

**OVERVIEW
OF
REAL PROPERTY TAXES
IN
THE DISTRICT OF COLUMBIA***

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FINAL REPORT

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EXECUTIVE SUMMARY

The real property tax generates nearly a third of all tax revenue in the District and the District is more dependent on the property taxes than state and local governments nationally, in part because the District is prohibited from taxing 55 percent of salaries and wages generated in the District and it has a low reliance on user charges.

The real property tax in the District has a firm foundation with assessed values equal to estimated market values calculated on an annual basis. Collection rates of the current year property tax levy have ranged from nearly 97 percent to more than 98 percent over the last 6 years. Assessed values of both residential and commercial property experienced significant growth over the last decade. Assessment quality for residential properties falls within acceptable standards, while assessment quality of commercial properties has been more variable. Assessment quality across neighborhoods has generally improved from 2006 to 2012.

Property tax rates in the District are relatively stable over time. Residential property tax rates in the District are the lowest in the metropolitan region, while commercial property tax rates in the District are the highest in the metropolitan region.

In spite of having the lowest residential property tax rate in the region, the District has a plethora of property tax relief mechanisms providing preferential treatment to individual properties based on the characteristics of the owner or the land use. These property tax relief mechanisms include

- total or partial exemptions for some properties thereby lowering the taxable base of individual properties;
- abatements to some properties;
- credits and rebates which reduce the property tax liability for some property owners; and
- deferrals of property tax payments for low-income and some elderly property owners.

The most popular property tax relief mechanisms – Homestead Deduction, Assessment Increase Cap and the Credit for Senior and Disabled Citizens – violate the uniformity of the property tax and undermine the revenue capacity, neutrality, simplicity, equity and accountability of the property tax.

The cumulative impact of this mosaic of property tax relief mechanisms is to create significant differences in effective tax rates across different taxpayer types as well as within individual taxpayer groups and property types. Effective tax rates within homestead and elderly taxpayers vary by a factor of ten. Such differences undermine the fairness and transparency of the real property tax and, ultimately, could undermine the legitimacy and acceptance of the tax itself.

INTRODUCTION

The District of Columbia is unique among the 85,000+ governmental units in the US because:

- the District is constitutionally prohibited from being located within the boundaries of any state and, as a result, the government in the District takes on both state and local spending and revenue raising responsibilities; and
- Congress imposes restrictions on the ability of the District to tax income generated by jobs in the District held by non-residents. States generally tax income earned in the state from work, business activities and other income producing activities regardless of the residency of the income earner. Congress has prohibited the District from utilizing this important revenue source. The District, therefore, relies on other taxes more than it would otherwise.

The issue then becomes how elected officials in the District distribute the cost of providing community services across taxpayers in a fair or equitable manner. In public finance there are two basic approaches to sharing the cost of providing services across taxpayers in a fair manner. First, there is the *ability-to-pay-principle* of taxation. Second, there is the *benefits-received principle* of taxation. Generally, the property tax is considered to be roughly consistent with both approaches to taxation.

The case for *ability-to-pay principle* of taxation of real property is based on three arguments

- while it is not a perfect correlation, there is a strong relationship between the value of one's property and income;
- higher income families tend to live in higher valued residences; and
- the ultimate economic impact, or incidence, of the property tax is shifted from the taxpayer paying the property tax liability to others and most economists agree that the ultimate economic impact of the property tax rests on all capital. Because property, and most other forms of capital, is concentrated in the top income groups, it is generally argued that the property tax is a progressive tax.

Thus, taxing property value is a proxy, albeit an imperfect one, for ability-to-pay taxes.

The property tax is generally considered to be consistent with the *benefits-received principle* of taxation as well. Since the property tax funds community services – e.g., police, fire, streets – the level and quality of these site oriented services benefits property owners and increases the value of their property. This is supported by numerous studies identifying factors explaining the actual sales price of individual properties.

Ten Year History of Tax Revenues in the District

The property tax is the single most important source of own revenue in the District. Table 1 shows the history of property tax collections over the last ten years.¹ Over this ten year period real property tax revenues increased 124 percent. Table 2 shows the annual growth rate in tax revenues by source over this decade. Annual growth in real

Fiscal Year	Property Taxes			Sales and Use	Income and Franchise	Gross Receipts	Other	Total
	Real	Personal	Rental					
2003	\$ 822,845	\$ 67,294	\$ 11,749	\$ 779,920	\$ 1,167,452	\$ 261,643	\$ 273,191	\$ 3,384,094
2004	\$ 947,690	\$ 63,558	\$ 16,840	\$ 828,391	\$ 1,299,009	\$ 271,897	\$ 379,521	\$ 3,806,906
2005	\$ 1,058,100	\$ 72,068	\$ 18,165	\$ 957,394	\$ 1,472,432	\$ 295,819	\$ 377,213	\$ 4,251,191
2006	\$ 1,163,598	\$ 55,548	\$ 22,336	\$ 970,885	\$ 1,591,483	\$ 278,453	\$ 390,542	\$ 4,472,845
2007	\$ 1,452,267	\$ 67,394	\$ 32,239	\$ 1,056,780	\$ 1,736,361	\$ 302,768	\$ 498,198	\$ 5,146,007
2008	\$ 1,666,315	\$ 59,690	\$ 33,086	\$ 1,101,859	\$ 1,755,894	\$ 302,873	\$ 413,401	\$ 5,333,118
2009	\$ 1,832,748	\$ 69,163	\$ 32,612	\$ 1,052,011	\$ 1,478,068	\$ 315,976	\$ 261,909	\$ 5,042,487
2010	\$ 1,790,519	\$ 56,501	\$ 34,264	\$ 1,081,005	\$ 1,434,131	\$ 295,531	\$ 264,959	\$ 4,956,910
2011	\$ 1,715,069	\$ 52,696	\$ 32,980	\$ 1,121,257	\$ 1,656,283	\$ 279,002	\$ 403,199	\$ 5,260,486
2012	\$ 1,843,918	\$ 55,734	\$ 35,134	\$ 1,218,576	\$ 1,956,590	\$ 319,036	\$ 404,066	\$ 5,833,054

Source: 2012 CAFR, Exhibit S-1E, page 173

property tax revenues was significant in the early years; increasing by an average annual rate of 14.4 percent from 2003 to 2009. The effects of the Great Recession contributed to a decline in the growth of property tax revenues from 2009 to 2011; albeit the decline in property tax revenues was more modest than the decline in income and gross receipts tax revenues. Sales tax revenues held up well during this period, in part, because of the federal presence in the District.

¹ In 1987 the personal property tax in the District accounted for 3 percent of all tax revenues and declined to 2.6 percent in 1996. (*Taxing Simply Taxing Fairly*, Figure F-4, p. 209). By 2003 personal property taxes accounted for 2 percent of all tax revenue and its share declined to just 1 percent by 2012. The focus of this paper is the real property tax in the District.

Fiscal Year	Property Taxes			Sales and Use	Income and Franchise	Gross Receipts	Other	Total
	Real	Personal	Rental					
2003								
2004	15.2%	-5.6%	43.3%	6.2%	11.3%	3.9%	38.9%	12.5%
2005	11.7%	13.4%	7.9%	15.6%	13.4%	8.8%	-0.6%	11.7%
2006	10.0%	-22.9%	23.0%	1.4%	8.1%	-5.9%	3.5%	5.2%
2007	24.8%	21.3%	44.3%	8.8%	9.1%	8.7%	27.6%	15.0%
2008	14.7%	-11.4%	2.6%	4.3%	1.1%	0.0%	-17.0%	3.6%
2009	10.0%	15.9%	-1.4%	-4.5%	-15.8%	4.3%	-36.6%	-5.4%
2010	-2.3%	-18.3%	5.1%	2.8%	-3.0%	-6.5%	1.2%	-1.7%
2011	-4.2%	-6.7%	-3.7%	3.7%	15.5%	-5.6%	52.2%	6.1%
2012	7.5%	5.8%	6.5%	8.7%	18.1%	14.3%	0.2%	10.9%

Source: 2012 CAFR, Exhibit S-1E, page 173 and staff computations.

As real property tax revenues increased in the beginning of this decade the share of tax revenues attributable to real property taxes increased from 2003 (24.3 percent) to a peak in 2009 (36.3 percent). While the share declined recently as a result of declining property tax revenues, real property taxes still account for nearly a third of all DC tax revenues.

Fiscal Year	Property Taxes			Sales and Use	Income and Franchise	Gross Receipts	Other	Total
	Real	Personal	Rental					
2003	24.3%	2.0%	0.3%	23.0%	34.5%	7.7%	8.1%	100.0%
2004	24.9%	1.7%	0.4%	21.8%	34.1%	7.1%	10.0%	100.0%
2005	24.9%	1.7%	0.4%	22.5%	34.6%	7.0%	8.9%	100.0%
2006	26.0%	1.2%	0.5%	21.7%	35.6%	6.2%	8.7%	100.0%
2007	28.2%	1.3%	0.6%	20.5%	33.7%	5.9%	9.7%	100.0%
2008	31.2%	1.1%	0.6%	20.7%	32.9%	5.7%	7.8%	100.0%
2009	36.3%	1.4%	0.6%	20.9%	29.3%	6.3%	5.2%	100.0%
2010	36.1%	1.1%	0.7%	21.8%	28.9%	6.0%	5.3%	100.0%
2011	32.6%	1.0%	0.6%	21.3%	31.5%	5.3%	7.7%	100.0%
2012	31.6%	1.0%	0.6%	20.9%	33.5%	5.5%	6.9%	100.0%

Source: 2012 CAFR, Exhibit S-1E, page 173 and staff computations.

The real property tax continues to be a major source of tax revenue in the District. In spite of its relative importance, however, the complexity of the real property tax renders

the tax poorly understood by the average resident of the District. The purpose of this overview of the property tax is review the historical importance of the tax in the District of Columbia, to explain why the real property tax should be an important part of District’s revenue system and describe the institutional framework in the District for administering a local real property tax.

THE ROLE OF REAL PROPERTY TAXES IN STATE AND LOCAL FINANCE²

Property Taxes as a Share of General Revenues

This section describes recent trends in the role of property taxes in the District and state and local governments nationally. Table 4 reports the relative importance of property taxes in state and local general revenues for the District and selected states. In 1992, nationally state and local governments generated 18.4 percent of general revenues from the property tax. Reflecting the fact there are 50 different systems of state and local government in the US, the relative importance of property taxes varies significantly across the states in Table 4.

