

**SYRACUSE UNIVERSITY
MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS**

PAI 735
State and Local Government Finance
Professor Yinger

**CASE:
STATE REGULATION OF LOCAL PROPERTY TAX ASSESSING¹**

Property Tax Assessing in New York State

According to the latest figures, New York has 1,116 assessing units.² That's right: 1,116. This includes 2 counties, 61 cities, 920 towns and 133 villages. The village assessors are totally duplicative, so people living in villages may receive two different assessments for taxes levied by different units of government—a wasteful arrangement not observed in any other state. Even without this duplication, however, the number of assessing units would be way too high.

Like many other states, New York State does not exactly enforce high assessment standards; instead it provides funds to encourage good assessments. Its latest program, the Cyclical Reassessment Aid Program, “requires a participating municipality to submit a plan for a reassessment cycle that must include a complete reappraisal at least once every four years.” As a result of these efforts, along with ongoing professionalization among assessors, the quality of assessing in New York State has improved over the last few decades. In 1980, fewer than 10 percent of assessing units met widely accepted standards for assessment accuracy. By 2010, this percentage had increased to 70 percent.

However, scholars have found that assessment is subject to dramatic economies of scale. According to the best study, a 10% increase in the number of parcels results in a 7% decrease in the cost of assessing per parcel. As a result, cutting the number of assessing districts in half, which corresponds to doubling the number of parcels per district, would result in a 35% decrease in the state-wide cost of assessing. Shifting to county assessment units would probably cut the State's total assessing costs at least in half.

Moreover, almost 500 assessing units are so small that they share an assessor. Other small units have a part-time assessment board. Consolidating units would also make the system more rational and more professional.

¹ This case was written by Professor John Yinger solely for the purposes of class discussion.

² This paragraph and the next three come from John Yinger, “Four Flaws in New York State's Property Taxes and How to Fix Them: Small Assessing Units.” It's Elementary, A Monthly Column, Available at: http://cpr.maxwell.syr.edu/efap/about_efap/ie/Aug12.pdf

Although assessing has improved in New York, assessing quality in many jurisdictions still lags behind the standards established by the International Association of Assessing Officers (IAAO at www.iaao.org). Because assessing is expensive, many localities, especially poor cities, do not reassess their property on a regular basis. Exhibit A provides detailed information on the consequences in one poor city, namely, Syracuse. Updating the assessments for all properties is known as “reassessment.” Information about the frequency of reassessment, also called revaluation, and about the resulting assessment quality around New York State are provided in Exhibit B.

Assessment and Equity

Inaccurate assessments lead to important questions about the fairness of the property tax. The effective tax rate, say t , which is the appropriate measure for comparing property tax rates on different properties, is defined as the nominal or mill rate, m , which is the same for all properties, multiplied by the assessment/sales ratio. In symbols, $t = m(A/V)$. Reassessment fixes assessed values, A , at a point in time, but market values, V , change every year based on housing market conditions. With infrequent assessments, the A/V ratio, and hence the effective tax rate, shows more and more variation across houses—and hence more and more horizontal inequity—over time. In addition, neighborhoods with rapid increases in V , which tend to be rich neighborhoods, experience rapid declines in V compared to neighborhoods where property values are stagnant, which tend to be poor. As a result, inaccurate assessments tend to result in higher effective tax rates in poorer neighborhoods—a type of vertical inequity.

A full analysis of assessment equity must consider “tax capitalization,” which is the impact of the property tax on property values. Most scholars find that a \$1 increase in the present value of expected future property taxes results in close to a \$1 decline in the market value of a house. Suppose assessed values are fixed at point in time and the mill rate is adjusted every year so that the average effective tax rate is constant. Then houses with an above-average increase in value, perhaps because they are in a nice neighborhood, experience a decline in their effective tax rate relative to other houses. This decline in the effective tax rate, assuming it is expected to continue, leads to an increase in the value of these houses (on top of the neighborhood changes that boosted their value in the first place). Every year, in other words, poor assessments hand out small capital gains to some homeowners and capital losses to others.

Now in the case of long-term owners, reassessment claims back these gains and compensates for these losses. An accurate revaluation brings all effective tax rates in a jurisdiction to the same value. Homeowners with relatively low effective tax rates before revaluation experience a tax increase and a capital loss on their house, and homeowners with relatively high tax rates experience a tax decrease and a capital gain. Intuitively, the jurisdiction was lending money to some households in the form of a relatively low effective tax rate and borrowing from others in the form of a relatively high tax rate. Reassessment can be thought of as a process in which all these loans are paid back.

