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Excerpts from
***50 State Property Tax Comparison Study:
For Taxes Paid in 2015***

Report by
Lincoln Institute of Land Policy and
Minnesota Center for Fiscal Excellence

Full report available at:
www.lincolinst.edu

Executive Summary

As the largest source of revenue raised by local governments, a well-functioning property tax system is critical for promoting municipal fiscal health. This report documents the wide range of property tax rates in more than 100 U.S. cities and helps explain why they vary so widely. This context is important because high property tax rates usually reflect some combination of heavy property tax reliance with low sales and income taxes, low home values that drive up the tax rate needed to raise enough revenue, or higher local government spending and better public services. In addition, some cities use property tax classification, which can result in considerably higher tax rates on business and apartment properties than on homesteads.

This report provides the most meaningful data available to compare cities' property taxes by calculating the *effective tax rate*: the tax bill as a percent of a property's market value. Data are available for 73 large U.S. cities and a rural municipality in each state, with information on four different property types (homestead, commercial, industrial, and apartment properties), and statistics on both net tax *bills* (i.e. \$3,000) and effective tax *rates* (i.e. 1.5 percent). These data have important implications for cities because the property tax is a key part of the package of taxes and public services that affects cities' competitiveness and quality of life.

Why Property Tax Rates Vary Across Cities

To understand why property tax rates are high or low in a particular city, it is critical to know why property taxes vary so much across cities. This report uses statistical analysis to identify four key factors that explain most of the variation in property tax rates.

Property tax reliance is one of the main reasons why tax rates vary across cities. While some cities raise most of their revenue from property taxes, others rely more on alternative revenue

sources. Cities with high local sales or income taxes do not need to raise as much revenue from the property tax, and thus have lower property tax rates on average. For example, this report shows that Bridgeport (CT) has the highest effective tax rate on a median valued home, while Birmingham (AL) has one of the lowest rates. However, in Bridgeport city residents pay no local sales or income taxes, whereas Birmingham residents pay both sales and income taxes to local governments. Consequently, despite the fact that Bridgeport has much higher property taxes, total local taxes are considerably higher in Birmingham (\$2,429 vs. \$1,914 per capita).

Property values are the other crucial factor explaining differences in property tax rates. Cities with high property values can impose a lower tax rate and still raise at least as much property tax revenue as a city with low property values. For example, consider San Francisco and Detroit, which have the highest and lowest median home values in this study. The average property tax bill on a median valued home for the large cities in this report is \$3,039. To raise that amount from a median valued home, the effective tax rate would need to be more than 20 times higher in Detroit than in San Francisco—7.25 percent versus 0.36 percent.

Two additional factors that help explain variation in tax rates are the level of local government spending and whether cities tax homesteads at lower rates than other types of property (referred to as “classification”). Holding all else equal, cities with higher spending will need to have higher property tax rates. Classification imposes lower property taxes on homesteads, but higher property taxes on business and apartment properties.

Homestead Property Taxes

There are wide variations across the country in property taxes on owner-occupied primary residences, otherwise known as homesteads. An analysis of the largest city in each state shows that the average effective tax rate on a median-valued homestead was 1.50 percent in 2015 for this group of 53 cities.¹ At that rate, a home worth \$200,000 would owe \$3,000 in property taxes (1.50% x \$200,000). On the high end, there are three cities with effective tax rates that are roughly 2.5 times higher than the average – Bridgeport, Detroit, and Aurora (IL). Conversely, there are six cities where tax rates are less than half of the study average – Honolulu, Cheyenne, Denver, Birmingham, Boston, and Washington DC.

Highest and Lowest Effective Property Tax Rates on a Median Valued Home (2015)

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Bridgeport (CT)	3.88%	<i>Why:</i> High property tax reliance	49	Boston (MA)	0.67%	<i>Why:</i> Classification shifts tax to business, high home values
2	Detroit (MI)	3.81%	<i>Why:</i> Low property values	50	Birmingham (AL)	0.66%	<i>Why:</i> Low property tax reliance, classification shifts tax to business
3	Aurora (IL)	3.72%	<i>Why:</i> High property tax reliance	51	Denver (CO)	0.66%	<i>Why:</i> Low property tax reliance, classification, high home values
4	Newark (NJ)	3.05%	<i>Why:</i> High property tax reliance	52	Cheyenne (WY)	0.65%	<i>Why:</i> Low property tax reliance
5	Milwaukee (WI)	2.68%	<i>Why:</i> Low property values, high property tax reliance	53	Honolulu (HI)	0.30%	<i>Why:</i> High home values, low local gov’t spending, classification

Note: Data for all cities: Figure 2 (page 18), Appendix Table 1a (page 49), and Appendix Table 2a (page 57).