TABLE 4					
Property Tax as a percent of State/Local					
General Revenue, Selected States, 1992-2010					
(Percent)					
State	1992		2002		2010
Delaware	7.6		7.4		7.8
District of Columbia	19.2		11.6		18.0
Florida	21.6		18.1		20.7
Hawaii	9.8		8.3		11.4
Maryland	17.5		16.8		17.3
New Hampshire	36.0		33.9		33.6
Ohio	16.8		16.2		14.6
Pennsylvania	16.0		15.2		16.1
Virginia	19.5		17.2		19.1
U.S. Average	18.4		16.6		17.7
<i>Source: US. Bureau of the Census, 1992 and 2002 Census of Government and 2010 Annual Survey of State and Local Government</i>					

Delaware and Hawaii have few local governments and the property tax generates 7.6 and 9.8 percent of state and local general revenues respectively. Alternatively, New Hampshire is more decentralized with a less diversified revenue system (no personal income tax) and depends on property taxes for 36 percent of state and local general revenues. In Virginia the property tax generated 19.5 percent of general state and local

² Tables A1 through A4 in Appendix A present measures of the relative importance of the property tax for all 50 states.

revenues while in the District the comparable share was 19.2 percent (both above the national average). In Maryland, on the other hand, property taxes generated somewhat less than the national average share of general revenues, 17.5 percent of state and local general revenues.

The relative importance of property taxes fell nationally, and in all the states reported in Table 4, from 1992 to 2002. Nationally, the property tax share of state and local general revenues declined by 9.8 percent, while the relative importance of property taxes fell 39.6 percent over this period in the District³, 11.8 percent in Virginia and just 4.0 percent in Maryland. During this decade, property tax revenues increased, but revenues from other taxes (personal income and sales taxes) increased more rapidly.

Nationally, the relative importance of property taxes as a share of state and local revenues increased from 2002 to 2010 by 6.6 percent, compared to 55.2 percent in the District, 11.0 percent in Virginia and just 3.0 percent in Maryland. Nationally, and in the District, Virginia and Maryland the property tax share of state and local general revenues in 2010 was below its share in 1992.

Property Taxes as a Share of Own-source Revenues

Table 5 reports the share of state and local own-source revenues attributable to property taxes in 1992, 2002 and 2010. In 1992, property taxes accounted for 22.5 percent of state and local own-source revenues nationally, but played a somewhat greater roll in Virginia (22.6 percent) and the District (30.8 percent). Maryland had a somewhat more diversified state and local revenue system with property taxes contributing just 20.9 percent of total state and local own-source revenues.

Again, the relative importance of property taxes fell from 1992 to 2002 for all states in Table 5 except Delaware. The experience from 2002 to 2010 was more varied across states in Table 5. In the District, New Hampshire and Ohio the property tax share of own-source revenues was lower in 2010 than in 1992. Nationally, however, the share was higher in 2010 (23.5 percent) than in 1992 (22.5 percent) as it was in Delaware, Florida, Hawaii, Maryland, Pennsylvania and Virginia.

³ The District has the most dramatic changes in the relative importance of the property tax from 1992 to 2002 and 2002 to 2010 across all measures of property tax importance. The District was facing a financial crisis in the late 1990s and stopped assessing real property for the entire city in 1997. A triennial assessment cycle system was developed and gradually phased in starting in 1999. As a result, in 2002 one-third of the property tax base in the District had been reassessed to market value and the other two-thirds of the property tax base were still being valued at their 1997 values. By 2010 all properties were assessed at their full market values and were being assessed annually.

TABLE 5				
Property Tax as a percent of State/Local				
Own-Source Revenue, Selected States, 1992-2010				
(Percent)				
State	1992		2002	2010
Delaware	8.9		8.9	10.2
District of Columbia	30.8		19.7	29.0
Florida	25.1		21.8	26.2
Hawaii	11.8		10.5	14.8
Maryland	20.9		20.5	22.7
New Hampshire	44.4		42.5	44.2
Ohio	20.7		20.6	20.1
Pennsylvania	19.8		19.5	21.2
Virginia	22.6		20.5	23.5
U.S. Average	22.5		21.1	23.5
<i>Source: US. Bureau of the Census, 1992 and 2002 Census of Government and 2010 Annual Survey of State and Local Government</i>				

Property Taxes a Share of Tax Revenues

Table 6 reports the share of state and local tax revenue contributed by the property tax. Nationally, in 1992 property taxes accounted for 32.1 percent of state and local tax revenues, while the share was somewhat higher in the District (37.5 percent) and Virginia (32.7 percent) and somewhat lower in Maryland (28.0 percent). Again, the property tax share of state and local tax revenues fell slightly nationally between 1992 and 2002 and increased from 2002 to 2010 when the share was 8.4 percent higher than 1992.

Unlike the previous measures of the relative importance of the property tax, the share of state and local tax revenue contributed by the property tax actually increased in four states from 1992 to 2002 – Delaware, New Hampshire, Ohio and Pennsylvania. In the District the property tax share fell from 1992 to 2002 more than any other state in Table 6 for the reasons discussed above.

The property tax share of state and local tax revenues increased from 30.8 percent nationally in 2002 to 34.8 percent in 2010. All the other states in Table 6 experienced a similar increase in the relative importance of property taxes as a share of state and local tax revenues from 2002 to 2010. Overall, nationally and for all the states in Table 6, except for the District of Columbia, the relative share of state and local taxes coming from property taxes increased from 1992 to 2010. This reflects to some extent the fact

that property tax collections stayed relatively constant during the Great Recession while income and sales tax collections fluctuated significantly during this period.⁴

TABLE 6				
Property Tax as a percent of State/Local				
Taxes, Selected States, 1992-2012				
(Percent)				
State	1992		2002	2010
Delaware	14.1		14.9	18.6
District of Columbia	37.5		24.9	37.0
Florida	38.4		35.2	42.9
Hawaii	16.4		14.5	21.1
Maryland	28.0		27.2	30.1
New Hampshire	60.1		60.3	64.6
Ohio	29.3		29.4	30.0
Pennsylvania	27.8		29.0	30.4
Virginia	32.7		30.3	36.1
U.S. Average	32.1		30.8	34.8
<i>Source: US. Bureau of the Census, 1992 and 2002 Census of Government and 2010 Annual Survey of State and Local Government</i>				

Property Tax as a Share of Personal Income

The property tax is assessed against the value of an asset – real estate. However, the property tax liability is paid out of current income. Table 7 reports property tax collections per \$1,000 of state personal income. Nationally, property taxes accounted for \$33.57 per \$1,000 of total personal income in 1992, falling to \$30.83 in 2002 and increasing to \$35.25 in 2010.

In 1992, property taxes per \$1,000 of personal income were lower in Maryland (\$27.04) and Virginia (\$29.57) than the national average, while the share was higher than the national average in the District of Columbia (\$52.68) – 57 percent above the national average. Nationally, property taxes per \$1,000 of personal income declined to \$30.83 per \$1,000 personal income in 2002, while only Delaware and Ohio saw the share of personal income devoted to property taxes increase during the decade.

By 2010 property taxes per \$1,000 personal income nationally had increased to \$35.25. All jurisdictions in Table 7 experienced increases in property taxes per \$1,000 personal income from 2002 to 2010. By 2010 only two jurisdictions had property taxes per \$1,000 personal income below their levels in 1992 – the District of Columbia (\$43.49) and New Hampshire (\$55.88). Nationally, property taxes per \$1,000 personal income grew 5

⁴ See Figure 1 for a summary of national experience with property, income and sales tax collections during the Great Recession.

percent between 1992 and 2010 while they declined 17.4 percent for the District of Columbia. As a result, property taxes per \$1,000 personal income in the District of Columbia were just 23.1 percent above the national average compared to 57 percent above the national average in 1992.

TABLE 7					
State/Local Property Tax per \$1,000 of Personal Income					
Selected States, 1992-2012					
(Current Dollars)					
State	1992		2002		2010
Delaware	14.60		14.97		18.53
District of Columbia	52.68		30.62		43.49
Florida	35.60		31.08		38.26
Hawaii	20.00		16.41		24.96
Maryland	27.04		26.82		29.84
New Hampshire	61.34		48.52		55.88
Ohio	28.31		31.26		31.05
Pennsylvania	28.78		28.14		30.62
Virginia	29.57		27.30		31.39
U.S. Average	33.57		30.83		35.25
<i>Source: US. Bureau of the Census, 1992 and 2002 Census of Government and 2010 Annual Survey of State and Local Government; and the 2012 Statistical Abstract, Personal Income Table 680</i>					

In summary, the relative importance of property taxes in the District has declined from 1992 to 2010 across all measures presented. Property taxes fell as a share of total state and local general revenues in the District, but they also fell for Maryland, Virginia and the nation from 1992 to 2010. Property taxes fell as a share of own-source revenues, tax revenues and per \$1,000 personal income in the District from 1992 to 2010 while all of these measures of the relative importance of the property tax increased for Maryland, Virginia and the nation during the same period.

PROPERTY TAXES IN THE DISTRICT OF COLOMBIA: RECENT TRENDS

Data from the District of Columbia Comprehensive Annual Financial Report displayed in Table 8 show property tax liabilities and collections for the current year, as well as outstanding liabilities and collections from prior years. Total property tax liabilities (current plus delinquent) reached a peak of \$2 billion in 2009 while total collections reached a peak of \$1.9 billion in 2012. Except for 2009, collections of current levies have been near or above 97 percent for the period reported. Given declining collection rates of delinquent prior year liabilities, overall collection rates have been below 95 percent since 2008.

Table 8
Real Property Tax Levies and Collections, 2007-2012
(dollars in thousands)

Fiscal Year	Current Levy			Prior Years			Total		
	Levy	Collections	Percent Collected	Outstanding Balances Billed	Collections	Percent Collected	Billed	Collected	Percent Collected
2007	\$ 1,405,056	\$ 1,361,132	96.9%	\$ 75,081	\$ 66,500	88.6%	\$ 1,480,137	\$ 1,427,632	96.5%
2008	\$ 1,662,835	\$ 1,615,583	97.2%	\$ 70,895	\$ 59,885	84.5%	\$ 1,733,730	\$ 1,675,468	96.6%
2009	\$ 1,861,953	\$ 1,752,290	94.1%	\$ 100,910	\$ 65,868	65.3%	\$ 1,962,863	\$ 1,818,158	92.6%
2010	\$ 1,792,100	\$ 1,735,602	96.8%	\$ 144,883	\$ 94,683	65.4%	\$ 1,936,983	\$ 1,830,285	94.5%
2011	\$ 1,639,902	\$ 1,610,533	98.2%	\$ 226,333	\$ 111,465	49.2%	\$ 1,866,235	\$ 1,721,998	92.3%
2012	\$ 1,814,958	\$ 1,784,196	98.3%	\$ 152,954	\$ 78,989	51.6%	\$ 1,967,912	\$ 1,863,185	94.7%

Source: FY 2012 CAFR, Exhibit S-2F, p. 178.

