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PROPERTY TAXES AND RACIAL REDRESS

POLICY RESEARCH BRIEF
From The Redress Movement

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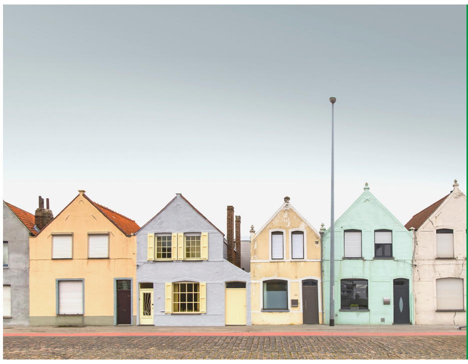
THE REDRESS MOVEMENT

INTRODUCTION

Each year, property taxes serve as the single largest source of revenue for local governments, comprising 72 percent of local taxes and 47 percent of local own-source revenue (as opposed to money granted to local governments from state or federal governments).[1] As we have seen in our research, property tax assessments can be both racially discriminative and economically regressive. Despite variations in local methods of property tax assessment and collection, Black households on average have a 10-13 percent higher tax burden than white households.[2] This means that they pay more relative to the value of their homes for the same (or in all likelihood, lesser) public services.

Higher property taxes may reduce the upfront cost of buying a home by capitalizing into the selling price (with lower taxes conversely increasing the cost of a home). But, depending on the tightness of a rental market, property tax increases may also lead to higher rents being partially passed onto renters, commercial and residential.[3] The rate to which property tax increases affect rents varies, but a recent paper published by the Census Bureau's Census for Economic Studies suggests that property owners bear a majority of their cost, with renters only paying between 10 and 20 percent of the additional cost.[4] This may be why, according to another recent peer-reviewed article, renters are relatively indifferent to property tax increases compared to property owners.[5]



HOW IT WORKS

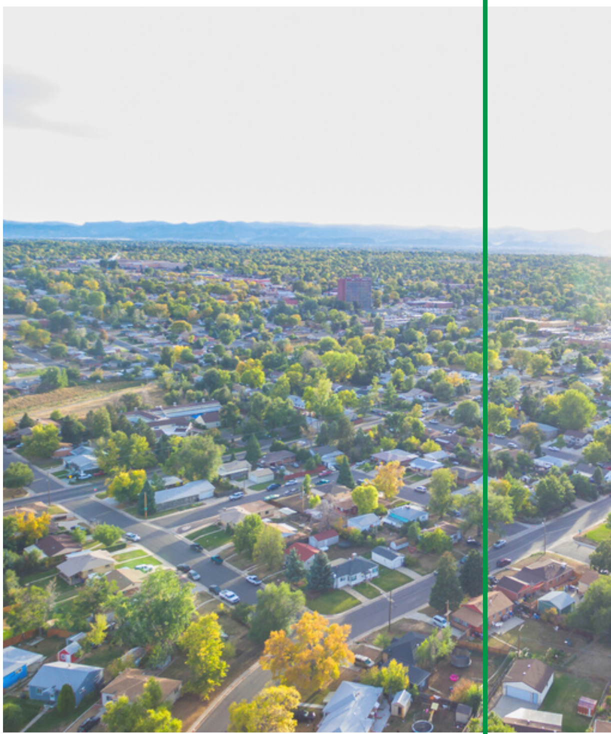
To understand how and why property taxes are both racially discriminative and economically regressive, it helps to break down how their rates are typically determined. First, the local government determines its budget. From there, there are then three basic steps to how a county or city government determines a homeowner's property tax:

1. The homeowner's property is assessed for its market value.
2. That market value is then altered to a "taxable value," which is typically some percentage of the market value of the home.
3. That taxable value is then multiplied by the jurisdiction's property tax rate, or "millage," to determine the home's yearly property tax. The tax rate is usually set by dividing the total assessed value of properties in the area by the amount of the local government's budget that property taxes have to cover.

To demonstrate this process by example, let's use a made-up home in Charlotte, North Carolina. This imagined home, for the sake of the exercise, will be worth $200,000. Both Mecklenburg County and the City of Charlotte collect taxes on homes using "mils" to determine taxable value instead of percentages, but they follow roughly the same guidelines. A home is assessed for market value, that number is then divided by 100 (a 'mil'), and that number is then multiplied by the county ($0.6169) and city ($0.3481) tax rate set to meet approved budgets.[6] In other words, to determine the property tax of a Charlotte home worth $200,000 requires:

1. Assessing the home at market value ($200,000).
2. Altering that market value to a "taxable value" ($200,000/100 = $2,000).
3. Multiplying that "taxable value" by city and county assessment rates to determine the home's total property tax ($2,000 x $0.6169 + $2,000 x $0.3481 = $1,930).

