

**TYPES OF PROPERTY TAX AND
ASSESSMENT LIMITATIONS AND
TAX RELIEF PROGRAMS**

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INTRODUCTION

Property taxes constitute the dominant source of local government funds, providing three-fourths of all local taxes and almost half of all local revenues (United States Department of Commerce, Bureau of the Census 1993-1994). In terms of total state and local revenue sources, the property tax still generates more revenue than sales or income taxes. This tax, however, has never been popular with the general public. Since 1972, when the U.S. Advisory Commission on Intergovernmental Relations began surveying public attitudes towards governments and taxes, the local property tax has been ranked as the "least fair" of the state and local taxes every year. In 1978, angry taxpayers in California, frustrated with the usual legislative processes, took matters into their own hands and endorsed Proposition 13, the most fiscally constraining tax limitation measure passed to date. Since then the number and variety of tax limitation measures and tax relief programs has increased dramatically. At present, forty-six states have laws restricting state and local government tax or spending abilities and all fifty states have direct property tax relief programs, such as homestead exemptions or credits, circuit-breaker programs, tax freezes for certain categories of taxpayers, and deferral programs. The property tax system in many states still remains in flux as many state legislatures are considering laws that would expand existing tax relief programs or introduce new ones.

The goal of this module is to describe the existing types of property tax limitations and tax relief programs that impose statutory and constitutional restrictions on local fiscal autonomy. It first addresses **general property tax limitations** such as overall property tax rate limit applicable to all local governments and specific property tax limits that only affect specific local governments. Other types of limitations include property tax levy limits, limits on general revenue or expenditure increases, limits on assessment increases, and full disclosure (truth-in-taxation) requirements.

Property tax relief programs can be defined broadly to include indirect property tax relief measures including various local non-property taxes and intergovernmental aid programs that provide local governments with alternative revenue sources and thus allow these governments to reduce property tax levies. The scope of this module, however, is limited to direct property tax relief programs for homeowners and renters that directly reduce the tax bills for individual properties. These programs include homestead exemptions and credits, circuit-breaker programs, classification laws, tax freezes for certain categories of taxpayers, and deferral programs.

Other Tax Relief Programs covers certain property-tax-related measures adopted in 1994-1998 that do not easily fit into any of the above listed ten categories, but nevertheless do have a serious impact on property taxation in individual states.

A section on **Legal Challenges to Property Tax Systems** reviews recent state court rulings regarding the constitutionality of relying on property tax revenues for public school funding.

The description of the basic features of general property tax limitations and direct property tax relief programs relies heavily on previous studies written by other scholars and information from specialized electronic publications and regional newspapers. A **Bibliography** is provided.

GENERAL PROPERTY TAX LIMITATIONS

Overall Property Tax Rate Limits

- Sets a ceiling that cannot be exceeded without a popular vote.
- Applies to the aggregate tax rate of all local governments.
- Is potentially binding if coupled with a limit on assessment increases. Otherwise, it can easily be circumvented by altering assessment practices.

Among the states with overall tax rate limitations are:

Alabama – since 1972, limits range from 1% to 2% for different classes of property

Arizona – since 1980, 1%

California – since 1978, 1%

Michigan – since 1933, 1.5%; may be increased to 5% for a period not above 20 years

Nevada – since 1936, 3.64 %

New Mexico – since 1914, 2%

Ohio – since 1929, 1%

Oklahoma – since 1933, 1.5%

Oregon – since 1991, limit has decreased from 2.5% to 1.5 %

Washington – since 1944, 1%

West Virginia – since 1939, limits range from .5% to 2% for different classes of property

Ten states limit rates across multiple classifications of property (sometimes at different rates); Arizona's limit applies only to residential property. Additional variations include the exclusion of debt service, special purpose and excess levies, exemptions for home rule jurisdictions, and general override provisions through popular referenda. California's override system requires a two-thirds supermajority, but the passage of Proposition 39 in the November 2000 election lowers this threshold to 55% for bond issuances by local school districts.