In 2010, total real property tax liabilities declined by 1.3 percent while total collections increased by slightly more than two percentage points. The decline in property tax levy in 2010 was due in large part to the decline in market values resulting from the Great Recession. This is highlighted by the data in Table 9 which shows that residential assessed values in the District declined 3.2 percent from 2009 to 2010.

Residential		Commercial		Total		
Year	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change
2000	23,912,435		19,357,631		43,270,066	
2001	22,268,968	-6.9	21,960,148	13.4	44,229,116	2.2
2002	24,902,543	11.8	27,619,604	25.8	52,522,147	18.8
2003	28,379,237	14.0	29,684,430	7.5	58,063,667	10.6
2004	32,701,220	15.2	33,752,889	13.7	66,454,109	14.5
2005	49,982,554	52.9	36,905,213	9.3	86,887,767	30.8
2006	58,090,888	16.2	40,400,447	9.5	98,491,335	13.4
2007	73,126,786	25.9	51,748,487	28.1	124,875,273	26.8
2008	81,400,361	11.3	61,557,827	19.0	142,958,188	14.5
2009	84,544,053	3.9	68,495,502	11.3	153,039,555	7.1
2010	81,862,427	-3.2	68,254,862	-0.4	150,117,289	-1.9
2011	80,063,402	-2.2	59,224,100	-13.2	139,287,502	-7.2
2012	80,598,880	0.7	65,903,077	11.3	146,501,957	5.2

Source: D.C. Comprehensive Annual Financial Report. 2009, 2010 & 2012, Page 2, Exhibit S-2A

Data in Table 9 indicate that total assessed value of taxable real property in the District of Columbia grew at annual average rate 11.2 percent over the period 2000-2012. The strongest growth in total assessed value was experienced from 2004 to 2005 of 30.8 percent, with actual declines in assessed value from 2009 to 2010 (decline of 1.9 percent) and 2010 to 2011 (decline of 7.2 percent); driven in large part by a 13 percent reduction in commercial property assessments.⁵

The annual growth in the components of the tax base varies across time. While assessed value of residential properties grew at an annual average rate of 11.6 percent and assessed value of commercial property grew at an annual average rate of 11.3 percent, they varied across individual years.

⁵ See table on DC Historical Commercial Property Assessments, Annual Percent Change, Fiscal Years 2002 to 2012 in Downtown DC Business Improvement District, *State of Downtown, 2011*, p.62.

Table 10 reports the residential and commercial share of the property tax base over this period. While the residential share is about the same in 2012 (55 percent) as it was in 2000 (55.3 percent), it ranges from 47.4 percent in 2002 to nearly 59 percent in 2006. The commercial share ranges from 52.6 percent in 2002 to just 41 percent in 2006.

Column1	Residential	Commercial	Total
2000	55.3	44.7	100
2001	50.4	49.7	100
2002	47.4	52.6	100
2003	48.9	51.1	100
2004	49.2	50.8	100
2005	57.5	42.5	100
2006	59.0	41.0	100
2007	58.6	41.4	100
2008	56.9	43.1	100
2009	55.2	44.8	100
2010	54.5	45.5	100
2011	57.5	42.5	100
2012	55.0	45.0	100

Source: D.C. Comprehensive Annual Financial Report. 2009, 2010 & 2012, Page 2, Exhibit S-2A and staff calculations

Table 11 provides information on the relative importance of properties exempt from paying property taxes to the District. The share of real property assessed value subject to real property taxation in the District increased from 58 percent in 2000 to over 68 percent in 2007. It seems the Great Recession hit taxable property values more than non-taxable property values because the share of property subject to property taxation fell each year from 2007 to 2011, with only a slight increase in the share of taxable property in 2011.

Table 11
D.C. Total Real Property Assessed Value
by Taxable and Exempt Portions, 2000-2012
(\$ Thousands)

Year	Taxable Assessed Value	Exempt Assessed Value	Total Assessed Value	Percent Taxable
2000	43,270,066	30,900,682	74,170,748	58.3
2001	44,229,116	32,086,134	76,315,250	58.0
2002	52,522,147	33,812,037	86,334,184	60.8
2003	58,063,667	35,728,289	93,791,956	61.9
2004	66,454,109	43,234,068	109,688,177	60.6
2005	86,887,767	43,219,725	130,107,492	66.8
2006	98,491,335	59,664,865	158,156,200	62.3
2007	124,875,273	57,690,545	182,565,818	68.4
2008	142,958,188	67,869,520	210,827,708	67.8
2009	153,039,555	81,211,121	234,250,676	65.3
2010	150,117,289	82,113,504	232,230,793	64.6
2011	139,287,502	81,528,158	220,815,660	63.1
2012	146,501,957	83,399,263	229,901,220	63.7

Source : D.C. Comprehensive Financial Report 2009, 2010 & 2010, Page 2, Exhibit S-2A and author's calculations,

WHY THE PROPERTY TAX IS AN IMPORTANT SOURCE OF LOCAL REVENUE⁶

The District and state and local governments nationally, provide public goods and services that benefit the community at large, e.g., a road network, police and fire services, etc. The challenge for elected officials is to devise a system of generating revenues to finance these community services that shares these costs across stakeholders in the community fairly. Such a system must generate reliable revenues, while minimizing distorted private market decisions in a way that taxpayers and voters can understand and is done in an equitable manner. As a local revenue source, the property tax scores very well on these objectives and is an essential foundation for any local revenue system. The strengths of the local property tax are summarized below.

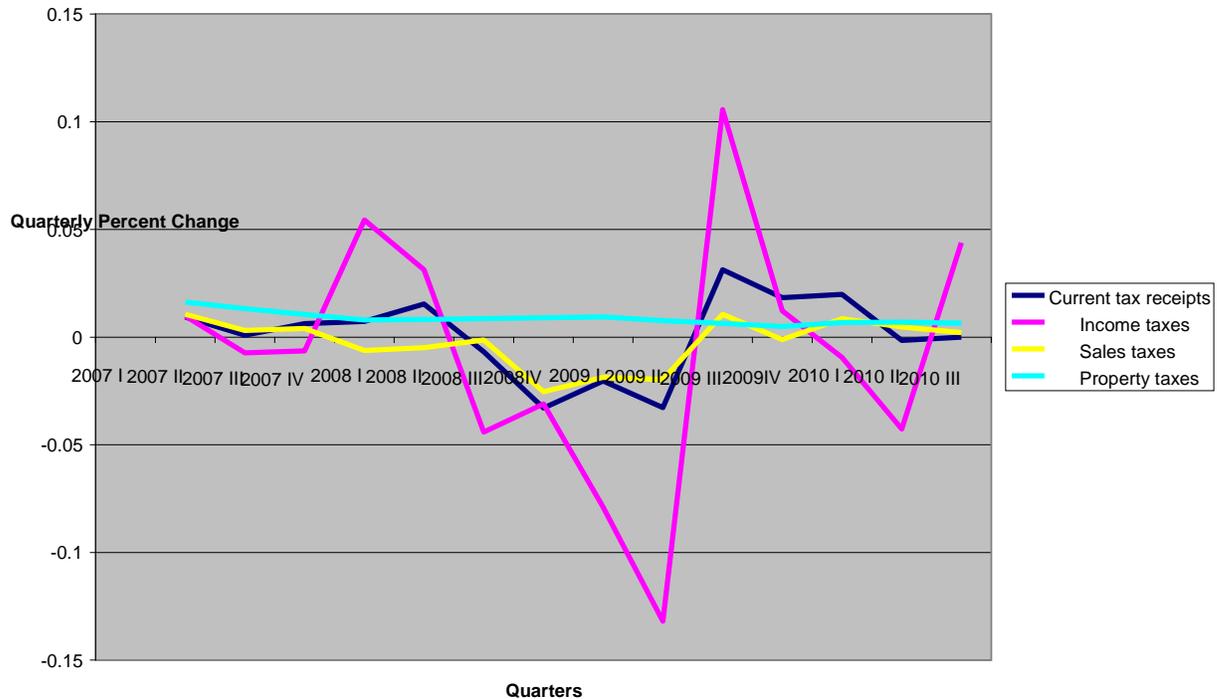
Revenue Stability

The property tax tends to be a stable revenue source because it is based on asset value, not an annual stream of income or sales. A stable tax generates revenues that change relatively more slowly than the economy. Since real estate markets reflect long-term asset values, which tend to respond slowly to annual changes in the level of economic

⁶ This section draws on material from Bell (2012).

activity (less than economic flows like sales, personal income and profits) the property tax tends to be more stable than the general sales tax or the personal income tax. Figure 1 documents the continued growth of national property tax revenues from the first quarter of 2008 through the second quarter of 2009 while income and sales tax revenues fluctuated significantly during the “Great Recession.”

Figure 1
Change in State and Local Tax Revenues by Type of Tax



The property tax represents a critical anchor for funding local governments. In a recent study of the impact of the “Great Recession” on local revenues generally, and property taxes specifically, Alm, Buschman and Sjoquist concluded that

“local government reliance on the property tax rather than more elastic revenues sources like income, sales, and excise taxes has – so far, in any event – helped local governments avoid some of the more severe difficulties experienced by many other governments in the current economic situation.” (Alm et al., 2010, 23)

Giertz documented a similar stabilizing impact of the growth in property tax revenues as income and sales tax revenues declined, albeit more modestly, as a result of the stock market decline in 2000 and the recession of 2001. (Giertz, 2006)

Neutrality

Neutrality in taxation requires taxes minimize unintended influence on private economic decisions. What is to be avoided, to the extent possible, is a tax that causes taxpayers to adjust their behavior to avoid or minimize their tax liabilities. To the extent that economic actors adjust their behavior to shift or avoid the tax, the tax has distorted private economic decisions and the economy is moved to a less efficient or lower welfare, position because of the tax (Fisher, 1996, 303). As a general rule, such inefficiencies are best avoided by a system with a broad tax base (e.g., allow few, if any, tax exemptions, deductions, and credits) combined with low rates (NCSL, 1992).

In this context, an ideal real property tax would be broad based and include all forms of real property, i.e., land and structures for both residential and commercial properties, agricultural land and property owned by governments and non-profit organizations alike. In addition, because the property tax is assessed primarily against real property, which, in the short-run, is immobile, there is little that property owners can do to avoid the tax. Thus, the tax has little impact on their economic decisions in the short-run. In this respect, the property tax tends to distort private economic decisions less than other local taxes – especially when the base of the tax is defined as broadly as possible.