¹ The largest cities in each state includes 53 cities, because it includes Washington (DC) plus two cities in Illinois and New York since property taxes in Chicago and New York City are so different than the rest of the state.

The average tax rate for these cities fell slightly between 2014 and 2015, from 1.511 percent to 1.503 percent, with increases in 20 cities, decreases in 31, and no change in 2 cities. The largest increase was in Phoenix, where the effective rate rose by about 12 percent, which drove the city's ranking up from 37th to 30th highest. The next largest increases were in Des Moines, Aurora (IL), Fargo, and Indianapolis. The largest decrease was in Sioux Falls (SD), which had a 9.4 percent decline and a six-place drop in rank, from 23rd to 29th highest. The next largest declines were in Chicago, Seattle, Billings (MT), and Memphis.

Note that differences in property values across cities mean that some cities with high tax *rates* can still have low tax *bills* on a median valued home if they have low home values, and vice versa. For example, Bridgeport and Detroit have similar tax rates on a median valued home, but because the median valued home is worth so much more in Bridgeport (\$173k vs. \$42k), the tax bill is far higher in Bridgeport (2nd highest) than in Detroit (42nd highest).

Effective tax rates rise with home values in about half of the cities (26 of 53), and this pattern has a progressive impact on the property tax distribution. Usually, this relationship occurs because of homestead exemptions that are set to a fixed dollar amount. For example, a \$20,000 exemption provides a 20 percent tax cut on a \$100,000 home, a 10 percent cut on a \$200,000 home, and a 5 percent cut on a \$400,000 home. The increase in effective tax rates with home values is steepest in Boston, Honolulu, Washington (DC), Atlanta, and New Orleans.

Commercial Property Taxes

There are also significant variations across cities in commercial property taxes, which include taxes on office buildings and similar properties. In 2015, the effective tax rate on a commercial property worth \$1 million averaged 2.11 percent across the largest cities in each state. The highest rates were in Detroit, New York City, Providence, Chicago, and Bridgeport, all of which had effective tax rates that were at least two-thirds higher than the average for these cities. On the other hand, rates were less than half of the average in Cheyenne, Seattle, Honolulu, Virginia Beach, and Wilmington (DE).

Highest and Lowest Effective Property Tax Rates on \$1-Million Commercial Property

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Detroit (MI)	4.13%	<i>Why:</i> Low property values	49	Virginia Beach (VA)	1.03%	<i>Why:</i> High property values, Low local gov't spending
2	New York (NY)	3.96%	<i>Why:</i> High local gov't spending, Classification shifts tax to business	50	Billings (MT)	1.01%	<i>Why:</i> Low local gov't spending
3	Providence (RI)	3.71%	<i>Why:</i> High property tax reliance	51	Honolulu (HI)	0.91%	<i>Why:</i> High property values, Low local gov't spending
4	Chicago (IL)	3.60%	<i>Why:</i> Classification shifts tax to business, High local gov't spending	52	Seattle (WA)	0.88%	<i>Why:</i> High property values, Low property tax reliance
5	Bridgeport (CT)	3.59%	<i>Why:</i> High property tax reliance	53	Cheyenne (WY)	0.64%	<i>Why:</i> Low property tax reliance

Note: Analysis includes an additional \$200k in fixtures (office equipment, etc.)

Data for all cities: Figure 3 (page 23), Appendix Table 1b (page 52), and Appendix Table 3a (page 73).

The cities with the largest drops in their effective tax rates from 2014 to 2015 were Columbus (OH), whose rate fell by almost a quarter and ranking dropped from 26th to 32nd, and Boston where the tax rate fell by a fifth and whose ranking dropped from 13th to 24th. There were also significant declines in Des Moines and Billings (MT). The largest increase was in Baltimore, where the effective tax rate increased by 9 percent, which drove the city’s ranking up from 19th to 16th. No other city had its ranking increase by more than two places.

