

Community Finance Brief

Property Taxes & Equitable Homes in the Marketplace



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Property is generally worth less if it is owned by a black American in this country. That is how a recent discussion in the *New York Times* starts out, which encapsulates one of the many issues of assessing properties for taxes in this country. The lack of affordable homes, the increasing costs of virtually everything, including mortgages, and the long-standing constructs that are used to value property by our local governments are seeing increased competition of sorts. The interplay on the need for homes, their cost and systems of property tax collection is playing out in real time as the Biden Administration and many states have advocated for and enacted policies to support homeownership in various ways yet they are inevitably butting heads with some local governments seeing the strain on their budgets as a result.

As a backdrop to these issues, it was reported earlier this month that U.S. homeowners paid more than \$4,000 in property taxes on average last year (source: ATTOM) with total amounts increasing by the most amount in five years. Most commentary in response to property taxes moving much higher in 2023 was focused on inflationary pressures along with local governments response to increasing operating costs with federal subsidies rolling off post-COVID. There was little discussion as to the method in which these taxes were levied. The merited national focus on affordable housing needs to be holistic, review all upstream impacts and question the constructs that are employed in order to offer solutions that work.

AN INACURATE TAXING SYSTEM

The discussion around barriers to homeownership in this country and the central role owning a home relates to building wealth is well documented. This discussion can go in any number of directions from the history of redlining to the

Quick Takes

The amount of Americans who believe they pay for more than their fair share in taxes rose to 56% in 2024 from 49% in 2021
-Pew Charitable Trusts

Property taxes are the primary source of tax collection at the local level, responsible for 72.2% of local tax revenue in fiscal year 2020
- Tax Foundation

Black homeowners property tax burden is 10% to 13% higher than for white homeowners, yet their homes are undervalued by an average of 21% to 23%
- Brookings from Indiana University

With year-over-year home prices jumping 6% in 2023, the number of downpayment assistance programs grew by 9% during the same time period, the largest jump since 2020
-Downpayment Resource

financial reality, and inequity, of providing for downpayment assistance and other ancillary costs associated with buying a home.

For this purposes of this *brief*, we focus on the sometimes lesser covered topic of property taxes. Property assessments and appraisals are estimations of a home's value. The fact there has been systemic over-assessment and under-valuation of black-owned homes poses a systemic risk on the validity of the entire system of homeownership in this country (see figure looking at over-assessment to % black population by University of Chicago study, **page 3**). The research has now largely settled the issue. From one widely quoted Indiana University report in 2017: it concluded that local property taxes applied to the value of black-owned homes is 10% to 13% higher than for white-ones homes. At the start of his term, President Biden created a task-force to specifically look at racial bias in home valuations. Last summer, the administration offered a slate of initiatives to address these issues with a focus on data and new and consistent terms for various agencies.

These initiatives have been welcomed by many but the reality is that the actual assessments happen at the state and local level, not at the federal level. As such, it was the Government Finance Officers Association - a leading organization when it comes to state and local finance that has delved into the topic in a project, *Rethinking Property Taxes*. More on this shortly.

PROPERTY TAXES & COMMUNITY FINANCE

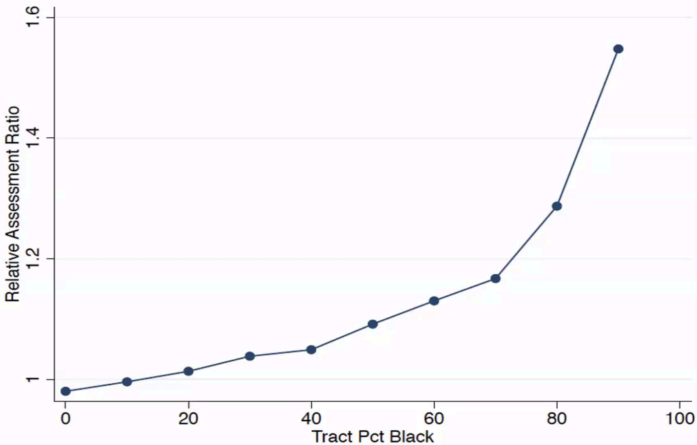
Homeownership, when it pertains to people of color and low-income families, is a topic wherein solutions are focused on a variety of financing mechanisms while the issue of property assessment consistently takes a back seat from national headlines. From a community finance perspective, that is not the case. Property taxes are the primary way in which local governments operate but they are also generally the most disliked. The National Conference of State Legislatures pins this on the fact that taxpayers do not control the amount and unlike a sales or income tax, the amounts are paid in a large sum. While this complicates the politics of this tax, this represents the backbone of how schools, roads and public healthcare are funded.