Simplicity

Taxes may cause distortions in the allocation of economic resources if they are complex and difficult to administer. In such a situation, the taxpayer may spend substantial resources to comply with the tax law, and the local jurisdiction may expend substantial resources administering it.

The property tax is generally considered to be taxpayer-passive because taxpayers face minimal compliance costs. Alternatively, the property tax is considered to have higher administrative costs for the local government associated with preparing and maintaining the tax roll, annually estimating the property tax base,⁷ generating and delivering tax bills, collecting tax revenues and enforcing the property tax when it is not paid in a timely fashion. Relative to other potential local tax sources with tax bases that are annual flows that must be monitored and verified (high compliance costs for both taxpayers and the government), the property tax is relatively easy to administer and involves low taxpayer compliance costs, except in the case of commercial and industrial property which may have higher compliance costs for both the taxpayer and the government.

Another virtue of the property tax, from the government's perspective, is that taxpayers cannot easily hide or move real property. In addition, the property provides collateral for the tax liability. If the property owner fails to pay the taxes a lien is placed on the

⁷ The property tax is different from other state and local taxes because the tax base, estimated market value, must be determined by the government. The property tax is a tax on wealth which does not change hands annually. In contrast the base of the personal income tax or general sales tax is based on annual economic flow, e.g., income or retail sales.

property. That lien prevents the property from being sold or mortgaged until the tax liability is satisfied. If collection efforts are unsuccessful, a local government can typically seize and sell the property. The local government retains the taxes owed, penalties, interests, and administrative costs, and remits the remainder to the owner. While property tax sales are often the last resort for local governments, such sales provide powerful incentives to comply with the law.

Equity

To achieve a fair allocation of the responsibility for financing local public services, properties need to be assessed for tax purposes uniformly. Appraisal uniformity requires the equitable treatment of individual properties within groups (property types, use classes, neighborhoods, etc.) and between groups. When individual property valuations are at the same percentage of market value, they are most likely to be accepted as fair. To promote fairness, then, the ultimate policy objective should be to implement the property tax uniformly across all property use classes at 100 percent of market value, which promotes transparency.

Dissimilar treatment of similar properties -- real differences in the taxation of equals -- undermines confidence in the property tax system. Consider the new homeowner who discovers that because of the assessment cap and valuation for tax purposes based on acquisition value, his neighbor, with essentially the same house, pays substantially less in property taxes simply because she has lived in the house longer. Such situations can breed cynicism and distrust not only of the tax system, but potentially of government in general.

Accountability

The property tax improves accountability in local finance because the tax is generally more visible than other potential local taxes. Many property owners typically pay property taxes by writing one or two checks a year to their local governments. Each check is relatively large so the property owner is aware of the tax and has to plan for its payment.⁸ As a result, property taxes paid are relatively large payments that are more easily linked in the mind of the taxpayer to the level and quality of goods and services provided by the local government. The visibility of the property tax provides, to some extent, public pressure that tends to keep property taxes low.

This is in contrast to the situation with income taxes where the tax is withheld each pay period for most individuals. The taxpayer is generally not aware of the amount of the tax being withheld and often gets a refund when they file their income tax return. Similarly, sales taxes are also less visible than property taxes. A sales tax is paid on each transaction, but the taxpayer often has no idea how much sales tax she pays annually. The taxpayer would have to add up the sales taxes paid on all taxable transactions over the year.

⁸ Cabral and Hoxby (2012) estimate about 31 percent of people pay their property taxes through an escrow account which reduces the visibility of the tax some.

In conclusion, based on traditional criteria for evaluating a revenue system, the local property tax emerges as a very defensible source of local revenues. The property tax is especially attractive when compared with other potential sources of local tax revenues because it is immobile.

While most economists would embrace this conventional wisdom, this conventional wisdom is being re-evaluated in light of the consequences of legislative efforts to limit the ability of local governments to raise revenues from the property tax and reduce property tax liabilities for preferred groups of property owners or land uses. The manner in which the property tax is administered greatly influences its productivity, neutrality, simplicity, equity and accountability. Bahl *et al* conclude that

“bad practice has overtaken many of the potential advantages of taxing property. . . In the United States, voter preferences in recent years appear to be to trade an equitable property tax for one whose revenue growth is restrained.” (Bahl *et al.* 2010, 14)

Giertz is more direct

“rather than a broad-based, low-rate tax that treats all types of real property uniformly, the tax in most states is characterized by a bewildering array of constraints and preferences including classified bases, rate limits, revenue limits and caps, assessment exemptions, freezes and caps, circuit breakers, and special incentives for business.” (Giertz, 2006, 695)

This may describe the situation with the property tax in the District of Columbia. The risk of such a “confusing and opaque jumble of special provisions that accumulate as the broad base of the property tax is destroyed” [Witte, p. 314] is that it drives a wedge between an ideal property tax and the actual administration of the tax and can undermine accountability and the public’s confidence in the tax generally. The next section describes the framework for administering the real property tax in the District of Columbia.

DETERMINING REAL PROPERTY TAX LIABILITIES IN THE DISTRICT OF COLUMBIA

A property tax can be either general or selective in its application. A general tax applies broadly to all types of property and treats the various types uniformly. A selective tax, by contrast, is levied only on certain types of property. The property tax nationally, and in the District, has become increasingly a selective property tax which applies primarily to real property.

Nationally, and in the District, personal property has declined as a share of the property tax base for both administrative and philosophical reasons. For example, given the movable character of many forms of personal property (e.g. inventories), tax avoidance is relatively simple. In addition, a personal property tax can be perverse in its effects. For example, the personal property tax will increase as inventories rise, even if the increase in

inventories is a result of an economic downturn. Finally, popular and political unwillingness to take the administrative steps necessary to discover and list various types of personal property (especially household property), together with the difficulties inherent in valuing such items has resulted in a decades long trend of exempting all or various types of personal property from taxation. For all practical purposes the property tax in the District is a tax on real property.

There are a number of steps in determining property tax liabilities for individual properties in the District. Specifically, the property tax liability is calculated by estimating the tax base, multiplying it by the tax rate and making adjustments for any applicable property tax relief measures. In other words,

$$\text{Tax Liability} = (\text{tax base} \times \text{tax rate}) - \text{property tax relief.}$$

The following sections discuss how each of these elements are determined in the context of administering the real property tax in the District of Columbia.

Defining and Valuing the Tax Base

The first step in determining property tax liabilities is defining and valuing the tax base. Section 47-802 (1) of the DC Code defines real property – the base of the real property tax in the District – as land and the improvements thereon. The assessed value of real property used to calculate property tax liabilities is “the market value of such property . . .” Section 47-820 (a)(3).

The estimated market value of a property “means 100% of the most probable price at which a particular piece of real property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would be expected to transfer under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other.” Section 47-802(4). This is what is typically referred to as an “arm’s-length” transaction.

The District utilizes the three traditional approaches to estimating the market value for individual properties that do not sell during the tax year:

- the sales approach;
- the cost approach; and
- the income approach [Section 47-820 (a)(3)].

The ***sales approach*** to valuation involves a comparison of a property being valued with similar properties that actually sold recently in an arm’s-length transaction – a sale between a willing buyer and a willing seller who are unrelated. All differences, minor and major, are enumerated and evaluated according to the judgment of the assessor. The value of the property being assessed for tax purposes is thereby related to the prices of comparable properties that have sold.

This method is used generally for valuing residential and small apartment/commercial properties. It is based on the principle that the value of a property tends to be set by the cost of buying an equally desirable substitute property. Adjustments may be made to reflect differences between the property being valued for tax purposes and comparable sales being used to determine value. Such adjustments may include physical and economic conditions, location and time of sale, financing, etc. The adjustments may be expressed on a lump-sum or percentage basis and are applied to the property under review.

The assessor typically uses a computer assisted mass appraisal (CAMA) model to make these estimates. The model is calibrated using information from properties that actually sold and then those results are applied to properties that did not sell which are being valued for property tax purposes. For this system of estimation to generate reliable estimates of market value for properties that did not sell, it is essential the property sales used to calibrate the model are from arms-length transactions. There must be a defensible mechanism for determining which sales are arm's length transactions and can be used as comparable sales in this analysis. This process is complicated by the increase in short sales, foreclosures and bank sales resulting from the Great Recession of 2007 to 2009 which should be eliminated because they are not between a willing seller and a willing buyer.

The **cost approach** to valuation is frequently used in the valuation of new construction and special purpose properties. Information is obtained from developers as well as national sources and is used to estimate the cost of new construction or the cost of replacing a unique building. Typically, the first valuation of a property is made when there are improvements on the land as of the date of the assessment roll. At that time, it is valued by the cost approach and placed on the records at the percentage that its current stage of completion bears to the estimated full value at completion.

In using the cost method, the assessor first determines the market value of the land by examining sales of comparable land. Next, the assessor estimates the cost of replacing a building at the time of reassessment based on available cost data. Thus, as construction prices increase or decrease, so will the estimated cost of replacing a building. When applied to existing buildings, this replacement cost is depreciated according to the building's age and functional or economic obsolescence and upkeep is added back.

There are actually three different approaches to implementing the cost approach to valuation. Specifically, the assessor may use

- the **reproduction cost approach** which estimates the current cost of reproducing exactly the existing structure, less accrued depreciation;
- the **historical cost approach** to valuation, which starts with the actual historical cost of building a structure and applies trending factors to that data; and

- the **replacement cost approach**, which seeks to estimate the cost of replacing a structure with one that would serve the same functions, but which would be constructed using current building technology and materials.

Generally, the **income approach** to valuation is used to estimate the market value of investment properties, including industrial properties, commercial buildings as well as larger apartment buildings. Again, these properties do not sell often so the market value is estimated by looking at the relationship between the net income generated by the property and its market value.

The approach starts by looking at the relationship between the underlying asset and the stream of income it generates. An example might be a bank account. If you put \$1,000 in the bank and the interest rate is 5 percent then the bank will pay you \$50 per year in income. The fundamental relationship involved in this example is

$$\text{Income} = \text{value} \times \text{interest rate.}$$

In the example above, the value of the asset is the \$1,000 in the bank account and the interest rate is 5 percent so the annual income generated is \$50.

This same relationship is used to determine the value of the underlying asset when the interest rate and annual flow of income are known, but the market value of the asset is not known. Rearranging the above relationships yields

$$\text{value} = \text{income}/\text{interest rate.}$$

Thus, if a property yields an annual net income of \$1 million and the applicable interest (capitalization) rate is 10 percent, the value of the property for tax purposes would be \$10 million (\$1 million/0.1 = \$10 million).

In applying the income approach to valuation the first step is to estimate annual net income for the property being valued. This requires information on the income and operating expenses for the property being valued. Typically, this information is obtained from schedules sent to the property owner. An example may help illustrate this process.