Preferential Treatment for Homeowners

Many cities have preferences built into their property tax systems that result in lower effective tax rates for certain classes of property, with these features usually designed to benefit homeowners. The “classification ratio” describes these preferences by comparing the effective tax rate on land and buildings for two types of property. For example, if a city has a 3.0% effective tax rate on commercial properties and a 1.5% effective tax rate on homestead properties, then the commercial-homestead classification ratio is 2.0 (3.0% divided by 1.5%).

An analysis of the largest cities in each state shows an average commercial-homestead classification ratio of 1.68, meaning that on average commercial properties experience an effective tax rate that is 68% higher than homesteads. Nearly a third of the cities (16 of 53) have classification ratios above 2.0, meaning that commercial properties face an effective tax rate that is at least double that for homesteads.

Preferential Treatment of Homeowners: Ratio of Effective Tax Rate on Commercial and Apartment Properties to the Rate on Homestead Properties (2015)

Commercial vs. Homestead Ratio			Apartment vs. Homestead Ratio		
1	New York (NY)	4.22	1	New York (NY)	5.10
2	Boston (MA)	4.00	2	Columbia (SC)	3.69
3	Columbia (SC)	3.69	3	Indianapolis (IN)	2.65
4	Honolulu (HI)	3.62	4	Charleston (WV)	2.21
5	Denver (CO)	3.62	5	Birmingham (AL)	2.19

Note: Commercial-homestead ratio compares rate on \$1 million commercial building to median valued home.
 Apartment-homestead ratio compares rate on \$600k apartment building to median valued home.
 Data for all cities: Figures 6a and 6b (Page 37-38), and Appendix 6 (Page 99).

The average apartment-homestead classification ratio is significantly lower (1.38), with apartments facing an effective tax rate that is 38% higher than homesteads on average. There are six cities where apartments face an effective tax rate that is at least double that for homesteads, with New York City being a major outlier since the rate on apartments is more than five times higher than the rate on a median valued home. It is important to note that while renters do not pay property tax bills directly, they do pay property taxes indirectly since landlords are able to pass through some or all of their property taxes in the form of higher rents.

There are three types of statutory preferences built into property tax systems that can lead to lower effective tax rates on homesteads than other property types: the assessment ratio, the nominal tax rate, and exemptions and credits. In total, 40 of the 53 cities favor homesteads over commercial properties—27 of them have assessment ratios and/or nominal tax rates that favor homesteads, while in 13 cities classification is solely the result of exemptions or credits.

Similarly, 36 cities favor homesteads relative to apartments, but only 16 of them have preferential assessment ratios and/or nominal tax rates, while in 20 cities classification is the result of exemptions or credits alone.

Property Tax Assessment Limits

Since the late 1970s, an increasing number of states have adopted property tax limits, including constraints on tax rates, tax levies, and assessed values. This report accounts for the impact of limits on tax rates and levies implicitly, because of how these laws impact cities' tax rates, but it is necessary to use an explicit modeling strategy to account for assessment limits.