Specific Property Tax Rate Limits

- The most common form of tax and expenditure limits
- Sets a ceiling that cannot be exceeded without popular vote.
- Applies to specific types of local jurisdictions (e.g., counties, municipalities or school districts)
- Potentially binding if coupled with a limit on assessment increases. Otherwise, these limits can be circumvented by altering assessment practices or through interfund transfers for specific services.

Examples of states with specific rate limitations are:

Alabama – counties, municipalities, school districts;

Alaska – municipalities;

Arkansas – counties, municipalities;

Colorado – counties, municipalities, school districts;

Florida – counties, municipalities, school districts;

Georgia – school districts;

Idaho – counties, municipalities, school districts;

Illinois – counties, municipalities, school districts;

Iowa – counties, municipalities, school districts;

Kansas – school districts;

Kentucky – counties, municipalities, school districts;

Louisiana – counties, municipalities, school districts;

Massachusetts – municipalities;

Michigan – municipalities;
 Missouri – counties, municipalities, school districts;
 Montana – counties, municipalities, school districts;
 Nebraska – counties, municipalities, school districts;
 Nevada – municipalities, school districts;
 New Mexico – counties, municipalities, school districts;
 New York – counties, municipalities, school districts;
 North Carolina – counties, municipalities;
 North Dakota – counties, municipalities, school districts;
 Oregon – school districts;
 Pennsylvania – counties, municipalities, school districts;
 South Dakota – counties, municipalities, school districts;
 Texas – counties, municipalities, school districts;
 Utah – counties, municipalities, school districts;
 Washington – counties, municipalities, school districts;
 West Virginia – counties, municipalities, school districts;
 Wisconsin – counties;
 Wyoming – counties, municipalities, school districts.

Property Tax Levy Limits

- Constrain total revenue that can be raised from property tax, independent of the rate.
- Often enacted as an allowable annual percentage increase in the levy.
- Potentially binding because of the fixed nature of the revenue ceiling, but can be limited through diversification of revenue sources

Property tax revenue (levy) limits specify the maximum annual increases in revenue. Some states impose restrictions on allowable increases only after property is revalued. A revenue limit imposed after a statewide or countywide reassessment is referred to as a revenue rollback limit (unless reassessments occur annually). Rollbacks require that tax rates be adjusted to prevent an increase in revenue, but some states specify an allowable growth percentage. Growth from new construction generally is excluded from allowable increase.

Although 26 states currently employ overall levy limits, they are a relatively recent phenomenon. Only five states imposed such limits before 1970 (Arizona, Colorado, Oregon, Pennsylvania and Utah [repealed in 1986]). Eleven states enacted these limits in the 1970s (Alaska, Delaware, Idaho [repealed in 1992], Indiana, Kansas, Kentucky, Louisiana, Michigan, New Mexico, Ohio and Washington). During the 1980s, 10 states initiated a levy limit (Arkansas, Massachusetts, Mississippi, Missouri, Montana, Nevada, New Jersey, North Dakota, Rhode Island and Texas). In the 1990s, Illinois (1991), Nebraska (1990), West Virginia (1990), Idaho (1995) and South Dakota (1997) imposed levy limits, while states such as Illinois (1995-96), Nebraska (1996), Montana (1997) and Washington (1997) have strengthened or extended the reach of existing limits.

The nature of a property tax revenue limit is determined by the percentage of allowable annual growth, voter overrides, and exemptions. Allowable growth is expressed differently among the states, and the amount differs dramatically, from 0% in Kansas and Louisiana to 15% in Delaware. Allowable growth also may be expressed as a shifting percentage that is determined by changes in inflation (Colorado, Michigan) or assessed property values (Indiana). At least 15 states provide for voter overrides of levy limits, which are valid for different lengths of time in different states. Allowable exemptions are another mechanism that may reduce the effect of a

limitation. Examples of common exemptions include new construction, improvements and annexations; debt service; specific expenditures of home rule jurisdictions (Colorado and Illinois); amounts for emergency situations (New Jersey and Rhode Island); expenditures mandated by state or federal law (Mississippi, New Jersey); and offsets to the loss of non-property tax revenue (Rhode Island).

