

Property-Tax Rise Triggers Backlash in Some Areas

Homeowners, Legislators Move to Limit Big Increases Used for Funding Shortfalls

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In an election year in which national candidates have focused on issues such as jobs and the war in Iraq, many voters are rebelling over an issue closer to home: a huge jump in their property taxes.

In many parts of the country in recent years, strapped local governments have imposed big increases in property-tax rates, as well as in home assessments, to fill budget shortfalls. In response, voters have organized efforts to repeal or slow property-tax boosts in states from Virginia to Oregon, in some cases with the support of frustrated local officials.

Governments give a range of reasons for the increases, from gaps caused by cuts in federal revenue to declining commercial bases, rising health-care and pension costs and demands for more school funding.

"There's been a complete devolution of fiscal responsibility onto the backs of the cities and municipalities and taxpayers," says Charles Lyons, one of five selectmen -- who handle the functions of a mayor and city council -- in Arlington, Mass., a suburb of Boston.

While state funding to Arlington has dropped in recent years, he says, his town raised property taxes 4% in the fiscal year ended June 30, following increases of 3% and 2.5% in the last two years, and he expects taxes will go up a further 4% in this fiscal year.

Meanwhile, he says, the town "cut the number of teachers, police officers and fire-department employees. We were in this inevitable position."

Nationwide, property taxes -- used to fund everything from police and fire departments to schools and recreational services -- rose an average of more than 10% between 2001 and 2003, estimates Joseph M. Mulcahy, a national deputy managing principal at Deloitte & Touche LLP's Property Tax Services Group. In some municipalities, he says, home assessments have gone up between 20% and 50%.

Particularly hard hit have been some desirable and growing suburban areas outside major metropolitan areas, where home prices and assessments have been on the rise. In a survey of such suburbs outside 12 major cities across the country, Runzheimer International, a management consulting firm based in Rochester, Wis., found that property taxes rose an average

of 23.3% between 2000 and 2004.

The survey, conducted for The Wall Street Journal, found that property taxes rose a whopping 56.9% in the San Francisco suburb of Danville, Calif., the single biggest jump.

In the Washington suburb of Alexandria, Va., they jumped 53.1% over that span, while in Yorba Linda, Calif., outside Los Angeles, they increased 48.7%. Only two of the suburbs in the survey showed declines. Property taxes in Littleton, Colo., fell 1.6%, while those in Redmond, Wash., were down 0.5%.

For many homeowners, the increases have eaten into benefits they gained from President Bush's cuts in federal income taxes. Mark Zandi, chief economist at Economy.com Inc., a research firm in West Chester, Pa., estimates that nearly a fifth of the income-tax benefit Americans are receiving from federal tax cuts this year is going to pay for higher property taxes. Mr. Zandi says he expects property taxes to continue rising "very rapidly."

While many homeowners took advantage of low interest rates to get good deals on mortgages, the median monthly mortgage payment, including principal and interest, on a median-priced

single-family home rose slightly between 2001 and 2003, to \$793 from \$789, according to the National Association of Realtors. Over the same period, assessments rose rapidly, thanks to the housing boom. The median price of an existing single-family home rose to \$170,000 from \$147,800.

Alexander J. Aitken, a 56-year-old pilot for American Airlines, says that taxes on his four-bedroom, two-story home in Culpeper County, Va., rose 45% in 2003 from the year before, to \$6,000. The 2003 figure was 237% higher than it was when he bought the house for about \$450,000 five years earlier, he says.

A big culprit, he says, was a boosted assessment. In March of last year, his house was reassessed at \$625,000, an increase he blames on an influx of newcomers who have heated up the local market. "People have been moving out here from Washington, D.C., to get away from the hustle and bustle and have been willing to pay \$600,000 for a home," he fumes. "That has nothing to do with me."

Mr. Aitken has helped start a group called Virginians Over-Taxed on Residences, or VOTORS, that is pushing for a range of state measures that would cap property taxes, including a constitutional amendment that would reset property values to their January 2000 level.

Similar movements have taken off in other cities and states, putting pressure on politicians to stem the tide of increases and inspiring legislative measures and even a few taxpayer proposals that may be on ballots this November.

They are the latest in a wave of modern tax revolts that began with the 1978 passage of Proposition 13 in California, which rolled back property taxes and limited the ability of municipalities to raise them. Even Californians, though, have seen big increases in recent years, since properties there can be reassessed when sold or transferred and there has been a flurry of such transactions. Property taxes "have grown very vigorously," says Marianne O'Malley, an analyst at the state's Legislative Analyst's Office in Sacramento, which provides nonpartisan fiscal and policy advice to the legislature.

Earlier this year, voters in Oregon recalled an \$800 million tax boost, which included increases in property taxes, passed by the state legislature last August to plug a hole in the state's budget. Led by antitax activists, voters collected more than twice the number of signatures needed to force a recall referendum.