In a recent GFOA webcast, Christopher Berry of the University of Chicago pointed out the obvious: the government, or anyone really, does not know the value of a property unless it has been sold recently. Throughout the presentation, Berry, and civil servants that lead property tax assessments from Cook County, Illinois and Maricopa County, Arizona reviewed

"The tax advantages that white homeowners living predominantly white cities and school districts enjoyed helped middle-class white families build wealth through homeownership," writes **Andrew Kahrl**, a history professor at the University of Virginia. "At the same time, the value of Black-owned homes and property in Black neighborhoods was driven down, ensuring that homeownership would never become the kind of vehicle for upward mobility that it has been for generation of white Americans."

the science and methodology behind the process of assessing property. Whilst acknowledging that the 'black tax' is pervasive in these communities, each speakers offered evidence that the resulting assessments

Results in Racial Tax Disparities



were not racial bias by assessors, but that the systems in place were geared towards penalizing certain communities more so as a result of the data science behind the assessments. Not part of the presentation was **CSG** viewpoint that lower- to middle-income neighborhoods are overtly skewed to over assessment if a small number of homes get receive physical improvements and then resold at high prices because they happen with less frequency in these areas.

ROBBING PETER TO PAY PAUL

One of the overarching and ongoing problems with the property tax system as it now functions is when policies are put in place to support low- to moderate-income (LMI) ownership they then cut into a local government's budget.

To exemplify, a workforce housing bond program in California that is a coordinated effort by three of the state's conduit authorities issued about \$10 billion of bonds between 2020 and 2022 to create affordable moderate-income housing. The goal was to do this quickly by acquiring existing apartment communities and converting the units to below-market rate spaces as existing tenants moved out. Through the arrangement, the local governments would partner with private companies that would purchase the apartments, not pay property taxes over the life of the bonds, and pass those savings on to tenants. Once the 30-years bonds were paid off, the local government would then own the property. Creative idea!

Government properties are not subject to taxes, but if a government leases a building to a private company, it may have to pay a possession interest tax. Sparing the details, the assessor association in California has been pushing the state legislature to allow for more taxing power for this situation. The local governments have lost out on the ability to tax buildings with whatever amount \$10 billion can buy in California. A middle ground approach was to tax moderate-income tenants and not lower-income ones but overall - one can see the

dilemma of affordable shelter or the local governments ability to provide essential services via its taxing power.

Any way in which the governments decide to act here, the overall goal of making for a safer and equitable community are challenged. We would offer that this policy example, and many more around the country as it pertains to affordable housing is predicated on the ability to levy these taxes fairly. A holistic approach to this type of policy making requires a look within.

A SCHEMATIC TO APPROACH PROGRESSIVE PROPERTY TAXES

The property tax initiative by the GFOA focuses on fairness and predictability in its approach to reform. It simply notes that property valuations should be accurate so people pay taxes that reflect the true value of their property, not an inflated value compared to its worth. This is especially important for lower-income residents who are often disproportionately burdened by inaccurate valuations.

As to fairness, suggestions can be summed into four areas:

- **Frequent reassessments:** the most important factor is frequent property reassessments. Ideally, this should be done annually to keep up with market changes.
- **Technology and data science:** reassessments can be expensive. The document suggests using data science and automation to reduce costs.
- **Addressing bias:** the current system unfairly burdens lower-value properties, which are often owned by low-income residents. The document recommends assessors use better data and modeling techniques to address this bias.
- **Collaboration between assessor and local officials:** for a smooth transition, assessors and local officials who set tax rates need to collaborate. This includes sharing data and best practices.

The document also mentions two additional strategies to consider that will be the **subject of further exploration next week:**

- **Split-Rate Taxation:** This system taxes the value of land at a higher rate compared to the value of buildings on the land. This can be fairer because land values are generally easier to assess accurately.
- **Payments in Lieu of Taxes (PILOT):** This is an agreement between a local government and tax-exempt institutions (like universities or hospitals) for financial contributions to the community.