HOW IT WORKS



Similar to inequalities in home lending, the majority of the inequality surrounding property taxes relates to how assessors determine the market value of homes. In matters of mortgage lending, homes located in Black neighborhoods tend to be undervalued and homes in white neighborhoods are overvalued. With property tax assessments, the opposite is true. University of Chicago researcher Christopher Berry found "pervasive regressivity" in tax assessments across the country, with "lower-priced properties…assessed at a higher proportion of their sales prices than are higher-priced properties." [7]

Given the typical devaluation of Black homes in home sales and mortgage lending, the racial implications of this observation can be anticipated. For example, if a home in a Black neighborhood sells for $160,000 compared to a similar home in a white neighborhood that sells for $200,000, but both are taxed as if they are worth $180,000, the tax is regressive for the owner of the first home. A 2020 study produced by researchers for the Federal Reserve Bank of Minneapolis backs these implications up and elaborates upon them, finding that even when controlling for spatial factors (i.e. looking at property taxes assessed for homes in the same zip code, so as to control for the valuation effects of segregated neighborhoods), "the average minority homeowner has an assessment 5-6% higher relative to market price than her nonminority neighbor." In their analysis covering 118 million homes, they also found that the assessment gap–or the difference in what a home sold for and its tax assessed value–was steepest between homes found in low-income white communities compared to those found in low-income Black communities.[8]

In sum, while property tax assessments are economically regressive and racially unequal, it is important to remember that these features of the tax are related but not the same.

It is hard to imagine getting rid of property taxes altogether, given how they comprise such a large share of local revenues. States and the federal government could provide more direct aid to localities in order to reduce the necessity of collecting property taxes, and perhaps collect monies progressively through an improved income tax system, but given current national patterns it is unclear whether this would be easily achieved.

In the meantime there are some recommendations for how to improve the property tax's equitability. These include:

1. Removing property tax limits, which were mostly created by local governments in the 1970s to the disproportionate benefit of white and wealthy homeowners. [9]
2. Assessing properties using smaller market areas to determine base valuations.[10]
3. Assessing homes more regularly so as to better account for dramatic valuation shifts that typically benefit homeowners in white neighborhoods (disproportionate sale price increases) and punish homeowners in Black neighborhoods (disproportionate sale price decreases). [11]

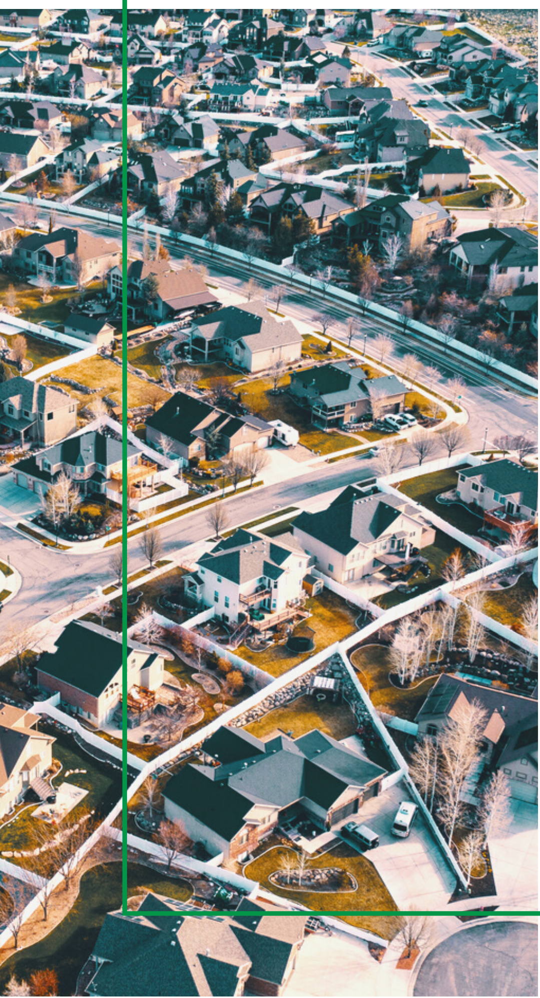
We will discuss these proposals along with other means of addressing property tax valuation inequality later.