Let's say the assessor is estimating the market value of a one-hundred-unit apartment building renting each unit for \$1,500 per month. Fully rented, this would generate \$1.8 million in gross income annually. Assume in this hypothetical example that expenses equal 54 percent of annual gross income – or \$972,000 per year. Also, assume that the building has a 6 percent vacancy rate. Thus, in this example,

Actual Annual Gross Income is	\$1.8 million x 0.94 = \$1,692,000
Estimated Annual Expenses are	\$1.692 million x 0.54 = \$913,680
Estimated Annual Net Income	\$1.692 million - \$913,680 = \$773,320

The second step in applying the income approach to valuation is to estimate the capitalization rate to be applied to the annual net income to calculate the estimated market value of the property. Just as fluctuations in construction costs influence the value of property under the cost approach, market trends in the rate of return on money invested, vacancy factors, rent controls, or other lease agreements and other variations in capital costs and risk estimates will influence the determination of the appropriate interest rate to use in capitalizing net income to estimate market value of a property. As a result, different capitalization rates may be used on similar properties in different neighborhoods of the District, or may be utilized for the same property over time as market conditions change.

For the purposes of this example, let's assume the appropriate capitalization rate for this specific building is 10 percent. Following the equation above the estimated market value of this property would be estimated annual net income divided by the appropriate capitalization rate or

$$\$773,320 / 0.1 = \$7,732,000.$$

The estimated market value of this 100 unit apartment building is \$7,732,000.

The intent of this approach is to estimate the value of a property based on the annual net income generated. However, there are two additional factors that influence the actual annual net income generated from any commercial business

- there might be significant variation of managerial skills among property owners/managers which could impact the net income that a property can potentially generate. Not adjusting for variation in entrepreneurial skill will attribute too much income to the other factors of production being valued by the income approach; and
- there is a concept of “goodwill” which can impact the outcome of the income approach. Two hotels of identical construction in similarly desirable locations may differ in their income producing capacity simply because one is named *Holiday Inn* and the other is named *Bed Bug Place*.

It is difficult, however, to place a specific value on the extra income potential associated with an established brand name or above average entrepreneurial skill. Using average income and expense information for similar properties in a given neighborhood can minimize these possible distortions.

In principle any individual property could be valued with any of these approaches. However, general practice is to use one approach depending on the type of property. General practice is summarized in the Table 12.

	Residential		Commercial
	Owner Occupied	Rental	
Sales Approach	Yes	Yes	Yes
Cost Approach	Yes	Yes	Yes
Income Approach	No	Yes	Yes

Determining Assessment Quality

The property tax is the only major tax whose base must be estimated, rather than observed. Thus, by its very nature, the valuation of property is a subjective process. Assessing property requires the talents of highly trained and experienced personnel. However, since no two individuals have exactly the same experiences, individual assessors may differ in the weights they assign different abstract factors – e.g., view, neighborhood quality, etc. – which may influence the value of a particular property.

The Office of Tax and Revenue’s (OTR) Real Property Tax Administration (RPTA) in the District of Columbia is responsible for assessing real properties for purposes of taxation. The RPTA physically reviews a portion of properties each year to verify property characteristics existing in current assessment records. Such characteristics include property type, size quality of construction of the structure and any new improvements.

The D.C. Code (Section. 47-823) requires annual assessment-sales ratio studies to measure assessment quality in the District. The most recent ratio study was done in 2012 (reflecting fiscal year 2013). Three dimensions of uniformity are examined in assessment/sales ratio studies:

- 1) The first step is to determine how close actual assessed values are to the target of 100 percent of market value. Three measures of central tendency are typically computed:
 - an average assessment/sales ratio which is the mean of the assessment/sales ratios for each individual property;
 - the median of the individual ratios, which is the value in the middle of the ratios when sorted into ascending or descending order; and
 - the weighted average which is the total of assessed value divided by the total sales value of all the properties.

In practice the median ratio generally is preferred. The mean ratio is said to be influenced too strongly by extreme outliers. An advantage of the median ratio is that

extreme values do not affect it. Bell and Bowman (1991, 357), however, find that while there are differences when using the mean vs the median ratio, the differences often are not critical.

2) The next step is to determine the extent to which similar properties are treated the same. This is a measure of *horizontal uniformity* – properties of equal value are treated equally. The most commonly used measure of horizontal uniformity is the Coefficient of Dispersion (COD). Typically, CODs of less than 15 for residential properties indicate good assessment uniformity, while CODs of less than 20 for income producing properties indicate good assessment uniformity.

3) The final step is to determine if there is a systematic bias in valuing high- or low-valued properties. The statistical measure used to gauge *vertical assessment uniformity* is the Price Related Differential (PRD). The PRD tests to see if higher and lower valued properties are assessed at the same level. PRD should range between 0.98 and 1.03 to indicate vertical uniformity in assessments. A PRD greater than 1 indicates an under valuation of high value properties, while a value less than 1 indicates under valuation of low valued properties.

A simple hypothetical example illustrates these different dimensions of assessment uniformity. In our hypothetical example described in the Table 13, there are 5 properties that are assumed to have sold for the same price of \$160,000. Their assessed values range from \$140,000 to \$180,000. As shown in Table 13, the Assessment Sales (A/S) ratio for property V is 87.5 (140/160) and the A/S ratio for property Z is 106.25 (170/160).

Table 13				
Hypothetical Example of Assessment-Sales Ratio Calculations				
Property	Assessed Value	Sales Price	A/S Ratio	Deviation From Median
V	140000	160000	87.5	12.5
W	180000	160000	112.5	12.5
X	160000	160000	100	0
Y	150000	160000	93.75	6.25
Z	170000	160000	106.25	6.25
	800000	800000		37.5
Average Ratio	=	100		
Weighted Ratio	=	100		
Average Absolute Deviation	=	7.5		
Median Ratio	=	100		
Coefficient of Dispersion	=	7.5		
Price-Related Differential	=	1		
Source: Hypothetical data and Author's calculations.				

The median ratio is 100, as is the average ratio and the weighted average ratio. The COD is calculated by determining the absolute value of the difference between each property's A/S ratio and the median ratio. These differences are added together and divided by the number of properties to determine the average difference. This average is then divided by the median ratio to calculate the COD. In this hypothetical example the COD is 7.5, indicating good horizontal uniformity in assessments. Finally, the PRD is equal to the average ratio (100) divided by the median ratio (100) and is equal to 1 in this hypothetical example; there is no systematic bias in favor of high or low value properties in this hypothetical example.

Other Issues to Consider in District's Ratio Studies

Only arm's length transactions between a buyer and a seller are included in the assessment ratio studies. Use of arm's length transactions is important to ensure that the transactions reflect true market value. Arm's length transactions only take place between parties that have no kind of business or family connection to one another. For instance, purchasing a property from a company owned by a relative, even if both entities are not affiliated parties, would not be considered a true arm's length transaction. In a similar manner, purchasing properties from a company that is owned by the same parent organization does not qualify as an arm's length transaction, even if the two companies operate independently.

As such, RPTA excludes sales between related parties, to and from financial institutions or government agencies or sales with extreme ratios (which indicated abnormal transactions). But attempts are made to verify all aspects on the sales of a property -- where if an owner fails to respond to a mailed questionnaire or if the owner is absent an exterior inspection is done. The residential assessment-ratio performance generally is good and conforms to standards established by the International Association of Assessing Officers (IAAO).

Ratio studies may be performed for various reasons, including assessing accuracy and equity studies, to judge the need for management of a reassessment, to identify problems with assessment procedure, to assist in marketing analysis and to adjust assessed values.

Findings from the District's Ratio Studies

Table 14 reports information on assessment quality for residential and commercial properties in the District from 2004 to 2012. Residential properties show median A/S ratios ranging from a low of 93 percent in 2006 to more than 97 percent in 2008 to 2012, except for 2010. For commercial properties, it is a mixed result, where median ratios range from as high as 100 in 2004 to a low of 80.5 in 2006 before going up to 98.3 in 2012. The measure of horizontal equity declines steadily over this period for residential properties (from 14 in 2004 to 6 in 2012), but is more erratic for commercial properties, and is above 20 in five of the nine years reported. Generally, the COD for residential

properties is within the acceptable range, while there is greater variation in the COD for commercial properties.

Table 14								
D.C. Sales, Median Ratios, and Coefficients of Dispersion and								
Price-related Dispersion City-Wide 2004-2012								
	Residential				Commercial			
Year	Sales	Median Ratio	COD	PRD	Sales	Median Ratio	COD	PRD
2004	7,179	95.2	14	1.02	528	100	11	0.95
2005	7,541	95	12	1	453	92.6	20	0.91
2006	8,219	93.1	12	1.01	375	80.5	25	0.86
2007	9,689	95	10	1.01	438	95.5	24	0.9
2008	8,211	97	9	1.01	310	85.4	26	0.88
2009	7,349	97.2	7	1.01	261	88.9	23	0.92
2010	5,680	95.7	9	1.02	225	95	18	0.99
2011	4,878	97.8	6	1.01	107	91.6	21	1
2012	5,006	97.5	6	1	138	98.3	17	1.06

Source: Office of Tax Revenue
 Note: Fiscal Years 2002 and 2003 were excluded for this analysis because they were not representative due to the triennial groupings that started in 2002 and ended in 2004.

On average, the PRD, which measures vertical equity, averages 1.01 for residential properties over this period. No PRD for residential properties is outside the acceptable range indicating vertically uniform assessments. Alternatively, the PRD for commercial properties averages 0.94 indicating systematic bias in generally under assessing low valued commercial properties and over assessing high valued commercial properties. While most of the commercial PRDs are outside the acceptable range, and generally suggest under-assessment of low valued properties, in 2012 the PRD is outside the acceptable range, but indicates under-assessment of high valued commercial properties.

Neighborhood Data

Data on assessment quality by neighborhood come from the Office of Tax and Revenue. The data indicate a general improvement in uniformity between 2006 and 2012 fiscal years. However, there are exceptions for a couple of neighborhoods, namely Forest Hills and Observatory Circle, with declines in uniformity with the COD increasing from 8 in 2006 to 9 in 2012 and increasing from 8 in 2006 and 10 in 2012, respectively (Table 15).