The problem is that reassessment is not fair to recent home buyers. Suppose a household buys a house with a relatively low tax rate. With tax capitalization, it must pay a relatively high

price for this house. Now suppose that reassessment is announced the day after this purchase. Then this new homeowner will experience an unanticipated increase in its property tax payment—tax payment—and hence a capital loss. Unlike a long-term owner, this household did not benefit from its initial low property tax rate, so the capital loss it experiences is arbitrary and unfair.

This type of unfairness can be eliminated by reassessing each house upon resale, which re-sets the effective rate to the district average. This practice is followed by some assessing districts in New York, but it is far from universal and is not mandated by the State. An even better way to prevent this unfairness is to implement and maintain accurate assessments.

Classification

In New York State, the incentives for reassessment are influenced by the existence of the Homestead Tax Option (HTO). The HTO is an unusual type of tax-classification law, which makes it possible to charge different property tax rates for different types of property. Assessing jurisdictions that reassess all their property can implement the HTO if they want to. The HTO cannot be implemented without a full reassessment. The provisions of the HTO are explained in detail in Exhibit C. HTO defines two types of property: homestead, which is all residential property except large apartment buildings, and non-homestead property. The definitions of homestead and non-homestead property are set by law and cannot be altered by the assessing jurisdiction. See Exhibit C.

It may make sense to link reassessment and classification. A failure to update assessments, even upon resale, usually results in a situation in which the average residential effective property tax rate falls below business rate. At least to some degree, this outcome reflects the fact that the methods used to determine the assessed values of business property, namely, the income and cost methods, are easier to update than the method usually used for residential property, namely, the comparable-sales method. More specifically, the comparable-sales method requires extensive data on all houses and their characteristics, along with a sample of recent sales. Without a full reassessment, the comparable-sales method is difficult to update, residential assessed values remain fixed, and residential effective tax rates fall as residential market values rise. Under these circumstances, a revaluation of all property results in an increase in the average residential effective tax rate—an outcome that is not popular with voters. Combining reassessment and classification makes it possible to improve the fairness of the property tax across homeowners through reassessment while at the same time holding the average residential effective tax rate constant through classification.

This phenomenon may help to explain why Rochester combined reassessment and classification, but Syracuse did not. Exhibit D describes the relative effective property tax rates for homestead and non-homestead property in Rochester, which implemented the HTO in 1985. This exhibit shows that non-homestead property in Rochester experienced a huge increase in its effective tax rate right after reassessment; if Rochester had not selected the HTO, its reassessment would have resulted in a huge increase in the effective tax rate on homestead property instead. When Syracuse reassessed in 1996, however, the average homestead property tax rate went from 1.49% to

1.73%—an increase of only \$168 per year on a \$70,000 house, which is about the city’s average.³

In New York, a jurisdiction’s decision about classification is complicated by an unusual feature of the HTO, namely, that it does not lead to a fixed difference in the effective tax rates on homestead and non-homestead property. Instead, the HTO fixes the shares of the tax levy that homestead and non-homestead property are required to pay. The tax rates for the two types of property must be set to ensure that this share requirement is met. The resulting property tax rates can vary considerably over time. In Rochester, the initial increase in the non-homestead tax rate was followed by a decline in this rate over the subsequent decade. See Exhibit D. Since 1997, the effective tax rate on non-homestead property has stayed between 2 and 2.4 times as high as the rate on homestead property. The consequences of the HTO for both residential and business property owners are discussed in more detail in Exhibit E.

Although effective tax rates are difficult to predict when the HTO is in place, cities with the HTO, including Binghamton, Buffalo, Niagara Falls, and Rochester, have not experienced a clamoring for its repeal by business or homeowner groups. This might, at least in the case of Rochester, reflect the apparent decline in rate instability seen in Exhibit D, but it might also reflect the fact that many people are not aware of the rate differences that exist. In fact, these rate differences are not posted by the New York Department of Taxation and Finance, and they are not provided to the public by any of the above cities, except for Rochester.

The Decision

Because you are an expert on the property tax, the Governor of New York has appointed you as the chair of a Commission on Assessment Reform in New York State. The charge of this commission is to evaluate the assessing system and the HTO and to make recommendations for reform. These reforms may include, but are not limited to, changes in state requirements imposed on assessing units, changes in the organization of assessing units, changes in state funding of assessing units, and changes in (or elimination of) the HTO. Representatives of IAAO, Syracuse United Neighbors, the Business Council of New York State (BCNYS at <http://www.bcnys.org/>), and New York State Office of Real Property Tax Services (ORPTS) (which is part of the New York State Department of Taxation and Finance), and the Fiscal Policy Institute (www.fiscalfpolicy.org) have also been appointed to the commission.⁴

You may, if you wish, prepare a brief (two-page) memo stating your views on these issues for submission to the commission.

³ These numbers come from a memorandum on the Homestead Tax Option sent by John C. Gamage, Commissioner of Assessing, to the Syracuse Common Council, on October 18, 1995.

