hand? No, just dumb luck for strapped municipalities.

Remember the house assessed at \$250,000 which paid \$4000 in school taxes, from a rate of .016% (or \$16.11 per \$1000 assessment)? If that home's market value went up 25%, as it did in our region in 2004, the assessment should go to \$312,500 the next year. The new school budget for 2005 is about 8% above the year before, so taxes will go up about that amount, to \$4320 which is .014% (or \$14 per \$1000 assessment) of \$312,500. The tax rate has dropped from \$16 to \$14 -- what good news, but the home owner still owes 8% more in taxes. When officials announce that the tax rate is going down, it may not have the result you expect.

Now to the bottom line, or lines in this case. Error No.1: shooting the messenger who brings bad news. Owners get their new assessment and blame the assessor, overlooking the growth in their equity which should justify the new assessment. Officials blame escalating property sales amounts for escalating taxes. One north county ex-supervisor was quoted as saying "The problem is people from other areas moving into our county and paying exorbitant prices. Many times, the assessors will raise the adjoining prices to match the exorbitant prices." A common but wrong diagnosis from an experienced person who ought to know better. If taxes go up it is because the local government voted to raise them, not because of reevaluation of all properties for assessment purposes.

Error No.2: Closing the barn door after the horse has escaped. Capping assessments at, say, no more than 3% increase a year, as has been tried in California and is a rallying point in other states, sounds like capping taxes, but as you have just read, that is a different animal. If you don't want to pay more in taxes, limit the amount municipalities can raise from property taxes, not artificially limit the assessment which establishes fairness in what everyone should owe in taxes.

Limiting real property taxes, Proposition 13, has merit if citizens feel that they are paying an unfair burden compared to what they would pay in increased sales or income taxes to make up for lost property taxes.

Only Congress and the President can play the shell game of cutting taxes and increasing spending and getting away with it, at least for a while. The *buck stops here* used to apply to the highest office in the land, today it applies to the local property owner.

Is there a silver lining in New York State tax cloud? In a way, yes. New York has the reputation of being a high tax state, rank-

ing first or second after California (which tells you how far Proposition 13 went in cutting overall taxes - zip). The US Department of Commerce issues a report on state and local tax burden comparing rates and ranks among all state. New York's average local tax burden (mostly real property taxes) was 12.3% in 1970. In 2004 it stood at 12.1% - it actually went down. New York State's total average tax burden (including income and other taxes) went from 31.7% to 31.8% - virtually no change. Our Federal tax burden has gone from 19.4% to 19.7%. That's the silver lining, no real increase. On the other hand we have been ranked first or second all those years for state and local tax burden. So what burden do other state have? The average state's state and local burden went from 9.8% to 10.2%, which means that while we rank number 2, it is by a margin of less than 2%, not as much difference as many people likely thought given the recriminations we have suffered since the Rockefeller years for being a "tax and spend" state. Anyone for putting out the welcome mat?