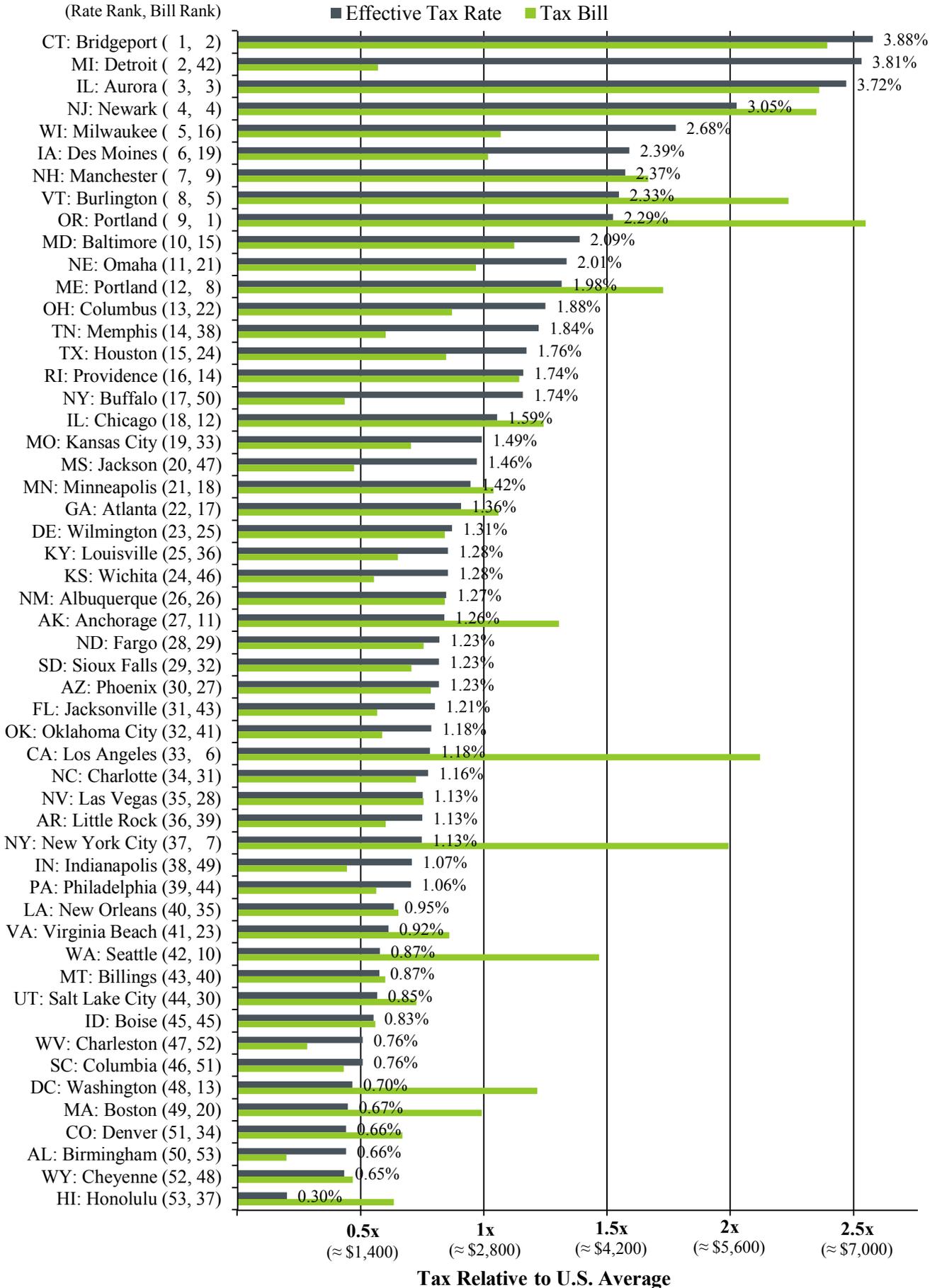
Assessment limits typically restrict growth in the assessed value for individual parcels and then reset the taxable value of properties when they are sold. Therefore, the level of tax savings provided from assessment limits largely depends on two factors: how long a homeowner has owned her home and appreciation of the home's *market value* relative to the allowable growth of its *assessed value*. As a result, assessment limits can lead to major differences in property tax bills between owners of nearly identical homes based on how long they have owned their home.

This report estimates the impact of assessment limits by calculating the difference in taxes between newly purchased homes and homes that have been owned for the average duration in each city, for median valued homes. This discrepancy is largest in Long Beach (CA), where the average home has been owned for 14 years and the median home is worth \$440,900. Because of the state's assessment limit, the owner of a newly purchased home would pay 40 percent more in property taxes than someone who has owned their home for 14 years, even though both homes are worth \$440,900. Assessment limits have the largest impacts on the eight California cities studied, plus New York City (36.5% difference) and Miami (28.5% difference). Of the 27 cities in this report that are affected by parcel-specific assessment limits, new homeowners face higher property tax bills than existing homeowners in 21 cities.