⁴ According to its website, “[t]he Fiscal Policy Institute (FPI) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.” An example of property tax analysis by FPI can be found at: http://fiscalfpolicy.org/wp-content/uploads/2010/07/Mauro_PropertyTaxReliefPresentation_CPTR20080212.pdf

Exhibit A

Tim Knauss, “Syracuse shocks property owners with 10 to 50 percent assessment hikes,” *The Post Standard*, January 28, 2011.

Peyman Pourpezeshk was shocked when he got his assessment letter from the city of Syracuse this month. It said the value of his house on East Genesee Street had shot up 50 percent.

The city raised his assessment to \$150,000, up from \$100,000 last year. At current tax rates, the new assessment would increase Pourpezeshk’s property taxes by more than \$2,000 a year. “Fifty percent? That’s unheard of,” he said.

Pourpezeshk said he will fight the increase by filing a grievance with the assessment review board. He is rushing to file by today’s grievance deadline.

Pourpezeshk is one of 1,918 city homeowners who received changes in assessment this month. His increase was one of the biggest. But many other homeowners — especially in desirable neighborhoods like Strathmore and Scottholm — received increases of 10 percent, 20 percent, or more.

“I got cracked right over the head,” said Jason Allers, of Stinard Avenue in Strathmore. His assessment shot up \$25,800, nearly 29 percent.

“I got nailed,” said Geraldine Unz, of Roberts Avenue in Strathmore, whose assessment increased \$20,000, or 18 percent.

Jolts like that occur because the city lets years pass without reassessing properties, said David Clifford, commissioner of assessment.

In Strathmore, for example, many homes have only been reassessed once or twice in the past 15 years, despite rising home values in the neighborhood, he said.

Clifford and his three staff assessors can get to only about 2,000 properties a year — less than 5 percent of the city’s 42,000 properties — and some neighborhoods have not been reassessed in more than a decade.

The last time the city reassessed every property was 1996. Some properties have not been evaluated since then.

The result: The city’s tax assessments are increasingly inaccurate, causing some property owners to pay more than their share of taxes while others pay too little. And when the city’s three staff assessors reappraise properties after the passage of several years, the result can be a double-digit jump.

“We wait until there are enough sales in a neighborhood to demonstrate that values have been increasing, and then we’ll address that neighborhood,” Clifford said. “We’ve only got three

people going out there in the trenches doing the assessments. We don't get to that many."

State officials urge municipalities to reassess all properties annually. At a minimum, a full reassessment should be conducted every four years, said Geoffrey Gloak, speaking for the Office of Real Property Services.

Buffalo, Rochester and Albany have all completed reassessments since 2007.

But only a little more than half of the 983 cities, towns and other assessing governments in New York have done community-wide reassessments within four years, according to ORPS. New York, unlike many states, cannot compel local governments to keep assessments current. It's voluntary.

Syracuse does not keep to the state's schedule. Clifford said he doesn't have sufficient staff or budget for a citywide reassessment, and his best use of resources is to focus on neighborhoods with a large number of home sales, especially if the neighborhoods show rising prices.

Cities have a harder time than many suburban towns staying current with assessments, because they contain a vast number of properties in neighborhoods as different as Sedgwick, Tipperary Hill and the Near West Side. Some neighborhoods of Syracuse increase in value during the same year that other neighborhoods decline.

Towns tend to be more homogenous, Gloak said. But that's all the more reason for city officials to stay on top of assessments.

"The longer you go without doing a reassessment, the more likely it is that some taxpayers are going to pay more than their fair share of taxes, and others are going to pay less," Gloak said. As of 2008, the last time it was measured, the average Syracuse home assessment was 16.5 percent too high or too low, according to calculations by the ORPS.

Residential assessments should not vary from the median by more than 10 percent, Gloak said. It's time for Syracuse to do a citywide reassessment, he said.

Big hikes in assessments may shock middle- and upper-class homeowners who live in desirable neighborhoods. But over time, inaccurate assessments do the most harm to residents of poorer neighborhoods, said Phil Prehn, an organizer at Syracuse United Neighbors.

When assessments lag behind increases in home values, the owners of those homes pay less than their true share of taxes. Meanwhile, the owners of properties that are not gaining value, or are losing value, shoulder a larger share of the tax burden than they should unless they get a cut in assessment.

Residents of Syracuse's poorest neighborhoods often cannot get their assessments reduced because the majority of transactions on their streets are distressed sales or foreclosures, which can't be used as comparable sales, Prehn said.

“People down here probably tend to pay much more than their home value,” he said.

If some neighborhoods appear to be falling in value, the city will lower assessments, Clifford said. This year, some property owners on Mary Street, Park Street and other parts of the North Side received reductions in their assessments.