Limits on General Revenue or Expenditure Increases

- Caps total revenue that can be collected and attempts to constraint spending.
- Often indexed to the rate of inflation.
- Potentially binding because of the fixed nature of the revenue or expenditure ceiling.

Limitations on annual increases in general revenues and general expenditures are more comprehensive and restrictive than other limits, and they are used least. All of the state general limits were enacted after 1970 except Arizona's.

General revenue limits are relatively uncommon, and only two states (Colorado and Wisconsin) currently utilize them. General expenditure limits are used in Arizona, California, Colorado, Iowa, Kansas, Minnesota, Nebraska and New Jersey. This limit had been directed toward school districts in all 8 states, followed by municipalities in 4 states and countries in 3 states.

Provisions for expenditure growth typically depend on a combination of factors, including allowable growth as a specified fixed percentage over the previous year's base; combined in a formula with price; or based on growth in the property base, income, or number of pupils (adjusted for an education index).

Limits on Assessment Increases

- Controls ability of local governments to raise revenue by reassessment of property or through natural or administrative escalation of property values.
- Potentially binding if coupled with an overall or specific property tax rate limit; otherwise can easily be avoided through a rate increase.

Limits on assessment increases restrict local government's ability to garner increased revenues from rising property values and/or windfalls from reassessments. The limit is generally expressed as an allowable annual percentage increase in assessed value. As of late 2000, eighteen states impose limits on assessment increases (Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Iowa, Maryland, Michigan, Nevada, New Jersey, New York, Oklahoma, Oregon, South Carolina, Texas and Washington). The least restrictive limit is in Iowa, where the assessment limit is applied statewide on classes of properties (residential, agricultural and commercial) rather than on individual properties. Statewide average valuation growth can mask

significant variations in the appreciation of individual properties within regions and even within municipalities. Therefore, a valuation limit applied statewide to property classes may not prevent large increases in the assessment of individual properties. Other states apply the assessment limit individually to pieces of property. Allowable percentage increases range from up to 10 percent (Arizona, Maryland, Texas) to 2 percent (California).

The increases in several states typically depend on a range of variables. In California, property assessments may increase with inflation (as represented by the CPI) up to 2 percent a year. If

inflation is less than 2 percent, the assessment is equivalent to that percentage. The Florida limit applies to the lower of a 3 percent increase over the prior year's assessment or the percentage increase in the CPI. Maryland local jurisdictions may reduce the state-authorized limit of 10 percent to as low as zero. New York assessment increases for Class I residential property in New York City and Nassau County are limited to 6 percent in any one year or 20 percent over a five-year period. Similarly, Washington voters in the November 2000 election approved voter initiative I-722, which rolls back property values to their levels as of January 1, 1999 and caps annual assessment increases at 2% or the inflation rate, whichever is lower. Since residential property values generally rise at a much higher rate than business property values, there are concerns the initiative might unduly burden the business sector and deter economic development statewide.

As part of a large property tax relief program approved by Arkansas voters in November 2000, the legislature has instituted a procedure for phasing in reassessments of real estate after a countywide reappraisal. For residences, the reassessment increase would be limited to no greater than 5 percent a year. For non-homestead property, increases would be limited to not more than 10 percent yearly. If a county has not undergone a countywide reappraisal from 1986 to 2000, the increases would be phased in at the rate of one-third a year for three years. After the initial conversion, these counties would use the same procedure as other counties in phasing in reassessment increases. For persons 65 and older, property tax increases resulting from such reappraisals have been capped.