LOOKING AHEAD

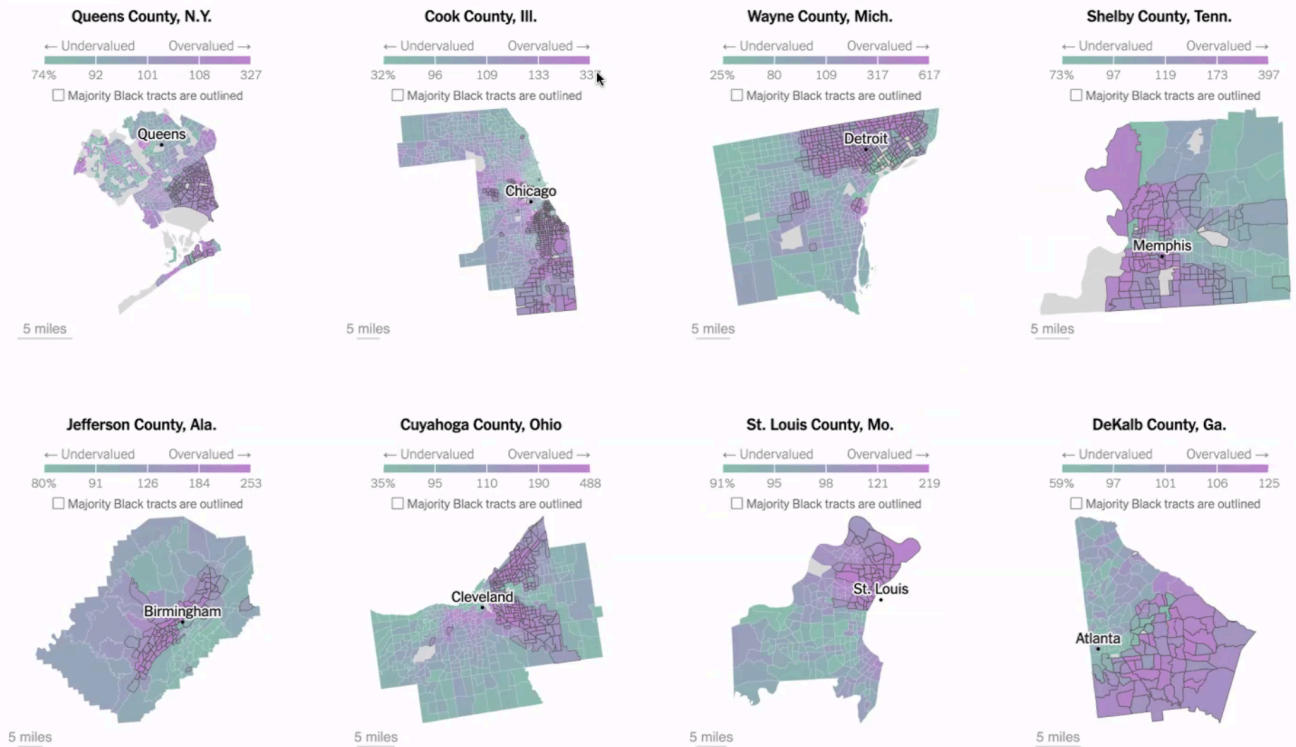
Instability of property tax bills is the largest issue that governments face when collecting these bills. In theory this is because the value of property changes but clearly there are other issue at play. Policy suggestions at the local level include:

- Rate setting: local governments can set tax rates strategically to minimize the impact of rising property values on tax bills.
- budget-driven system: instead of focusing on a specific tax rate, governments can focus on the total amount of revenue they need. This can lead to more stable tax bills.
- Tax and levy limits: laws can be implemented to limit how much property taxes can increase. However, these can have drawbacks and might force governments to rely on other less fair tax sources.
- Targeted relief: programs can be created to help low-income homeowners or seniors who struggle to afford property taxes. Examples include tax deferrals or "circuit breaker" programs that provide tax relief.
- Focus on total bill: Instead of manipulating tax rates and assessments, governments could focus on guaranteeing a stable total tax bill for each taxpayer, with exceptions for community-approved tax increases.

Race + Space = Concentrated Inequity

In many areas, property in predominantly Black neighborhoods is overvalued for tax purposes.

Average assessed value, compared with the sale price, by census tract



Black neighborhoods in this metro areas are outlines in black, which correlates positively with the purple-colored tracks that are being over valued by property tax assessors.