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Your Money

Property Tax Revolt

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If anyone knows what her house is worth, it's RoseAnne DeSantes McLarnon, a real estate agent in New Jersey. And she says it surely wasn't worth the inflated value that local assessors assigned it last year in the midst of the nation's worst housing collapse since the 1930s.

McLarnon's four-bedroom home, perched on a lake just outside Atlantic City, has lost a third of its market value since she and her husband moved in three years ago, she estimates. So they were aghast when they opened their property tax bill of more than \$9,100. "Our property tax bill went up and our home's value went down," says McLarnon, 59.

In communities all over the country, growing numbers of homeowners like the McLarnons are fighting back against property tax bills that remain stubbornly high or continue to rise even as average home prices have plummeted—22 percent between 2006 and 2009, according to the National Association of Realtors.

Many owners, including retirees living on fixed incomes, had been counting on financial relief in the form of lower tax bills.

But like it or not, local governments depend on property taxes to pay for schools, police, garbage trucks, libraries, pothole repair crews and other services and essentials of civic life.

Officials tend to keep property taxes high to make ends meet, rather than cut services: 25 percent of American cities raised property tax rates in fiscal year 2009, according to the National League of Cities, an advocacy group. Just a few weeks ago, Philadelphia officials raised property tax rates by 9.9 percent.

"Just because assessments go down doesn't mean property tax bills will go down," says Kim Rueben, a senior fellow at the Urban Institute, a research group in Washington. At the same time, she says, "local governments are aware of the fact that homeowners can revolt."

The beginnings of revolt can be found in at least half a dozen states. In some, residents show their ire with flurries of assessment appeals—in Florida’s Miami-Dade County, 10,091 were filed last year, compared with 5,653 appeals in 2007.

In other places, homeowners are organizing protest groups, like one in Gaylord, Mich., that ran its own numbers on local property sales to argue that assessments were unfairly high.

Such protest groups contend that officials must balance their budgets responsibly, not on the backs of homeowners. The National Taxpayers Union, an advocacy group, says that up to 60 percent of all American homes are assessed higher than they should be.

The tension reflects a nationwide crisis in local government finances that is often overshadowed by the federal government’s huge deficits, but its impact is more immediate because local governments must balance their budgets. Local revenues of all kinds—including income, business, hotel and sales taxes—are down because of the recession. Los Angeles County, for instance, faces a \$510 million gap this year and is proposing cutbacks in libraries, social services and health care.

To be sure, not everyone’s property tax bill is rising. A lot depends on which state you live in. In 1978, an uprising by California property owners brought voter passage of Proposition 13, which among other things generally capped property taxes at 1 percent of market value when sold. Many states have similar controls, while in others, local governments remain essentially free to raise tax bills if it’s done through an open process.

In 2008 the median property tax in the United States equaled about 1 percent of value, or \$2,000 on a \$200,000 home, says Gregory Ingram, president of the Lincoln Institute of Land Policy, a nonprofit research group in Cambridge, Mass. But according to the Tax Foundation, taxes vary wildly state to state—\$188 a year in Louisiana, \$6,320 in New Jersey.

Quincy, Mass., is one of many communities where taxes have risen despite hard times. “A lot of people lost their jobs and are having a difficult time meeting their mortgage,” says Joe Finn, a city counselor at large. “They’re having a hard time affording essentials like food.” And then along comes a higher tax bill for their homes.

Another reason tax bills remain high in a down market is bureaucratic lag—assessments may be conducted only every two or three years or when a home is sold. As a result, homeowners in 2010 may be paying taxes based on top-dollar assessments from 2007.

Mark Walsworth, 46, of Geneva, Ill., is one of the many Americans who opted to appeal an assessment. His four-bedroom, single-family home was assessed at \$524,000, but he says he’d be “hard-pressed” to sell it for \$450,000. His appeal knocked about \$500 off his initial \$11,700 tax bill.

“I’m not opposed to paying my fair share of taxes, but it has to be a fair and accurate valuation,” says Walsworth.

Similar beliefs are helping boost appeals in many communities. Clark County, Nev., for instance, saw record levels—8,302 appeals for the 2010-2011 tax year, according to the county appraiser’s office, compared with 1,370 in 2008-2009. In New Jersey, the state Tax Court reports receiving more than 16,000 assessment complaints from July 1, 2008, through June 30, 2009, the highest number since 1992.

In some places, protest groups are working to raise these numbers even farther. Barbara Payne, executive director of the Fulton County Taxpayers Foundation in Atlanta, which claims more than 10,000 members, says her group has conducted six workshops this year to teach homeowners how to file an appeal.

Property tax bills there rose rapidly in 2008 and 2009, she says, and now have started to come down, but not nearly enough. “Fulton County was so behind in correcting assessed values,” says Payne. “People should be receiving mass reductions across the board. This is about fair market value; it has nothing to do with the county hurting or losing money.”

In Gaylord, Mich., part of Otsego County, homes are supposed to be assessed annually at 50 percent of market value. But Bill Martella, a commercial real estate broker, says homes go on the market at prices lower than that “and they’re still not selling.”

So the Otsego Taxpayers for Accurate Assessments, formed last November, conducted a study using data from the multiple listing service, a national database for real estate agents. Figures for 292 properties sold from October 2008 through September 2009 showed average over-assessment of 21 percent, the study concluded.

Gaylord City Assessor Debbie Dunham disputes those findings, saying the study improperly factored in foreclosures and several other sales made at nonmarket prices.

Some experts contend that ignoring foreclosures is unacceptable. “I don’t know how realistic that argument is anymore when places in California or Nevada have foreclosure rates up to 50 percent,” says Rueben of the Urban Institute.

Back in New Jersey, the McLarnons joined the revolt—and got some much-welcomed relief. An appeal brought about a lower assessment that knocked \$1,600 off that initial \$9,100 tax bill.

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