A slightly different and more drastic measure, which effectively freezes residential property tax assessments as of January 1, 2001, was approved by voters in Georgia's Gwinnett County in November 2000. When the value of a home increases after this date, the homestead exemption will increase by a matching amount, thereby forcing county governments to implement potential tax increases only through a more visible millage rate hike. This provision only applies to current homeowners; when the property is resold the new owners will be taxed on its full market value, a dual tax system similar to California's Proposition 13 and which is likely to be challenged on constitutional grounds in the future. Many other counties are expected to institute "copycat" measures in the near future.

Common exclusions from property tax assessment limits are increases due to improvements and new construction. Some states allow full reassessment at the time of sale or change in ownership (unless change is among immediate family members).

Full Disclosure (Truth-in-Taxation) Requirements

- Requires public discussion and specific legislative vote before enactment of tax rate or levy increases.
- Non-binding because a formal vote (generally a simple majority) of the local legislative body can increase the tax rate or levy.

Full disclosure is the least restrictive form of local limit, and 20 states presently utilize such laws. This restriction requires only that the local legislative body or board be willing publicly to designate a revenue increase as a tax increase. In Missouri, for instance, taxpayers must be sent a written notice of any tax increase, while in Utah the taxing entity must advertise any proposed revenue increase (except from new construction) and hold public hearings on the matter.

DIRECT PROPERTY TAX RELIEF

Homestead Exemptions and Credits

The property tax is the product of the tax base (assessed value) and the rate. An exemption reduces the base by subtracting some amount from assessed or market value. While the exempt amount could be expressed as a percentage of gross value, standard practice is to exempt some absolute number of dollars. This practice means that a larger percentage of lower-valued properties is exempt.

A credit is subtracted from the tax bill after the liability has been calculated. Despite this apparent difference between a credit and an exemption, a credit can be designed to have exactly the same effect as an exemption. In practice, however, the property tax credit often is different from the exemption approach because property tax credits are calculated as a specified percentage of the gross tax. This gives the same result as an exemption set equal to a given percentage of gross value – an exemption approach that generally is not used.

Homestead exemptions and credits are the most common form of property tax relief for homeowners and renters, and are often awarded to groups such as the elderly, the disabled, veterans, and disabled veterans. While the majority of states provide homestead exemptions or credits without regard to income, at least 18 states require recipients to meet income eligibility requirements.

State homestead exemption or credit programs vary considerably in their generosity. Homeowners in Louisiana pay no tax on the first \$75,000 market value of their homes, while elderly homeowners in Massachusetts receive an exemption on only the first \$2,000 of market value. Colorado voters in November 2000 approved a property tax exemption for homeowners 65 and over who have lived in the same residence for 10 or more years. The exemption equals 50% of the first \$200,000 of actual value and represents a \$44 million total tax rebate.

Only 19 states with state-mandated homestead exemption and credit programs use state funds to reimburse local governments for lost revenues or provide direct benefits for taxpayers. These costs can range from an estimated \$1.4 million in Montana in fiscal year 1992 to \$665 million in Minnesota in fiscal year 1991. Similarly, Maine in 1998 adopted a homestead relief program that would exempt the first \$7,500 in value from property taxes levied by municipalities, with the state reimbursing these localities for the approximately \$49 million annual revenue loss. In the other states, local governments have to absorb the revenue loss or shift the cost through higher rates on non-exempt property. Local governments in Louisiana, which had the most generous homestead exemption program in the country, lost an estimated \$429 million in revenue in 1990. South Carolina, which in 1995 exempted the first \$100,000 in value of a primary residence from any school taxes, bore the measure's cost (\$195 million in fiscal 1996 and \$213 million in fiscal 1997) from existing revenues