Table 15
Comparisons of Residential Sales by Neighborhood, Median ratio, Coefficient of Dispersion and
Price Related Differential for Fiscal years 2006 and 2012

Neighborhood	Year 2012				Year 2006			
	Sales	Median Ratio	COD	PRD	Sales	Medium	COD	PRD
American University	84	97.90	3.00	1.00	93	96.6	6.00	1.00
Brent Wood	35	100.00	7.00	1.03	50	83.4	18.10	1.02
Bright Wood	98	97.90	6.00	1.00	160	89.4	16.00	1.03
Brookland	178	96.10	6.00	1.01	232	88.2	18.00	1.02
Burleith	31	98.50	3.00	1.00	40	95.6	7.00	1.01
Capital Hill	141	96.80	7.00	1.00	204	95.7	8.00	1.01
Central	247	96.10	6.00	1.01	487	93.0	6.00	1.00
Chevy Chase	207	97.00	5.00	1.00	175	96.2	8.00	1.01
Cleveland Park	86	98.30	6.00	1.00	190	92.4	8.00	1.01
Colombia Heights	339	97.30	7.00	1.01	559	97.3	7.00	1.01
Congress heights	52	96.10	8.00	1.00	174	89.7	18.10	1.04
Dean Wood	118	97.70	6.00	1.01	240	95.0	12.00	1.02
Eckington	73	99.30	4.00	1.01	130	93.5	15.00	1.02
Foggy Bottom	32	97.20	5.00	0.99	92	85.8	11.00	0.99
Forest Hills	54	96.80	9.00	0.98	104	93.1	8.00	1.00
Fort Duport Park	44	97.70	7.00	1.01	97	89.2	14.00	1.03
Garfield	57	98.00	6.00	1.00	74	92.5	11.00	1.02
Georgetown	144	99.00	6.00	0.99	277	95.0	8.00	1.01
Glover Park	67	97.60	5.00	0.99	114	92.3	9.00	1.00
Kalorama	122	98.70	5.00	1.00	229	92.6	9.00	1.00
Ledroit	76	99.30	3.00	1.00	86	93.0	14.00	1.02
Mount Pleasant	156	97.90	4.00	1.00	245	91.9	10.00	1.01
Observatory Circle	43	99.40	10.00	1.02	71	95.2	8.00	1.01
Old City #1	651	98.10	5.00	1.00	924	94.6	13.00	1.01
Old city #2	601	97.20	6.00	1.00	1296	93.2	11.00	1.00
Palisades	37	97.10	2.00	1.00	82	94.1	8.00	1.00
Pet Worth	182	98.40	6.00	1.00	298	88.5	15.00	1.03
Randle Heights	48	95.80	9.00	1.01	97	95.0	11.00	1.02
Riggs Park	33	98.10	6.00	1.00	77	92.6	11.00	1.01
16th Street Heights	63	98.80	5.00	1.00	87	92.2	12.00	1.01
Trinidad	72	99.60	9.00	1.02	140	83.3	21.00	1.06
Wesley Heights	57	97.30	4.00	0.99	96	93.3	9.00	1.03
Woodridge	46	99.50	4.00	1.00	89	94.2	13.00	1.04

Source: Office of Tax and Revenue

Note. Only neighborhoods with sales greater or equal to 30 were compared. Each Fiscal Year reflects sales for two years back, e.g., Fiscal year 2013 reflects sales for calendar year 2011

Other neighborhoods have maintained the level of uniform assessment as depicted by their constant COD for the two fiscal years 2006 and 2012. Such neighborhoods include Central and Colombia Heights with CODs of 6 and 7 respectively for both 2006 and 2012 fiscal years.

With regard to the measure of vertical equity, the PRD is in the acceptable range for all neighborhoods reported in 2012 and most of the neighborhoods in 2006. In 2006, only Congress Heights, Trinidad and Woodridge revealed somewhat of a bias in under assessing high value properties with PRDs of 1.04, 1.06 and 1.04 respectively.

Appeals Process

Because the base of the real property tax is estimated, a process for a property owner to challenge the estimated market value of his/her property is a critical part of the property tax system. Such an appeals process provides the opportunity for an aggrieved property owner to pursue relief and it provides information on the functioning of the assessment system. A well functioning appeals process should be easily accessible and generally low cost for the property owner. Consistent with best practices, the District of Columbia has a three level appeals process.

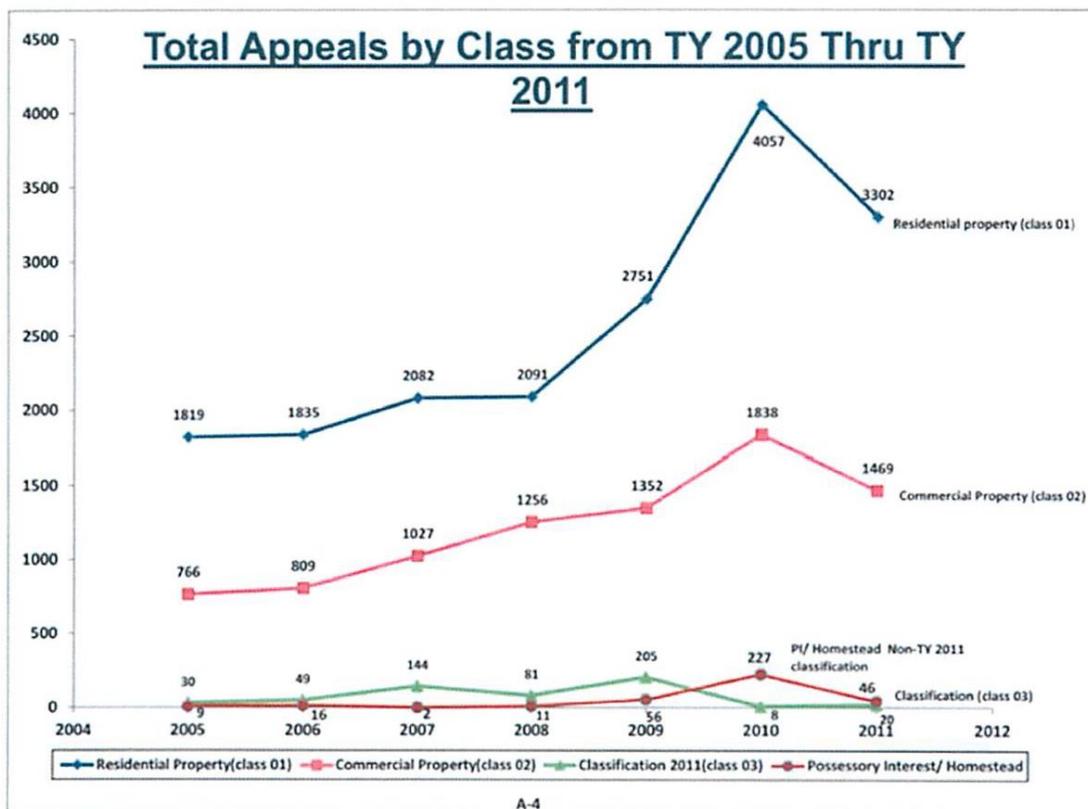
In 2008 the DC's Auditor's office conducted a review of the appeals process in the District as it was being administered by the Board of Real Property Assessment Appeals (BRPAA).⁹ In July 2012 the BRPAA was abolished and replaced with the Real Property Tax Appeals Commission (RPTAC). The major difference is that the RPTAC has a full-time Chairman and Vice-Chairman, four full-time commissioners and six part-time commissioners. The expectation is that the new organization will be more efficient because individual members will be able to focus their attention on property tax appeals.

The RPTAC has yet to complete its first year of activity. According to the information in Figure 2-1, there were 3,302 residential appeals in 2011, 1,469 commercial appeals, 20 class 3 appeals and 46 appeals of a non-homestead classification.¹⁰

⁹ DC Auditor's Review of the Board of Real Property Assessments and Appeals Operation, September 30, 2008.

¹⁰ Almy *et al.*

Figure 2-1



First Level Appeal

The first level of appeal is an administrative review by the staff of the Real Property Assessment Division of the Real Property Tax Administration in the Office of Tax and Revenue. Not later than March 1, each real property owner will be notified of the assessed value of his/her property for the next tax year [47-824(a)]. The property owner must file any appeals of that assessment on or before April 1 [47-825.01a(d)(1)].

The property owner can appeal their assessment on a number of grounds, including

- contest the assessed value because of property damage or changes in the condition of the property not reflected in the assessment;
- dispute the accuracy of data describing the property on the property record card;
- appeal the valuation of the property;
- appeal the classification of the property; or
- appeal a decision about eligibility for a homestead exemption.

The property owner must provide all evidence in support of the appeal with the completed appeal form. Such evidence may include pictures, fire reports, other damage reports, comparable sales of similar properties or information related to classification of the property.

The first level of appeal is an informal administrative process. An appraiser meets with the taxpayer, they exchange information and evidence, and make any administrative corrections necessary or adjust the estimated market value if evidence warrants. This process must be completed by August 1.

Second Level Appeal

If the taxpayer is not satisfied with the results of the first level of appeal, s/he can carry the appeal to the second level, not later than 45 days after the first-level notice of final determination has been made. The second level of appeal is a more formal process and is evaluated by the Real Property Tax Appeals Commission [47-825.01a].

The part-time Commissioners are compensated on an hourly basis and have responsibility for hearing cases initiated by single-family residential property owners and owners of any non-commercial real property with assessments of \$3 million or less. The full-time Commissioners are responsible for hearing all other appeals.

Each appeal to the RPTAC is reviewed by a panel of the Commission. The number of Commissioners on a panel is as follows:

- in the case of a single-family residential property or any non-commercial property assessed for \$3 million or less, a one-Commissioner panel shall be convened; and
- in the case of all other real property, a 3-Commissioner panel shall be convened, but a 2-Commissioner panel may be convened if the appellant and the Office of Tax and Revenue agree.

The RPTAC may, by decision of the review panel, change the proposed assessment, the proposed classification, a decision on homestead, senior, or disabled benefit eligibility and any other determination on a matter for which it has jurisdiction. Each decision will be in writing and signed by the Commissioners of the review panel.

In the 2012 tax year there were 4,016 second level appeals and approximately 2,400 were commercial properties. There were 1,300 properties with assessed values more than \$10 million. As a result, thousands of properties go through two hearings running from April through the following February. This requires a significant commitment of time for assessors in the District. During 2012 level two hearings alone, it is estimated that 16 commercial appraisers defended their assessments and, on average, they attended about 150 hearings each. (Almy *et al*, 22-23)

Third Level Appeal

If the taxpayer has not received a satisfactory response to their appeal at the first and second level of appeal, they can appeal to the tax division of the Superior Court of the District of Columbia. The deadline for filing an appeal with the Superior Court is September 1. Not surprisingly, most of the appeals going to the Superior Court are for high valued commercial properties. In an effort to expedite these cases, settlement mediations are held every week between the party challenging their assessments and the Real Property Assessment Division in an effort to avoid long drawn out and expensive court cases.