In Maine, where property taxes assessed rose an average of 7% in 2002 and another 5.51% in 2003, a group called the Maine Taxpayers Action Network, led by Carol Palesky, an accountant and grandmother in her mid-

60s, is pushing to get an initiative for a 1% property-tax cap on the November ballot.

Meanwhile, state legislatures in Illinois and South Carolina, in response to citizen outrage over high taxes, recently passed bills limiting increases in property-tax assessments. On Monday, Illinois Gov. Rod Blagojevich signed legislation intended to slow the rate of increase in assessments.

In Clark County, Nev., which includes Las Vegas, Tax Assessor M.W. Schofield has called on the state legislature to limit to 6% the maximum annual increase in assessed home values. Land prices are rising so fast in the county that, without a cap, property tax bills next year are likely to shoot up 20% to 50%, depending on the neighborhood, says Michele Shafe, assistant director of the assessor's office.

"That's enough to put somebody out of their home, especially senior citizens," she says.

With the economy improving, some municipalities have moved to offer a bit of relief. New Jersey's recently signed \$28 billion budget includes increased taxes for the state's wealthiest residents to fund property-tax rebates. But that followed several years of heavy increases in property-tax bills. In 2003, the average bill was \$5,269, up from \$4,958 in 2002, and \$4,651 in 2001, according to the New Jersey Department of Community Affairs.

Some local governments, meanwhile, have sought other sources of revenue to offer some relief. In Pennsylvania, for instance, state lawmakers passed legislation this month permitting 61,000 slot machines, the most in any state east of Nevada, in horse racetracks, resorts and gambling parlors. Within three years, the machines are expected to generate \$3 billion annually. About \$1 billion of that is earmarked to reduce local property taxes throughout the state.

Nationally, Democrats have tried to seize on the rising anger over property taxes and shortfalls in municipal budgets to attack the Bush administration for tax cuts that reduce funds available to local governments, contributing to what presidential candidate John Kerry has dubbed a "middle-class squeeze." Sen. Kerry has proposed an economic stimulus package that includes payments to state governments to help them avert spending cuts and tax increases.

"Sen. Kerry has long recognized that the decision to focus on tax relief for the wealthy over any form of state fiscal relief has led to many backdoor tax and tuition increases at the state and local level," says Gene Sperling, a Kerry economic adviser, who headed the White House's National Economic Council during the Clinton administration.

Tim Adams, policy director for the Bush-Cheney campaign,

counters, "The effect of the Bush administration's tax cuts on state revenues is minimal compared to the impact" of the economic downturn. He adds that some of the states' budget problems can be traced to spending sprees in the 1990s, as well as other broader economic shocks.

There's no doubt that many state and local governments experienced big shortfalls with the economic downturn that began in 2000 after the flush years of the 1990s boom. Sales taxes, which had been rising rapidly, suddenly tumbled, while revenue from corporate taxes shrank. Tax cuts spurred reduced federal spending. Many states, feeling the pinch, cut back their funding to local governments, dealing them a double whammy.

At the same time, local expenses have increased for everything from infrastructure to public safety, especially in areas with fast population growth, says Chris Hoene, research manager at the National League of Cities, a Washington lobbying and membership group representing more than 18,000 local communities.

In 2003, 62% of cities said they were increasing public-safety spending, in part to respond to terrorism concerns, he says. More than a third also were increasing spending on such items as health care, pensions and roads, he says.

School funding, which generally absorbs the largest share of local-tax revenue, also has surged. Since the 2001-2002 school year, local-school funding rose an estimated 6%, or between \$11 billion and \$13 billion, with probably about \$8 billion to \$10 billion coming from property taxes, estimates Steve Smith, senior policy specialist at the National Conference of State Legislatures, a Denver-based bipartisan organization that serves local legislators and policymakers.

"It may have been more since localities have had to take on a larger share," he says. "The budget crisis has been so severe, there's been a lack of significant increases in state funding."

During that time, schools have seen costs rise for everything from upgrading facilities to increased employee health-care costs. Some districts have also had to accommodate a growing population of students. The number of children in U.S. schools in 2005 is expected to rise to 54 million, up from 50 million in 1995.

Another factor has been new education standards mandated by the federal government. Dan Fuller, director of federal programs for the National School Boards Association in Alexandria, points to a federal program designed to improve education for disadvantaged students called Title I. While Congress originally said it would provide \$18.5 billion in funding for the program in

fiscal year 2004, it ended up giving only \$12.3 billion. For fiscal year 2005, the amount is slated to be \$13.3 billion, down from original projections of \$21.5 billion, Mr. Fuller says.

"Communities are paying because the federal government

won't," he says. "A portion of the property tax is essentially a federal government tax."

In Texas, school costs ate up much of the approximately 78% increase in property taxes between 1997 and 2002, says George Zodrow, an economics

professor at Rice University. The property-tax share of schools' finances in Texas increased to 55% in 2003, up from 45% in 1999, he says. The national average is about 27%.