In recent years, many states have enacted generous increases in homestead exemption programs, an indication of their popularity among elected officials and voters alike. In 1995, the Utah Legislature agreed to a \$146 million property tax relief package, a key element of which was an increase in the homeowners' exemption from 32 to 45 percent. In 1997, Kansas provided a \$20,000 homestead exemption as part of a property tax cut totaling \$91.7 million in fiscal year 1998 and \$135.4 million in fiscal year 1999. Also in 1997, Texas voters approved a constitutional amendment that provided a \$1 billion property tax cut by increasing the homestead exemption from school property taxes by \$10,000. That means that homeowners younger than 65 can apply for a \$ 15,000 exemption; those 65 and older qualify for a \$ 25,000 exemption. The same year, New York adopted the tax relief plan, known as STAR, which will provide nearly

\$2.3 billion annually in school property tax relief when fully effective in 2001. A STAR homestead exemption will reduce the full value of a home for school tax purposes by \$50,000 for seniors and \$30,000 for other homeowners. The result will be the average annual savings in school property tax bills of \$800 for seniors and \$500 for others. In November 1997, Pennsylvania voters approved the homestead exemption, which changes the tax uniformity section of the state constitution. Prior to this referendum, the Pennsylvania Constitution required municipalities to tax residential and business properties equally. The amendment allows local governments to lessen the burden on homeowners by exempting up to 50% of the median assessed value of residential properties. Similarly, Arkansas voters in November 2000 approved a constitutional amendment allowing \$178.4 million in property tax relief, which the legislature will provide in the form of a credit of up to \$300 in the property tax bill of every homeowner. A 0.5% sales tax increase will compensate for lost revenues.

Circuit-Breaker Programs

Circuit-breaker programs typically assume two different forms. Under the “sliding scale” approach, the state sets the rebate for qualified homeowners and renters that can be either a fixed amount or a percentage of tax paid. In Nevada, for instance, homeowners with incomes below \$5,400 receive a rebate of 90% of tax paid, subject to a maximum rebate of \$500. The allowable percentage of tax falls as income rises, until benefits are fully phased out at \$19,100.

“Threshold” circuit-breakers, by contrast, are designed to ensure that property taxes do not exceed a certain percentage of household income. In Vermont, homeowners receive a rebate of property taxes exceeding 4.5% of income, subject to a maximum benefit of \$1,350.

In order to control the cost of the programs, most states target the elderly and disabled homeowners and renters. Of the 27 states with circuit-breaker programs for homeowners only four allow all households to participate without regard for age or disability, while four additional states provide more generous benefits to the elderly and disabled. In 1996, for instance, Wyoming homeowners with incomes at 100 percent of the poverty level or below became eligible to receive a rebate of property taxes equal to 50 percent of their property tax bill or \$500, whichever is less. Taxpayers with incomes at 120 percent of the poverty level may receive a rebate of 40 percent of their taxes or \$400. In 1998, Rhode Island expanded a circuit-breaker program for low-income tenants and homeowners. The income eligibility was increased from \$18,000 to \$25,000 a year.

Classification

The hallmark of classification, which was first implemented by Minnesota in 1913, is different effective tax rates for different property classes. The most common approach to establishing effective rate differentials is the application of uniform nominal rates to different assessment levels. West Virginia and the District of Columbia classify by applying differential nominal rates to supposedly uniform assessed values, while New York authorizes local adoption of such an approach.

Other differences among classification systems include the number of classes defined, the degree of difference among classes, and the constitutional or statutory placement of these details. The number of classes, for example, ranges from two to over twenty. Finally, there is the question of whether the differences between classes will be fixed or floating. Fixed relationships lock in effective rate differences. Earlier, fixed relationships were universal among real property classification states; in recent years, however, concern often has been with halting or slowing the

recent drift toward ever-higher share of property values being accounted for by residential property. Some states have devised classification approaches to nullify the market results as they relate to interclass shifts. This requires floating relationships.

Tax Freezes

Tax freezes typically bar increases in property taxes once the eligible participant reaches the age of 65. Connecticut, Minnesota, South Dakota, Tennessee, and Texas froze property taxes in the 1970s, when inflation was especially rampant in the residential real estate market. Tax freezes are still in effect in all of these states except Minnesota.