There are approximately 1,200 cases before the Superior Court. This number has tripled since 2007. The work necessary to defend assessments at this level, including responding to discovery requests, can be very time consuming. (Almy *et al*, 23-24)

Almy *et al* argue that workload statistics can be useful in this type of situation for evaluating resource sufficiency and estimating resource needs. Such workload statistics help determine if the assessment agency has sufficient staff, adequate computer support and adequate facilities and equipment. They found, however, that such workload monitoring and documentation of work accomplishments is not routinely available in the District's Real Property Assessment Division of the Real Property Tax Administration. (26)

DC's Property Tax Rate

The District Council establishes annually rates of taxation for real property. The Council must hold a public hearing on the issue and shall annually establish by act by October 15 property tax rates by class. [47-812]

Real property in the District of Columbia is divided into four distinct classes for the purpose of property taxation. [47-813 (c-8)] Specifically, beginning in FY 2011

- *Class 1* property is residential real property that is improved (and unimproved real property located within a zone designated as residential) and its legal use is for non-transient residential dwelling purposes
- *Class 2* property includes all real property which is not Class 1, Class 3 or Class 4 property
- *Class 3* property includes properties determined semi-annually by the Mayor to be vacant
- *Class 4* property includes improved real property that is determined semi-annually by the Mayor to be blighted vacant buildings.

In establishing real property tax rates, the Council is required to make a comparison of tax rates and burdens applicable to residential and non-residential properties in the

District with rates applicable to similar properties in jurisdictions in the vicinity of the District. [47-817] This provision of the DC Code also states that “Without in any way limiting the authority of the Council, it is the intention of the Congress, that tax burdens in the District be reasonably comparable to those in the surrounding jurisdictions of the Washington metropolitan area.”

DC’s property tax rates are set as an amount for every \$100 of a property’s taxable assessment. For all properties other than owner-occupied homes, the taxable value is the estimated market value:

- Class 1, Residential: \$0.85 per \$100
- Class 2, Commercial: \$1.65 per \$100 for 1st \$3 million of value
\$1.85 per \$100 for value over \$3 million
- Class 3, Vacant Properties: \$5.00 per \$100
- Class 4, Nuisance Properties: \$10.00 per \$100

Typically real property tax rates in the District rarely change. Table 16 reports the history of real property tax rates by class for the last ten years. The tax rate on residential property has been very consistent over this period except for declines in 2007 and 2008, which were a result of the property tax levy limit in the District which requires the tax rate be reduced so that the total property tax levy for residential properties will not increase more than 7 percent a year. In 2009 the commercial tax rate changed when a two tier system was put in place taxing commercial properties with assessed values less than \$3 million at \$1.65 per \$100 of assessed value and commercial properties with assess values more than \$3 million at \$1.85 per \$100 assessed value.

	Class 1	Class 2	Class 3	Class 4
Fiscal Year	Residential	Commercial	Vacant	Blighted
2003	0.96	1.85	5.00	N/A
2004	0.96	1.85	5.00	N/A
2005	0.96	1.85	5.00	N/A
2006	0.96	1.85	5.00	N/A
2007	0.88	1.85	5.00	N/A
2008	0.85	1.85	5.00	N/A
2009	0.85	1.65/1.85	10.00	N/A
2010	0.85	1.65/1.85	10.00	N/A
2011	0.85	1.65/1.85	5.00	10.00
2012	0.85	1.65/1.85	5.00	10.00

Residential property taxes in the District are the lowest in the metropolitan region, in part, because the District has the lowest property tax rate in the region. Table 17 compares residential property tax rates in the region.

Table 17 Residential Property Tax Rate Comparisons (per \$100 assessed value)					
D.C.	Montgomery County	Pr. George's County	Arlington County	Fairfax County	Alexandria
\$0.85	\$1.068-1.641	\$1.431-2.921	\$0.958	\$1.096-1.213	0.971

Source: D.C. Fiscal Policy Institute, *Revenue: Where D.C. Gets Its Money*, February 7, 2013.

On the other hand, however, the tax rates on commercial property in the District are the highest in the region. For commercial property in the District, the commercial property tax rate is \$1.65 per \$100 of assessed value for commercial property valued at \$3 million or less, and \$1.85 per \$100 assessed value above \$3 million. Table 18 provides comparisons of commercial property tax rates in other jurisdictions in the metropolitan area.

Table 18 Comparison of Regional Commercial Property Tax Rates*	
DC	\$1.65 first \$3 million; \$1.85 above \$3million
Alexandria	\$0.998
Crystal City	\$1.146
Tyson's Corner	\$1.435
Reston	\$1.412
Bethesda	\$1.230
Silver Spring	\$1.455
* Rates per \$100 of assessed value.	
Source: Downtown DC Business Improvement District, "State of the Downtown, 2011" cited in D.C. Fiscal Policy Institute, <i>Revenue, Where D.C. Gets Its Money</i> , February 7, 2013.	

Property Tax Relief Mechanisms¹¹

The property tax is generally the least liked tax. In part, the unpopularity of the property tax is a result of

- the increasing share of the property tax base attributable to residential property; and

¹¹ This section draws in part on material in the DC Tax Expenditure Report and the DCFPI report *Revenue, Where D.C. Gets Its Money*, February 7, 2013.

- it being a tax on wealth which must be paid out of current income, so when the market value of residential property is increasing more rapidly than income people feel under pressure from increasing property tax liabilities.

Over the last several decades there have been a number of efforts to provide both *direct* and *indirect* property tax relief to property owners:

- *Direct* property tax relief reduces the tax liabilities for individual property owners; and
- *Indirect* property tax relief reduces reliance on property taxes generally, primarily by providing local governments access to alternative own-source revenues and increasing reliance on state (or in the District’s case federal) grants.

The District has a relatively high reliance on property taxes, but it has a low reliance on user charges. In 2010 charges accounted for 7.9 percent of District own-source revenues. Comparable figures for the US (21.8 percent), Maryland (16.4 percent) and Virginia (23.5 percent) are higher, and associated with a corresponding lower reliance on property taxes.¹²

Another effort to provide indirect relief to all property owners is a limit on property tax levies (47-812). Specifically, property tax rates for both residential and commercial properties are reduced automatically if¹³

- total property tax collections from residential properties are expected to grow more than 7 percent from one year to the next, Or if collections are expected to grow faster than that of the residential base (whichever growth rate is lesser from one year to the next). In these cases, the residential tax rate is reduced to limit the growth in total residential¹⁴; and
- total property tax collections from commercial properties are expected to grow more than 10 percent from one year to the next, the commercial tax rate is reduced so that the total collections will grow 10 percent. The tax rate on the first \$3 million of assessed value cannot fall below 90 cents per \$100 of assessed value. This provision has been waved every year that it would have provided a binding constraint on the growth in commercial property taxes.¹⁵

Direct property tax relief measures reduce or eliminate the property tax liability for individual properties depending on the use of the property or the characteristics of the owner. For example, many properties in the District receive preferential treatment by being totally exempt from paying property taxes. This group includes certain property uses/owners that are typically exempt from property taxation by most state and local governments – e.g., property belonging to hospitals; schools, colleges and universities;

¹² US Census Bureau, Government Finances, 2010.

¹³ DCFPI, *Where Does DC Get its Money*, February 7, 2013, p. 20.

¹⁴ 47-812 b-8(1)(A)(iv)

¹⁵ 47-812 b-9(1)

foreign governments; the federal government and the District of Columbia; non-profit organizations; cemeteries; and churches. In addition there is an array of individual properties exempt from paying property taxes in the District because of an act of Congress or the DC Council. These exempt properties are described in Title 47, Chapter 10 of the DC Code and are examined in more detail in the paper on tax exempt properties prepared by Bell and Muhammad for the Tax Revision Commission.

The purpose of this section is to briefly describe the plethora of direct property tax relief measures available in the District which provide preferential treatment to individual properties based on the characteristics/use of the property or the characteristics of the owner of the property. Different policy tools are utilized to accomplish this policy objective. Specifically, the District has a number of property tax relief programs that provide

- 1) total or partial exemptions to some properties thereby lowering the taxable base of individual properties;
- 2) abatements to some properties;
- 3) credits and rebates which reduce the property tax liability for some property owners; and
- 4) deferrals of property tax payments for low-income and some elderly property owners.

Each of these approaches to providing property tax relief is briefly summarized below.

1) Exemptions

While most exemptions reduce taxable value by 100 percent for individual properties, the most popular exemption in the District of Columbia is the Homestead Deduction. Taxpayers who live in their own home in the District can claim the Homestead Deduction which reduces the taxable value of their primary residence. The Homestead Deduction amount is deducted from the home's full assessed value. The deduction is set at \$69,100 in FY 2013. Annual cost-of-living adjustments to the value of the homestead deduction were reinstated for the tax year beginning October 1, 2012.

To receive the homestead deduction, the homeowner must file an application with the Office of Tax and Revenue. Only homes with five or fewer dwelling units are eligible. The homestead deduction only applies to the taxpayer's primary residence. Jurisdictions in Maryland and Virginia provide a variety of property tax relief mechanisms, but they do not offer a property tax exemption program comparable to the District's Homestead Deduction.

The Homestead Deduction program provides relief to all owner-occupied homes, regardless of the income of the homeowner. The relative importance of the deduction declines as the value of the home increases. In 2011, according to the District's 2012 Tax Expenditure Report, 91,879 owner-occupied residential properties received the homestead deduction, costing the District government \$54.7 million in lost property tax

revenues. Since the homestead deduction is a fixed dollar amount, it provides a greater percentage reduction for owners of low-value homes.

In addition to the Homestead Deduction, there are a number of other property tax exemptions in the District. Most of these exemptions are defined in DC law. If a property meets the conditions in the law, then it receives the exemption provided by law. In other words, the property receives the exemption “by right” because it is spelled out in the law.

The next table summarizes the plethora of property tax exemptions available to individual property owners “by right.” The programs provide property tax exemptions for low-income housing and a multitude of traditional land uses including educational institutions, libraries, hospitals, religious institutions and cemeteries. The District also is required to exempt properties owned by the federal government and foreign governments from the local property tax. A separate paper prepared for the Tax Revision Commission by Bell and Muhammad goes into more detail on these “by right” property tax exemptions.