Conclusion

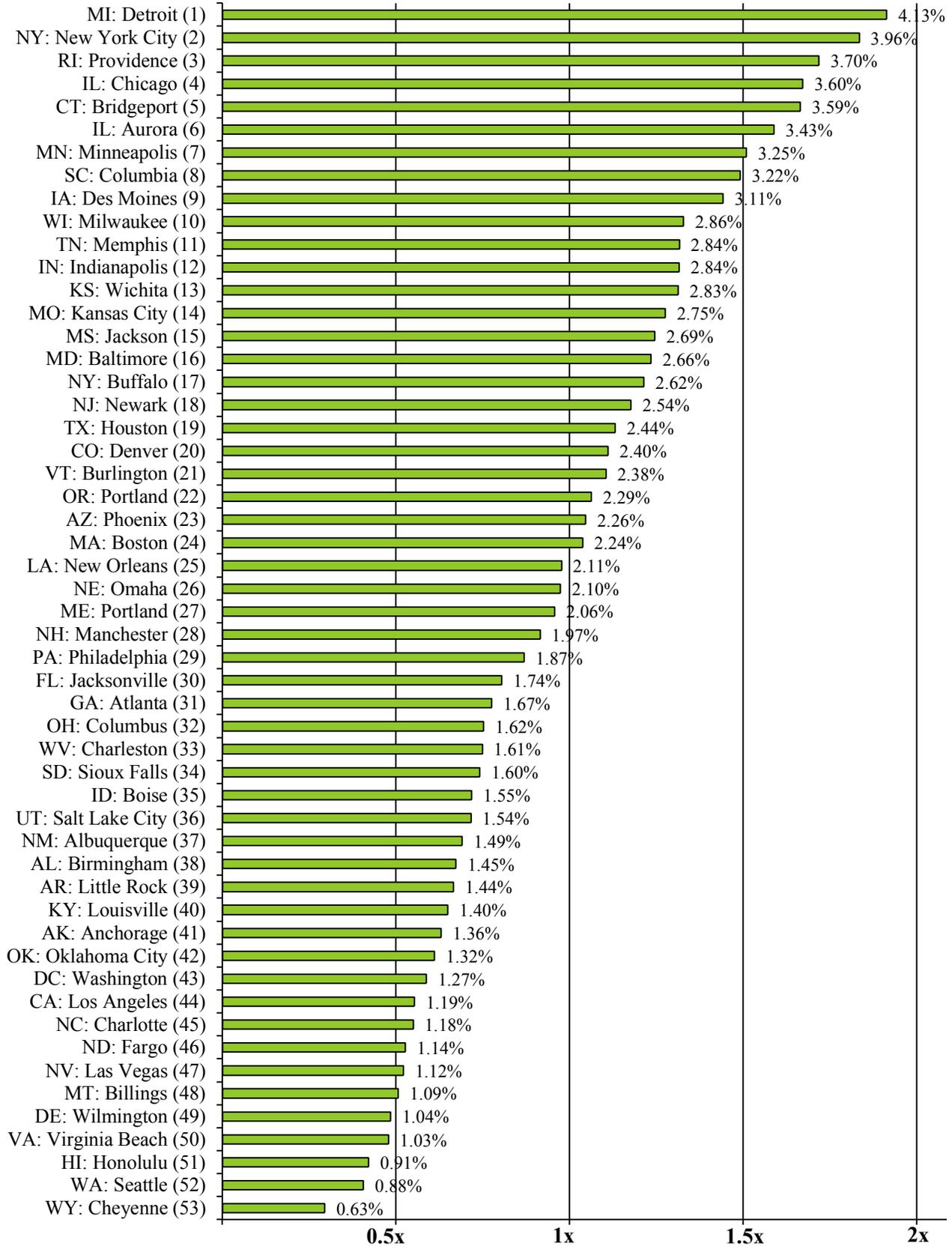
Property taxes range widely across cities in the United States. This report not only shows which cities have high or low effective property tax rates, but also explains why. Cities will tend to have higher property tax rates if they have high property tax reliance, low property values, or high local government expenditures. In addition, some cities use property tax classification, which can result in considerably higher tax rates on business and apartment properties than on homesteads. By calculating the effective property tax rate, this report provides the most meaningful data available to compare cities' property tax burdens. These data have important implications for cities because the property tax is a key part of the package of taxes and public services that affects cities' competitiveness and quality of life.