HOW THIS PLAYS OUT: MILWAUKEE

Recent high property tax assessment increases in Milwaukee's majority Black neighborhoods following the COVID-19 housing market boom have returned property taxes to the forefront of local issues. That being said, the Milwaukee metropolitan area's high level of racial segregation and the city's uniquely limited authority over taxation have made property taxes a particular point of pain for local residents, and particularly residents of color, for decades now.[12]

According to an analysis from the Wisconsin Policy Forum, Milwaukee is unique compared to peer cities in the degree to which it relies on the property tax in addition to intergovernmental revenue from the state. In Milwaukee, property taxes made up 28 percent of the city's revenue for its 2022 budget, and 44 percent of its own source revenue. While other cities may turn to a sales or general tax to supplement property tax revenues, Milwaukee is prohibited from establishing such taxes by state law. Instead, it must rely heavily upon its property tax and state allocations that have not kept up with inflation. According to the Public Policy Forum, from 2004 to 2016 state transfers in funds to Milwaukee remained at the same amount or fell. Compared to inflation-adjusted state funding grants to the city in 1997, however, allocations to the city actually dropped by $138 million between through 2016. [13]

The property tax has been an especially problematic way for Milwaukee to raise revenue in the absence of other taxation options because of the relatively low values of properties located in the city, in addition to the already low wealth and incomes of Milwaukee city residents relative to the whiter and wealthier Milwaukee metropolitan area. Since property values are so low in Milwaukee proper, Milwaukee has set an effective property tax rate that, as of 2015, was the fifth highest of over 100 cities analyzed by the Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.[14]



Whereas other peer cities also use income, payroll, hotel, and amusement taxes as a way to spread the local taxation burden to both visitors and suburban workers who commute into their cities (Pittsburgh, for example, collected more local-source revenue in income and payroll taxes than property taxes in 2015), Milwaukee does not utilize the option to do so due to state restrictions.[15] According to a 2017 analysis from Marquette University, 125,000 people commute to work in Milwaukee on a weekly basis, compared to only 95,000 people who leave the city for work (given that incomes are higher outside of Milwaukee, the lack of a payroll tax likely costs Milwaukee relatively more than other commute locations).[16] According to another report, over one-fifth of people who work for Milwaukee City government do not live in the city, meaning that tax money effectively flows out of the city through them. [17]

Property tax reliance and a high property tax rate also means that dramatic fluctuations in home values can send shocks in assessments. That is what is happening right now in Milwaukee, where averaged assessed property values increased by nearly 18 percent from 2020-2022.[18] These hikes were especially pronounced in low-income neighborhoods of color. As our own Reggie Jackson wrote: "Of the eight aldermanic districts that saw [property tax assessment] increases above 20 percent, six were primarily Black districts and two were primarily Hispanic districts. These districts are also some of the lowest income areas in the city."[19] The reasons for these disproportionate assessment hikes have yet to be explained by Milwaukee city officials. but the system of assessment, which relies on comparable property sales, does provide some suggestions. Per the Biden administration's recent report on racial inequity in home appraisals, since the total number of sales are typically "thin" in low-income neighborhoods of color, sales comparison approaches can lead to both more subjective appraisals and greater shocks to home assessments over time based on a limited data points for comparison.[20] It stands to reason that the value of homes sold in these districts during the last year either held the most speculative potential for investors or, alternatively, were among the most high-quality and high-value of the local housing stock. If few other homes sold to regress these data points, they would naturally result in tax assessment spikes in the districts where they were located.

An important piece of information to remember for Milwaukee is that these assessment hikes do not have to correspond directly, percentage-wise, to a hike in an individual's property tax payments. The property tax levy, or the percentage of property taxes to be collected based on these assessments, will be determined by the city's Common Council and Mayor Cavalier Johnson based on the city budgeting process this fall.[21] That is, if the city budget does not change from 2021-2022, the total amount of property taxes collected will not change, and property tax percentages based on assessments will drop, though the share of total property taxes paid by homeowners in Black neighborhoods that saw steeper increases in tax assessments compared to other neighborhoods will be higher.

What therefore seems important for Milwaukee, organizing-wise, are a number of things.

1

First, it seems important to ensure that the city budget does not go up substantially this year. Inflation makes this a significant risk. So does the push for more policing, since police already make up the largest item in the city's budget (roughly one-third of its expenditures), costing the city $280.4 million as of fiscal year 2022. [22]