New assessments typically are based on an examination of the building exterior and a comparison of recent home sales from similar properties in the area, Clifford said.

In the case of Pourpezeshk’s property in Scottholm, city records show that the 170-year-old house was classified as “unfinished” at some point, indicating it needed repairs, Clifford said. That designation was removed this year, which raised the value beyond the general appreciation of home prices in the neighborhood, he said.

Pourpezeshk, who bought the house in 2001 for \$95,000, said he hasn’t done work on it that would warrant such a big increase. His porch is sagging and his basement leaks, he said.

Typically, about 400 property owners grieve their assessments each January, Clifford said. Assessors also respond to dozens of informal requests during the year from homeowners who want their assessment reviewed, he said.

Clifford said the assessment office strives for accuracy and is eager to correct its records if an owner supplies better information.

“We want fair assessments,” Clifford said. “We don’t want high ones and we don’t want low ones.”

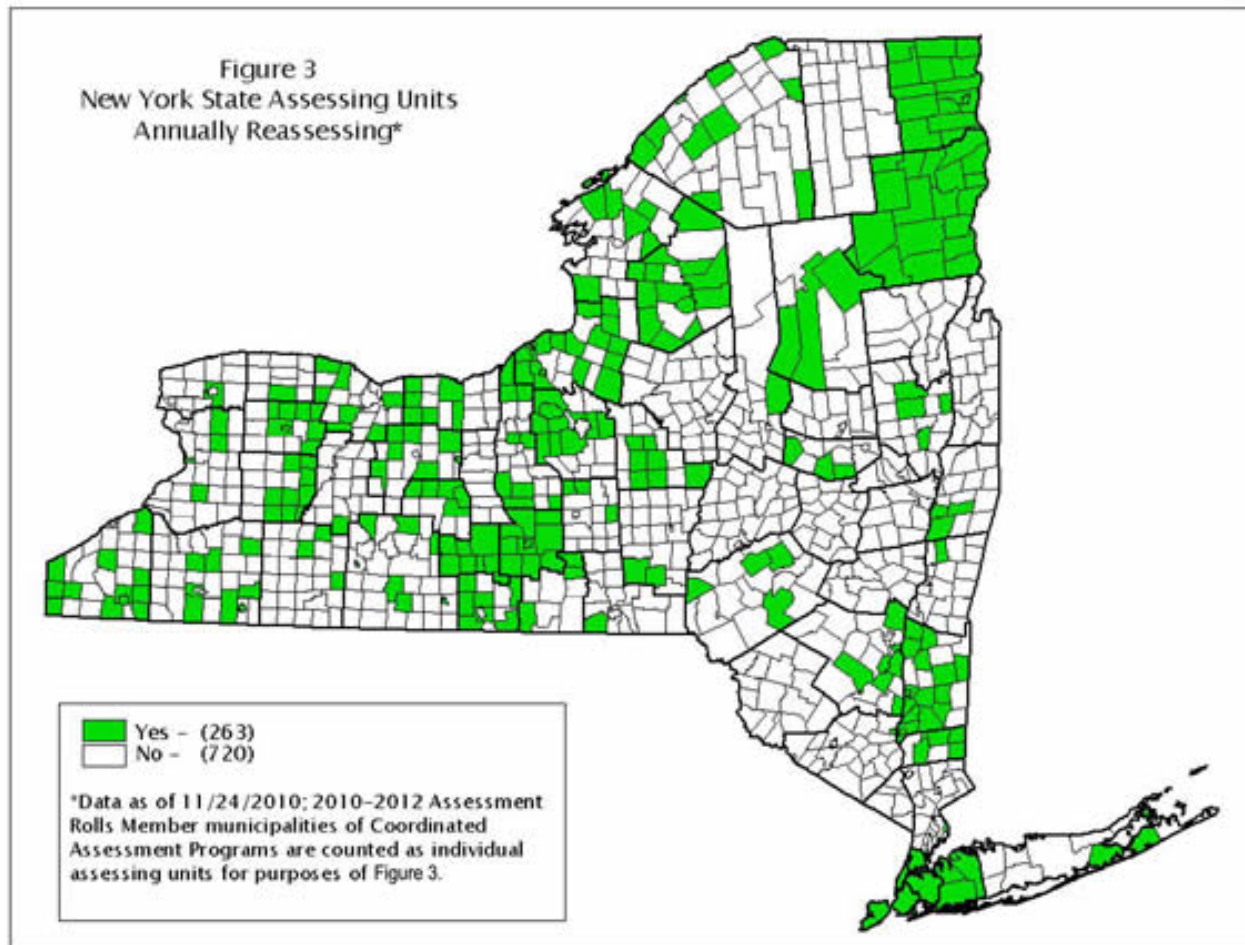
Reassessing cities

Syracuse has not done a city-wide reassessment of properties in 15 years. New York State urges municipalities to reassess all properties at least once every four years so that property owners pay their fair share of taxes. Here’s when select Upstate cities completed their last full reassessment: Watertown 1990; Binghamton 1993; Syracuse 1996; Utica 1998; Albany 2007; Oneida 2007; Cortland 2008; Rochester 2008; Buffalo 2010; Auburn 2010; Oswego 2010; Fulton 2010.