Property Taxes on Median Valued Home for Largest City in Each State (2015)



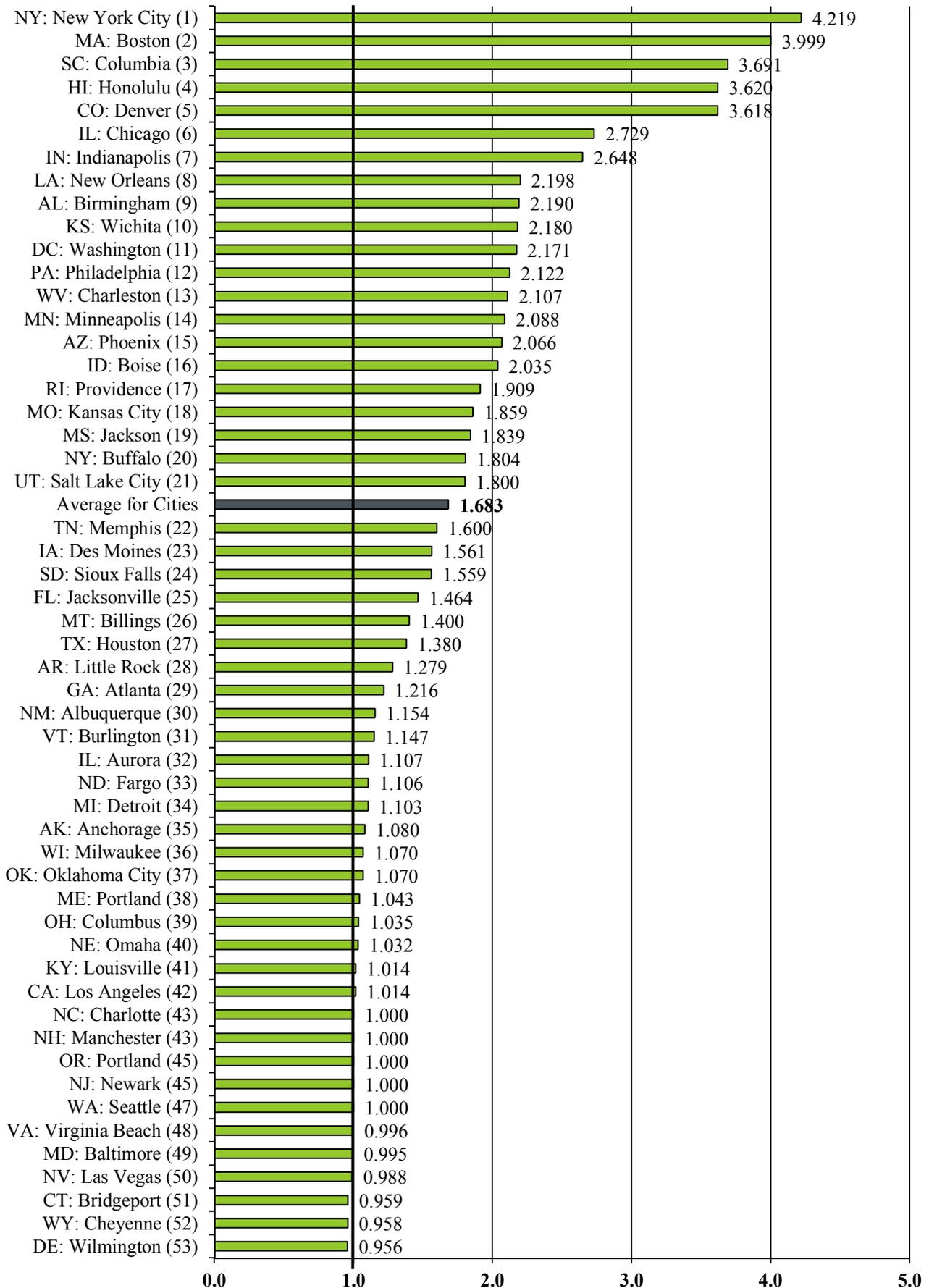
Commercial Property Taxes for Largest City in Each State (2015)

Effective Tax Rate for \$1-Million Valued Property (plus \$200k in Fixtures)



Tax Relative To U.S. Average

Commercial-Homestead Classification Ratio for Largest City in Each State (2015)



Note: Figure compares the effective tax rate on a \$1 million commercial building to the median valued home in each city.