Tax freeze programs never have gained popularity because they are difficult and expensive to administer. Moreover, since the 1970s more and more states have chosen homestead exemption and circuit-breaker programs as their main property tax relief vehicles. These programs, as well as broad property tax limitations, have made tax freezes unnecessary.

Washington introduced a tax freeze on valuations for seniors with incomes below \$28,000 in 1995. In 1998, the income ceiling was raised to \$30,000. In 1996, Oklahoma voters adopted an amendment to the state constitution to freeze the value of a homestead for property tax purposes for persons who are 65 years or older with a gross household income of \$25,000 or less. In January 1998, New Jersey Governor Christine Todd Whitman signed legislation providing a property tax freeze for disabled and over-65 property owners having income of less than \$17,918 for single persons and \$21,970 for married persons who have lived in New Jersey for at least 10 years. The taxes would be frozen at their 1997 level or the level for the year in which the persons first became eligible.

Deferral Programs

Nearly half of the states have some form of property tax deferral programs for qualifying elderly and disabled homeowners. These programs allow homeowners to use the equity in their homes to guarantee payment on deferred taxes, which become a lien on the home that is satisfied when the home is sold or when the homeowners' estate is settled. Elderly homeowners are eligible for such programs in each participating state (with six states imposing no income eligibility guidelines), while disabled homeowners are eligible in seven states. Participation in deferral programs is typically low, however, due to the reluctance of many elderly homeowners to place a lien on their property.

OTHER TAX RELIEF PROGRAMS

Some of the tax relief programs adopted in recent years do not easily fit into any of the above categories. These programs are briefly described in this section.

In 1994, the Wisconsin Legislature adopted a freeze on local school property taxes. In the 1995 session, the legislature continued the tax freeze and pledged to increase the state share of school spending from 45 to 66 percent by the end of fiscal year 1997. State spending on education was increased by 12% in 1995, 10% in 1996 and by 32% in 1997. As a result, the average amount which local governments collectively levied for property taxes dropped considerably, leading to a reduction of property taxes on the median valued home by 11.5%, or \$245.

Another major reduction in property taxes in 1995 occurred in South Dakota. Governor Janklow proposed and the legislature adopted a tax relief package that among other things required a tax

freeze on agricultural property and owner-occupied homes to be implemented in 1996, with taxpayers receiving a 20% credit on their tax bills for that year. In 1998, an additional 5% cut in property taxes was approved with the estimated cost of \$20 million.

Three other states cut property taxes in 1995. Idaho transferred \$40 million of school operation costs from local property taxpayers to the state. The package proposed by Governor Batt cut every taxpayer's bill by the same proportion, or about \$1 for every \$1,000 of taxable value. In Montana, the legislature provided homeowners whose valuations increased more than 15 percent with a property tax payment offsetting any tax increase associated with the valuation increase in excess of 15 percent. The Iowa Legislature directed the state to assume half of county mental health program costs [\$61 million], thus reducing property taxes that used to pay for these expenses.

In 1996, Arizona eliminated the state's property tax rate of 47 cents per \$100 of assessed valuation, saving taxpayers \$111 million. It also adopted several other tax relief measures, so the total property tax cut in 1996 reached \$199 million. The Iowa Legislature continued property tax cuts of the previous year. It provided an \$85 million property tax cut for homeowners by increasing school aid and boosting state funding for the homestead credit program.

In 1997, Minnesota returned \$478 million of surplus revenues by rebating 20% of property taxes to homeowners, farmers, and renters as a refundable, one-time credit on 1997 income tax returns. In Iowa, the legislature approved the bill requiring the state to provide full funding for a homestead property tax credit at a cost of \$22 million.

LEGAL CHALLENGES TO PROPERTY TAX SYSTEMS

Since the property tax is often a major source for the funding of public schools, some state supreme courts have declared that such systems violate the equal protection clauses of certain state constitutions, which sometimes guarantee an equal or uniform public education to all. Since 1971, 17 supreme courts have declared school-funding programs unconstitutional and issued mandates to state governments to devise a more equitable system, partially due to an excessive reliance on property tax revenues that vary widely among school districts.