Source: NYS Office of Real Property Tax Services

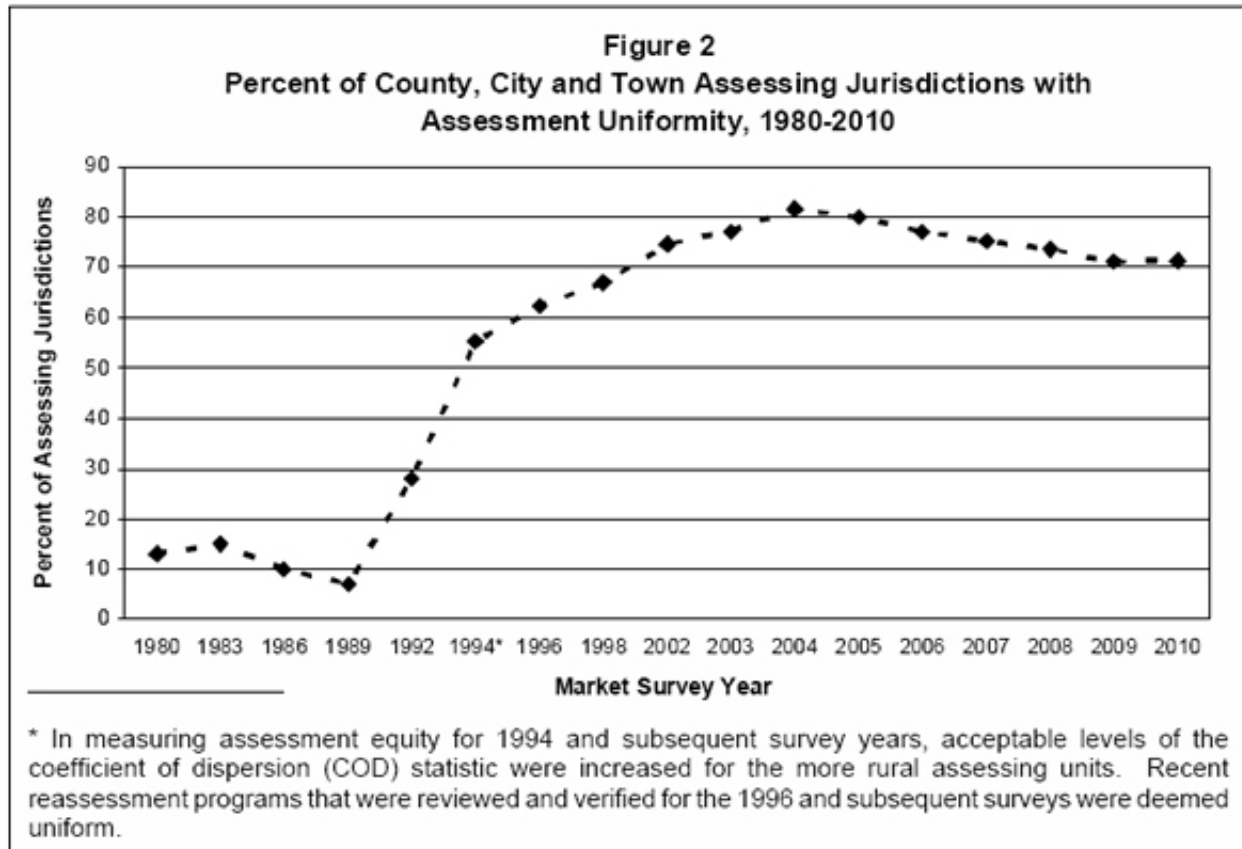
Exhibit B

Assessment Quality in New York State



| Table 5. Level of Assessment, as Measured by 2010 State Equalization Rate | |
|---|----------------------------|
| Level of Assessment | Number of Assessing Units* |
| 0.00 - 10.00 | 70 (7.1%) |
| 10.01 - 25.00 | 37 (3.8%) |
| 25.01 - 50.00 | 55 (5.6%) |
| 50.01 - 75.00 | 204 (20.8%) |
| 75.01 - 100.00 | 609 (62.1%) |
| Greater than 100.00 | 6 (0.6%) |
| Total | 981 (100%) |

*Data for the individual municipalities within a Coordinated Assessment Program (CAP) are reported. Data for special assessing units of Nassau County and New York City are excluded.



