

Soaring property taxes elicit backlash among homeowners

Rift opens over government spending, shift in school funding

By Dennis Cauchon
USA TODAY

Last summer, the booming area around Coeur d'Alene, Idaho, had 700 homes for sale. This year, 3,400 homes are on the market.

Realtor and anti-tax activist Sharon Culbreth says soaring property taxes are partly to blame for the glut.

"It's not just that the market is softening," she says. "Many people have put their houses on the market because they fear losing their homes. The old-timers are afraid they won't be able to pay property taxes that have doubled or tripled."

Anger over rising property taxes is reverberating in many states that do not already have strict limits. State legislatures and some local governments are starting to cut property taxes, often shifting the burden to the sales tax.

Fallout from property tax cuts is wide and complicated. The changes are shifting public school financing from locally controlled property taxes to state-controlled sales and income taxes.

The changes also are carving out new winners and losers. Tax exemptions are being expanded for the elderly, the disabled, veterans and people who have owned their homes for long periods. New Jersey is considering taxing business property at a higher rate than residential property, a practice some other states use.

The property tax is under fire in states that have high property taxes, such as New Jersey, and states that don't, such as Idaho. The rebellion is mostly in states that have had soaring home values, but it's also found in some states that haven't, such as Indiana.

An unpopular tax

"People hate the property tax because it's visible," says economist Andrew Chamberlain of the Tax Foundation, a research group in Washington, D.C. "One of the

great ironies of tax policies is that people hate the tax that's easiest to see, not necessarily the one that costs them most." State and local governments collect more in sales taxes than in property taxes.

Idaho Gov. James Risch says he tells constituents that their state has some of the lowest property taxes in the nation. It ranked 36th last year. "The perception is otherwise," he says.

Risch has called a one-day special session of the Legislature today and says he has the votes to pass a controversial property tax cut. The state would raise the sales tax to

6% from 5% and use the extra money, plus some surplus funds, to eliminate the local property tax used for operations of public schools. Property taxes for building schools would remain.

"We have people coming to Idaho, buying property at high prices and driving up home prices," the governor says. "That's a good thing, in a way. But it's also causing home assessments to double and triple."

Gene Ealy, 80, of Coeur d'Alene, saw the assessment on his home rise 57% last year and 62% this year, reaching \$355,000. His taxes didn't rise that much — many local governments shave a few cents off the tax rate when assessments rise rapidly — but they have had an impact.

"The value of our homes is being set by people moving in here that value our property a great deal higher than we do," he says. "It's deadly on fixed-income people."

Ealy has investments that will let him stay in his home, but he knows other elderly people who are being forced to sell.

Voter anger can be seen at the polls. In March, voters in Coeur d'Alene — a scenic tourist town of 40,000 — rejected a school property tax increase for the first time in 16 years.

Jim Smith, the elected property appraiser in Pinellas County, Fla., which includes St. Petersburg and Clearwater, says government spending is the problem, not higher property values. He says elected officials use higher assessments as a way to raise taxes without ad-

mitting it. "It's the big lie," Smith says. "I'm fed up with them claiming they cut taxes because they lowered the tax rate, at the same time they're collecting more money because of higher assessments."

Weakening home sales and prices in many areas could slow the rise in assessments or even lower them, but it would be up to elected officials to pass on the property tax savings.

Every year, Florida property appraisers give local elected officials an estimate of what the tax rate should be so that taxes don't go up even if property values have, Smith says. It's called the rollback rate.

"If they don't want to spend more money, they can use the rollback rate," he says. "Of course, they never do. Instead, they get to have a tax increase while claiming they lower taxes."

Shifting tax burden

Dartmouth College economist William Fischel says support for the property tax has been undermined by court decisions that have required states to equalize spending between rich and poor school districts. He says homeowners resent their property taxes being sent to other communities. States are better off helping poor districts with money from statewide taxes, he says.

Fischel says the move away from local property taxes for funding schools is not good because research shows schools perform better when financial decisions are controlled at the local level.

Texas struggled for years with a "Robin Hood" property tax system that had affluent school districts

send property tax money to poorer districts, part of an effort to satisfy a 1987 court decision. Earlier this year, Texas slashed property taxes and shifted financing for poor districts to cigarette taxes and other revenue sources.

Many New Jersey educators support reducing local property

taxes and getting more state money for schools. That's partly because some local property taxes are diverted to 31 poor districts, and schools in New Jersey rely more on property taxes — the highest in the nation — than in other states.

"Shifting the burden from the property tax to a statewide tax would make it easier for many school districts to provide public education without burdening local taxpayers," says Frank Belluscio of the New Jersey School Boards Association.

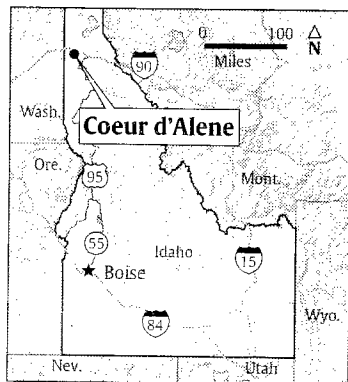
In Idaho, however, many educators oppose the governor's proposal to have the state take over school funding.

Marilyn Howard, Idaho's elected superintendent of public instruction, fears a loss of local control and unreliable school funding in the future.

"The property tax is a very stable source of revenue," she says. "The Legislature has said before that a higher sales tax or the lottery will be used for education, and then disbursed it for other spending."

Gov. Risch says schools have nothing to fear. "Education is the No. 1 priority of the Legislature."

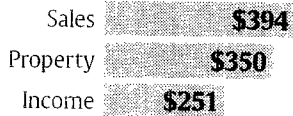




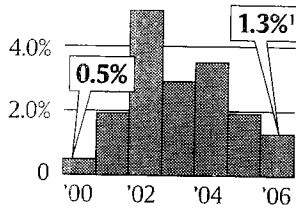
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Paying the tax tab

Property taxes are the second biggest source of money for local and state governments. Taxes collected in 2005, in billions:



Per-capita property tax increases since 2000 (adjusted for inflation):



1 - annualized rate based on first six months
Sources: Bureau of Economic Analysis; USA TODAY research

By Julie Snider, USA TODAY



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— Andrew Chamberlain, economist, Tax Foundation

Hot topic: Realtor Sharon Culbreth, right, discusses rising property taxes with homeowner Mary Collins in Dalton Gardens, Idaho.

By JEFF T. GREEN for USA TODAY