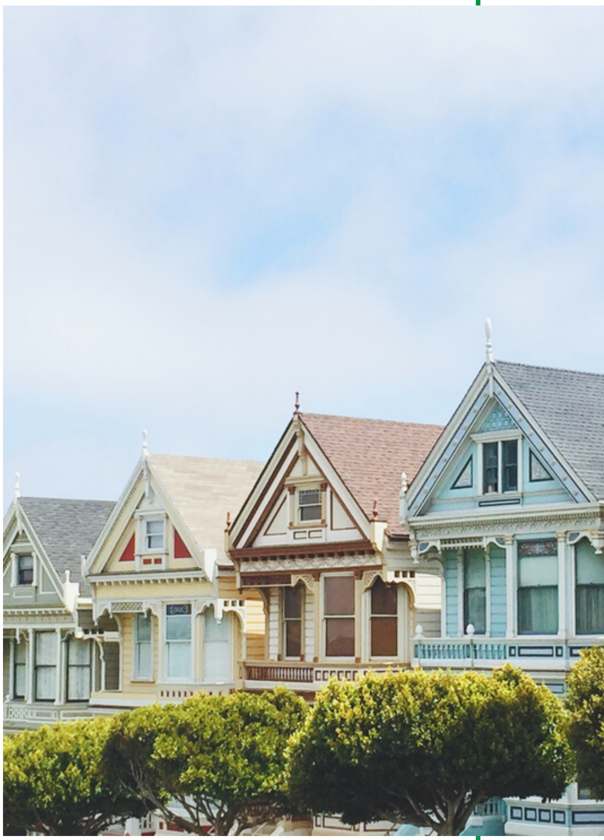
2

Second, the percentage of funds sent to the city by the state must stay the same adjusted for inflation, or potentially increased in order to reduce property tax burdens. This may be easier than expected given the pool of American Rescue Plan Act (ARPA) funds available at the current moment, though a Republican state legislature can of course continue to make such an ask difficult.

3

Third, it would be good to have a system in place to mitigate potential property tax foreclosures, especially in Black neighborhoods with the largest tax assessment increases, should the city budget increase. ARPA funds can be used to do exactly this, as ruled by the Treasury Department in early 2022.[23] The city is due to receive another $197.1 million round of ARPA funds this year; a dedicated sum could be set aside for a property tax relief fund. [24]

OVERALL POLICY RECOMMENDATIONS



From our research into the racial dimensions of property tax assessments in our three partner cities, it seems clear that any campaigns to redress this specific instance of racial inequity will have to be responsive to local conditions. Organizers, affected citizens, and other interested parties will need to develop a clearer understanding of a local government's full taxing authority, its relationship to state government (in terms of powers and grants), and the needs reflected in that local government's budget, among other factors, before determining ideal courses of actions to pursue for redress.

With that caveat in mind, however, there are some overarching reforms possible across most of these cities–and the rest of the nation, for that matter–that can help in improving the racial equity of property tax assessments. They are as follows:

1

If property tax assessments are expected to increase, property tax caps are less racially and economically equitable than offering property tax relief. Property tax caps are more likely to benefit whiter, high-income households. Property tax relief is actually targeted to households who need it most to avoid foreclosure. The fact that ARPA funds are eligible to grant tax relief for those facing hiked bills is a welcome development for redress work. In addition, for "soft" markets like Milwaukee, split-rate taxation, or the taxing of land at a higher rate than structures, can help to reduce the inequity of property taxes levied on people of color whose homes tend to be undervalued at the point of sale while also encouraging development and lower housing abandonment.[25]

OVERALL POLICY RECOMMENDATIONS

2

Smaller assessment areas that are attentive to neighborhood dynamics are more likely than larger assessment areas to be racially equitable. They do not relieve all of the racial inequality inherent in the “assessment gap” (or the difference between tax assessed value and actual sale value) but they do reduce that gap by about half. In addition, more frequent assessments are more likely to make assessments more equitable by quickly adjusting for market shocks.

3

It is important to remember the reasons why we have property taxes and how they are set in order to organize to make them more equitable. If a city like Milwaukee is constricted to the property tax, relies on unstable state funding, and has a disproportionately Black and LMI population compared to the metropolitan area, its property tax will naturally be regressive. In addition, if a city’s budget requires large outlays, this will drive up the property tax as the “millage” for assessments is based on how much revenue is needed to fund an approved budget for a fiscal year. One strategy for reducing taxes, or at least making them work more in the favor of residents who pay them to a city, would be to organize around budget approval. If the budget is reduced, even with assessment hikes people will pay a net lesser property tax. And when they pay those taxes, organizing around the budget will ensure those funds are put to use that residents can feel good about.

OVERALL POLICY RECOMMENDATIONS

4. Most cities have property tax appeals systems. Though they do not majorly reduce the racial inequity of property tax assessments, it is important that more households of color are made aware of this resource so that it does not disproportionately benefit whiter and wealthier households, and to help households of color avoid tax delinquency and foreclosure. For homes that are foreclosed upon due to tax delinquencies, a vetted receivership program might be put in place to avoid the purchase of those homes by speculators who fail to fix them up, aggravate cycles of blight, and stall rather than promote a neighborhood's redevelopment. [26]

5. ARPA funds have played a major role in closing gaps for many cities' current budgets, in addition to funding some programs for affordable housing and racial justice. While we might welcome the use of ARPA funds now, in the future their drying up could mean one of two things: 1) Heightened property tax hikes as inflation drives the cost of city budgets upward and a serious source of local revenue (numbering in the tens of millions of dollars) disappears. Or 2) serious reductions in the budget for social services and affordable housing investment. As such, it will be important to engage local leaders to see what their plan is for city budgets once ARPA funds dry up, and to try to proactively organize around this issue.

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