Source: New York State Department of Taxation and Finance, “Assessment Equity in New York: Results from the 2010 Market Value Survey, December 2010. Available at:

<http://www.tax.ny.gov/pdf/publications/orpts/cod/2010mvs/assessmentequity10mvs.pdf>

Exhibit C**The Homestead Tax Option**

(Article 19 – Section 1903 of the RPTL)

Publication 1023 (9/11) January 2011

<http://www.tax.ny.gov/pdf/publications/orpts/homestead.pdf>

NYS Department of Taxation and Finance
Office of Real Property Tax Services
W.A. Harriman State Campus
Albany, NY 12227

In a number of places in New York State, assessments of residential property frequently have been at a lower percentage of market (full) value than other types of property, such as commercial and industrial property. When a town or city with this situation decided to conduct a property revaluation to achieve correct and fair assessments, the residential properties, as a class, would bear a much larger share of the tax burden. This discouraged other municipalities with similar situations from conducting their own property revaluations. As a result of the concern for tax-burden shifts to homeowners, a State law was passed in 1981 establishing the Homestead Tax Option.

This local option prevents any large shift of the property tax burden to the residential class of property owners after a revaluation. In a revaluation, changes are made to individual property assessments so that they are correct and uniform -- as the law requires. These changes result in increases to some individual residential property owners whose properties were under assessed before the revaluation. However, the homestead tax option prevents any large shift to the residential class of properties.

Q. What is the homestead tax option?

A. It is a local option to establish two separate property tax rates: a lower tax rate for residential property owners (homestead tax), and a higher rate for all other property owners (non-homestead tax).

Q. Is this program mandated by New York State?

A. No. It is a local-option program.

Q. Is the homestead tax option available everywhere in the State?

A. No. It is available only to qualifying cities, towns, villages, counties, and school districts. It is not available in New York City, or in Nassau County except for villages and, for certain purposes, the cities.

Q. How does a municipality qualify to use the homestead tax option?

A. A city, town or village that is an assessing unit first must complete a property revaluation project that meets the State Board's regulations. That entitles the assessing unit to be certified by the State Board as an "approved assessing unit." Then the local governing body of the assessing unit can adopt a local law stating its intent to use a homestead tax and a non-homestead tax.

Q. How does the homestead tax option work?

A. The homestead tax is based on the share of property taxes paid by the residential class of property owners in the year before the new assessments from the revaluation project are used. For example, assume that residential properties paid 40 percent of all town taxes in the Town of Smith in 1989 (the year before the revaluation project). Now, in 1990, as a result of the revaluation, the residential class represents 50 percent of the town's total taxes. As an "approved assessing unit" that has opted to use the "homestead tax option," the Town of Smith can "freeze" the residential class share of town taxes at the previous 40 percent. Thus, the town will have two tax rates: one for the residential class and another for all other property classes, such as commercial property and industrial property. The difference is that the tax rate for the residential class will be lower than the tax rate for all other property classes. For example, the town tax rate for the residential class might be something like \$25 for each \$1,000 of assessed valuation, while the tax rate for the nonresidential class might be \$30 for each \$1,000 of assessed valuation.

Q. Once the percentage shares are determined (in our example, 40 percent for residential property and 60 percent for non-residential property), do they remain that way forever?

A. No. They can change based on the following adjustments:

1. Using the example for the Town of Smith, the town would have the option of adjusting the residential share at various points between 40 and 50 percent.
2. The municipality must make annual adjustments based on property that is added to the assessment roll and property that is removed.
3. The municipality must make annual adjustments for different rates of appreciation in the two classes of property based on the changes in the current market value of the classes, subject to a 5 percent cap.

Q. What type of property qualifies as residential class property under the homestead tax option?

A. One-, two-, and three-family residential units; farm homes; mobile homes that are owner-occupied and separately assessed, and condominiums that were built as condominiums and not converted from some other form, such as rental apartments, qualify as residential property. Also qualifying for the residential class are vacant land parcels not larger than 10 acres that are located in zones that restrict residential use to one-, two-, or three-family residential dwellings.

Q. I understand how the homestead tax option could work in my town, but how would it work in my school district?

A. School districts that are wholly contained within the boundaries of a city or town that has the homestead tax must use the homestead tax unless they opt out of the program by passing a resolution.

There is a special requirement for school districts located in more than one city or town that want to use homestead and non-homestead school tax rates. That requirement is that one-fifth or more of the properties in the school district must be located in cities or towns that use the homestead tax option.

In addition, for school districts that are in more than one city or town, the determination of class shares will be based on current market value, with adjustments at the discretion of the school district within limitations set by law.

Q. How many places are using the homestead tax option?

A. At the time this pamphlet was revised, 12 cities, 17 towns, four villages and 43 school districts were using the homestead option. For more information, please visit municipal profiles on our website.