A Colorado lawsuit challenging the constitutionality of the state's school funding system was settled in late 2000, with the state agreeing to provide \$190 million over 11 years to finance construction and maintenance. The case, *Giardino et al v. Colorado State Board of Education*, concerned the inequality of schools funded by property taxes on the grounds that such a system violated the guarantee of a "uniform education" in the state constitution.

In New Jersey, both legislative houses are committed to forming a multibillion-dollar school construction program, thus making education largely independent of property taxes. Suburban and rural school districts would receive a minimum of 40% state funding, while 30 urban districts classified as "special needs districts" would receive 100% state funding. The Assembly's version calls for a cap of \$8.5 billion on state borrowing, while the Senate version has no cap. The measure is in response to a mandate of the Supreme Court that the state provide full funding for all schools.

Ohio, whose property tax system was first declared unconstitutional in 1997, must comply with a May 2000 ruling of the Ohio Supreme Court to decrease reliance on property taxes as a source of education funding by a deadline of June 15, 2001. In a recent statewide contest to find a solution that meets the constitutional guarantee of a "thorough and efficient" education, the winning

proposal advocated cutting local property taxes and using state funding instead. This plan, which would cost the state \$1.7 billion annually and is expected to be presented to the legislature, would increase state aid from 43 to 51 percent and decrease property taxes from 51 to 42 percent.

Three Republican congressmen have introduced legislation (HB 754) that would abolish voter-approved property taxes for school funding above the constitutional 10-mill limitation, a measure that would reduce property taxes roughly 80 percent from their current level. The lost revenues would be replaced by a local school income tax bill, which should be introduced in the upcoming weeks. Supporters claim the bill would comply with the Supreme Court order, spread the tax burden more equitably over more people, and bypass a 1976 law (HB 920) prohibiting increases in school property taxes from reappraisals.

The New Hampshire Supreme Court in 1997 declared that New Hampshire's education system was overly reliant on local property taxes for funding. In response, state lawmakers in 1999 instituted a two-year statewide property tax, under which wealthier towns ("donors") effectively subsidize education costs in poorer towns ("receivers"). 27 of the donor towns sued the state in 2000, claiming that a lack of uniformity in assessment programs and revaluation programs across the state made this system unconstitutional and unfair. The Supreme Court reversed the lower court ruling declaring the state-wide tax unconstitutional in May, 2001, but legislators are still attempting to devise a permanent program to satisfy the court mandate.

In addition to the school funding issue, disparities in assessment increases have also been subject to legal challenges, on the grounds that they violate a constitutional guarantee of uniform taxation.

A New Mexico law limiting increases in the individual assessments of residential property to 3% annually—5% in counties in which overall assessments are below 85% of market value—is being challenged as unconstitutional. The state constitution allows assessment limitations in few situations, and discrepancy with market value is not listed. Without this provision, however, it will be difficult to reassess fully those counties with low assessment values. The law also reassesses property at market value upon a change in ownership, while an additional law freezes property taxes for senior citizens making less than \$18000 a year; combined, these rules make it easier for owners to avoid full assessments.

In 1997, Washington voters approved Referendum 47 that limited the annual percentage increase in the assessed value of individual properties. The measure limited the increase in assessed value to 15% if the increase in market value was between 15% and 60%. If the increase in market value was more than 60%, the increase in assessed value was limited to one-fourth of the market value increase. In future years the assessed value of the property was supposed to catch up with the market value. But in *Belas, et al. v. Kiga*, the Washington Supreme Court has ruled that the cap on assessment increases was unconstitutional because it violated the uniform taxation requirement of Article VII of the state constitution. However, voters in November 2000 approved initiative I-722, which also limits assessment increases in somewhat similar fashion.

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