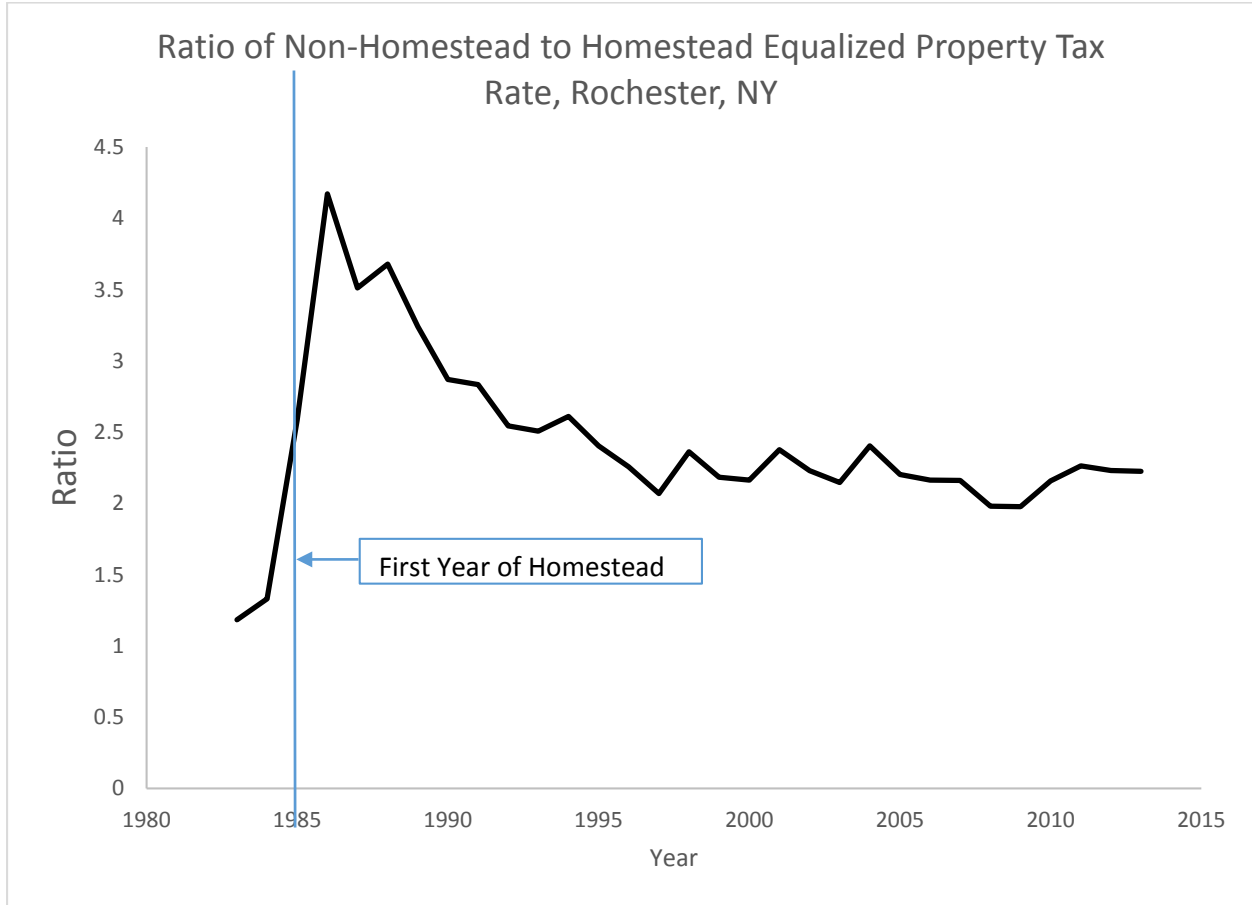
Q. In addition to adopting the homestead tax option, can “approved assessing units” also phase-in the results of the revaluation?

A. Yes. By passing a local law, approved assessing units can phase in the new revaluation assessments over a five-year period.

This option sounds simple. In reality, however, most assessment officials believe it would be extremely difficult to administer. Maybe that is why no municipality to date has decided to use the transition-assessment option.

Q. Can a municipality that has adopted the homestead tax option revoke it later?

A. Yes, simply by adopting a local law, without referendum, to rescind it before the next levy of taxes.

Exhibit D

Source: Rochester City Assessor

Exhibit E

It's Elementary, A Monthly Column by EFAP Director John Yinger, July 2012, "Four Flaws in New York State's Property Taxes and How to Fix Them: The Homestead Option."

This is the third of four columns on property taxes in New York State. This column explores the Homestead Option, which is another major structural flaw in the state's property taxes.¹

The Homestead Option is a classification law, which is defined as a law that allows a jurisdiction to charge different effective property tax rates for different types of property. In most cases, classification leads to a higher effective property tax rate on business property than on residential property.

Classification laws have pros and cons. On the plus side, classification with a higher tax rate on business property can shift some of the property tax burden in a low-income city onto nonresidents, many of whom benefit from city services. For example, some city businesses are owned by people who live in the suburbs but work in the city. In addition, some city businesses are owned by shareholders who live around the country. A higher tax rate on business property will shift some of the tax burden off of city residents and onto these relatively high-income nonresidents. The incidence of the property tax is difficult to determine, and some of the taxes on business property might be shifted to consumers or workers. Thus, property tax classification with a higher tax rate on business property would undoubtedly lead to an increase in tax exporting, but the extent of this increase is not known.

Another advantage of classification is that it can ease the unfair impact of a reassessment on residential property. In the case of Boston, for example, decades of poor assessments resulted in a much higher effective property tax rate on business than on residential property. Without classification, a major revaluation that took place in the early 1980s would therefore have resulted in a large increase in residential property tax rates. This increase would have been arbitrary and unfair to homeowners.² Classification, in the form of a higher mill rate for business than for residential property, allowed Boston to eliminate variation in assessment/sales ratios within a class of property through revaluation, while preserving the relatively low effective tax rate for residential property.³ In New York State the Homestead Option makes it possible to avoid comparable unfair increases in taxes on homeowners associated with re-assessment, although these increases are not likely to be as large as they were in Boston.

The big disadvantage of classification is that it generally is set up with a higher tax on business property—and may therefore discourage economic development. The best available evidence indicates that a city's business property tax rate has an extremely small impact on economic development, but the effect is not zero.⁴

In New York, assessing units that complete a state-approved revaluation are allowed to implement the Homestead Option, which is a type of classification. More specifically, the homestead option allows the unit to preserve the levy shares that existed before revaluation. If business property provided 50 percent of the levy before revaluation, then passing the

Homestead Option would keep business property's share at 50 percent, even if business property only made up 40 percent of the post-revaluation assessments. The only way to accomplish this outcome is to set a higher post-revaluation nominal tax rate—and hence a higher effective property tax rate—on business property than on residential property. (Assessing units have some leeway to vary from the pre-revaluation business share, but these provisions are rarely used and are not central to the points in this column, so they are not considered here.)

The problem is that this arrangement focuses on levy shares instead of effective property tax rates. In most parts of New York, the value of business property has not been growing as fast as the value of residential property. As a result, the only way to keep the business share fixed, at 50 percent in my example, is to gradually raise the effective property tax rate. So what we have witnessed in jurisdictions with the Homestead Option is steadily rising effective property tax rates on business property.

Because classification has pros and cons, it might make sense under some circumstances to balance them by selecting an effective property tax rate that is somewhat higher than the residential property tax rate. But it makes no sense at all to say that the net benefits from classification are rising over time so the gap between the business and residential rates should rise as well. And it certainly makes no sense to implement a policy in which this rate gap is likely to go up continually and without limit. But that is exactly the impact of New York's bizarre Homestead Option.

Moreover, businesses may not respond very much to differences in relatively unchanging effective property tax rates across communities, but they are likely to respond to a situation in which the effective tax rate is almost certain to increase steadily—at an unknown pace. Businesses like predictability, so it might be hard to attract business to locations in which the effective property tax rate on business property is following an uncertain upward path.

As of January 2001, 12 cities, 17 towns, 4 villages, and 42 school districts were using the Homestead Option. To aid these jurisdictions—and all others that consider classification in the future—the Homestead Option should be changed so that it focuses on effective tax rates, not levy shares. Jurisdictions that revalue should be allowed—but not required!—to set differences in effective tax rates for business and residential property, up to the difference that existed before revaluation.

¹ The rules for the Homestead Option can be found at: <http://www.tax.ny.gov/pdf/publications/orpts/homestead.pdf> .

² One could argue that this shift is not unfair to long-term homeowners, who have benefited from low assessments for many years. In their case, re-assessment can be thought of as a repayment of an implicit loan from the city. But recent homebuyers had no benefit from the low residential assessments, and, indeed, may have paid a premium for their homes because the taxes were so low; re-assessment imposes arbitrary and unfair tax increase in these buyers.

³ For further discussion of the Boston case, see J. Yinger, H.S. Bloom, A. Boersch-Supan, and H.F. Ladd, *Property Taxes and House Values*, New York: Academic Press, 1988.

⁴ For a detailed estimate of this effect in New York State, see W. Wong, "Taxes and State and Local Economic Development: The Homestead Tax Option in New York," unpublished Ph.D. dissertation, Syracuse University, 1998. (Available through the Syracuse University library.)