Type of Exemption	DC Code	Year Enacted	Number of Properties	Assessed Value (millions)	Foregone Revenue 2012
Lower-income homeownership households and cooperative housing associations	47-3503	1983	3,105	\$669.1	\$1,079,000
Multi-family and single-family rental and cooperative housing for low- and moderate-income persons	47-1002(20)	1978	Not Available	Not Available	\$12,949,000
Non-profit housing associations	47-3505	1983	Not Available	Not Available	\$7,553,000
Resident management corporations	47-1002(24)	1992	Not Available	Not Available	\$ -
Development of a qualified supermarket, restaurant or retail store	47-1002(23)	1988	Not Available	Not Available	\$1,980,000
High-technology commercial real estate database and service providers*	47-4630	2010	Not Available	Not Available	\$700,000
Educational Institutions	47-1002(10)	1942	474	\$ 5,680.8	\$102,031,000
Libraries	47-1002(7)	1942	Not	Not Available	\$431,000

			Available		
Embassies, chanceries, and associated properties of foreign governments	47-1002(3)	1942	603	\$ 2,751.7	\$41,125,000
Federal government property	47-1002(1)	1942	2,809	\$ 44,957.5	\$823,442,000
Miscellaneous properties	Varies	Multiple years	741	\$ 5,938.8	\$69,063,000
Hospital buildings	47-1002(9)	1942	13	\$714.2	\$13,137,000
Historic property	47-842 to 47-844	1974	Not Available	Not Available	\$119,000
Correctional treatment facilities	47-1002(25)	1997	Not Available	Not Available	\$3,495
Art galleries	47-1002(6)	1942	Not Available	Not Available	\$2,102,000
Cemeteries	47-1002(12)	1942	22	\$305.2	\$5,548,000
Charitable organizations	47-1002(8)	1942	492	\$976.5	\$14,272,000
Churches, synagogues and mosques	47-1002(13)	1942	1,154	\$3,462.5	\$59,481,000
Washington Metropolitan Area Transit Authority	9-1107.01	1966	420	\$557.4	\$9,723,000
*The CoStar group benefited from a \$700,000 exemption in tax year 2011. Because the authorizing statute requires that the property must have been occupied by December 31, 2010, there will be not additional beneficiaries of this program.					
Source: District of Columbia, 2012 Tax Expenditure Report, and author calculations.					

2)(a) *Abatements – “by right”*

In addition to the general exemptions discussed in the previous section, the District also has programs to provide targeted incentives to private businesses designed to promote economic activity in the District. Sometimes the targeting is done geographically and sometimes the targeting is for specific industries or projects. The most common approach is to provide full or partial forgiveness of the local property tax for some period of time.

Table 20 lists 8 property tax abatement programs included in the laws of the District. As above, these are programs a project might qualify for “by right.” Some are geographically focused – non-profit organizations locating in designated neighborhoods or NoMA residential developments – and others are focused on particular land uses – high-technology buildings or improvements to low-income housing.

Table 20			
Property Tax Abatement Programs in the District of Columbia			
Type of Abatement	DC Code	Year Enacted	Foregone Revenue 2012
New or improved buildings used by high-technology companies	47-811.03	2001	\$ -
Non-profit organizations locating in designated neighborhoods	47-857.11 and 47-857.16	2010	\$500,000
Improvements to low-income housing	47-866	2002	\$ -
New residential developments	47-857.01 to 47-857.10	2002	\$3,331,000
NoMA residential developments	47-859.01 to 47-859.05	2009	\$4,263,000
Preservation of section 8 housing	47-865	2002	\$ -
Single-room-occupancy housing	42-3508.06	1994	\$ -
Vacant rental housing	42-3508.02	1985	\$ -
Source: District of Columbia, 2012 Tax Expenditure Report.			

According to the estimates of foregone revenue for these programs in the District’s tax expenditure report, 5 of the 8 programs have no participants/beneficiaries and the other three are relatively modest programs.

2)(b) Abatements - Discretionary

In addition to these “by right” property tax abatement programs, the District also grants discretionary tax abatements on an individual project by project basis. These abatements are not available “by right” and must be approved by the DC Council for individual projects.

The process for obtaining a discretionary abatement for a specific project starts when the property owner approaches their Councilperson, or the Deputy Mayor of Economic

Development, and asks for the abatement. The Councilperson drafts a bill and submits it to the Council for consideration.

That request is then sent to the Office of Development Finance in the Office of the Chief Financial Officer for review and analysis. The Office conducts what is referred to as a “but for” analysis.¹⁶ To conduct this financial analysis the Office obtains from the applicant all the relevant financial information for the project as it was filed with the bank when they applied for their financing. The staff then estimates the rate of return for the project in the District assuming that it does not get the abatement. If that rate of return for the project is similar to other projects in the industry, the conclusion would be that the abatement is not necessary for the project to proceed. If, however, the rate of return is significantly lower than similar projects in the industry the abatement is thought to be necessary to move the project forward. The Office of Development Finance then reports to the Council whether, in their view, the abatement would be necessary for the project to proceed.

In addition to the data necessary to conduct the required financial analysis, the applicant also submits information on the economic benefits associated with the project. Such benefits include the number of jobs created (permanent, temporary, full-time and part-time), estimated wages and benefits of these new jobs, increased availability of affordable housing, etc. This information is forwarded to the Deputy Mayor for Economic Development. No evaluation of the overall impact of a specific project, including an analysis of the claimed benefits, is required of the District government. Typically, the only analysis of the economic benefits of a project is done by the applicant.

Once the financial analysis is completed and sent to the Council a hearing on the bill is scheduled. The financial analysis is presented to the Council as well as an estimate of the fiscal impact of the proposed abatement. An abatement could be approved by the Council even if the Office of Development Finance finds the abatement is not necessary for the project to proceed. For example, some argue that even if the “but for” analysis indicates a specific project does not need an abatement, the project may be necessary to get a critical mass of activity in a transitioning area.

If the abatement is approved by the Council, there is a requirement that funding for the abatement must be found in the budget in terms of either increased revenues or reduced spending elsewhere to offset the costs of the abatement. In addition, the property receiving the abatement must annually file a certificate with the Office of Taxation and Revenue confirming the property is still in the same use as when the abatement was granted (D.C. Code § 47-4702).

The review required by the District is a front end analysis of the financial viability of the project, not an after the fact review to determine if the promised benefits of the project ever materialized.

Credits and Rebates

¹⁶ The requirement to conduct this “but for” analysis went into effect in 2011 (D.C. Code § 47-4701).

Typically, exemptions reduce or eliminate the taxable value of a property subject to property taxation. Like abatements, credits and rebates, on the other hand, do not alter the taxable base of a property, but rather reduce the property tax liability owed for a property.

Table 21 lists 6 credit and rebate programs in the laws of the District.

Table 21				
Property Tax Credit and Rebate Programs in the District of Columbia				
Type of Credit/Rebate	DC Code	Year Enacted	Number of Participates	Foregone Revenue 2012
First-time homebuyer credit for DC government employees	42-2506	2000	Not Available	\$291,000
Assessment increase cap	47-864	2001	Not Available	\$28,416,000
Senior citizens and persons with disabilities	47-863	1986	Not Available	\$14,590,000
Brownfield revitalization and cleanup	8-637.01	2001	None	\$ -
Condominium and cooperative trash collection	47-872 and 47-873	1990	Not Available	\$5,177,000
Public charter school tax rebate	47-867	2005	Not Available	\$554,000
Source: District of Columbia, 2012 Tax Expenditure Report.				

One of the programs has no participants/beneficiaries, while two programs account for the vast majority of property tax relief provided through this policy tool – the assessment increase cap and the senior citizen credit.

Assessment Increase Cap: Homeowners who qualify for the homestead deduction are automatically eligible for the assessment increase cap program. This program effectively limits the growth in the taxable assessed value of an individual’s home to 10 percent increase from the prior tax year.

According to a report on the assessment cap in DC completed by Dr. Sjoquist for the Tax Revision Commission, several steps are required to calculate the value of the credit. Consider a new home owner who did not receive a credit in 2012.

Step 1. The first step in determining the value of the credit for 2013 is to calculate the value of the property's taxable assessment. Taxable assessment for 2013 equals the assessed value in 2012 less the value of the homestead exemption for 2012 times 110 percent, less the increase in the value of the homestead exemption from 2012 to 2013.

Step 2. In the second step the homestead exemption for 2013 and the taxable assessment for 2013 are subtracted from the 2013 assessed value. The resulting value is then multiplied by the tax rate for 2013 to determine the value of the credit. If the credit is less than zero, then the credit is zero.

Step 3. To calculate the tax liability, the 2013 homestead exemption is subtracted from the 2013 assessed value and then multiplied by the tax rate. The credit is then subtracted to arrive at the tax liability.

The 10 percent cap does not apply in the first tax year after a home is bought in the District; those new homeowners receive only the Homestead Deduction in the first year. Also, the taxable value of an individual property qualifying for the homestead deduction and assessment cap shall never fall below 40 percent of the current tax year's estimated market value.

The assessment cap, combined with the Homestead Deduction, means that most owner-occupied DC homes have a "taxable assessment" — the taxable value of their residence to which the tax rate is applied — that is lower than their full estimated market value. The DCFPI estimates that in 2011, the taxable assessment for the typical DC home was just 73 percent of the home's full estimated market value.¹⁷ In periods when property values are rising more than 10 percent, the 10 percent cap results in tax bills increasing more slowly than the home's value. In periods when property values are rising slowly, a homeowner's tax bill may rise faster than their home's assessed value, if the home's taxable assessment is well below its full assessment.

According to the District's tax expenditure budget, in 2011 there were 95,291 owner-occupied residences in the District of Columbia benefitting from the assessment cap program costing the District government an estimated \$28.4 million in foregone property tax revenues.¹⁸ In addition to costing the District foregone property tax revenues, the assessment cap program also creates equity problems with the property tax. Property values grow at different rates across neighborhoods and because new homeowners pay property taxes on the full estimated market value while those who live in their homes for long periods are paying property taxes on only a fraction of the full estimated market

¹⁷ DCFPI analysis of DC Office of Tax & Revenue data.

¹⁸ District of Columbia 2012 Tax Expenditure Report, Office of Revenue Analysis, p. 238.

value. As a result, homeowners in identical houses may be paying significantly different property taxes.

Senior Citizen and Persons with Disabilities Credit: Senior citizens, aged 65 years or older, and persons with disabilities qualify for a 50 percent reduction in the property tax liability on their owner-occupied home, provided that their total household adjusted gross income is less than \$100,000.¹⁹ Taxpayers must file an application for the credit with the Office of Tax and Revenue annually.

Montgomery County offers a real property Senior Tax Credit equal to 25 percent of the taxpayer's combined State Homeowner's Tax Credit and the county's supplement to that tax credit. Alexandria, Arlington and Fairfax Counties provide full or partial real property tax exemptions for low- and moderate-income senior citizens and those who are permanently disabled. The amount of the exemption depends on the household's gross income and there are asset limits for eligible households.

In 2011, there were 18,320 properties in the District qualifying for this property tax credit. A number of issues surround the senior citizen tax credit:

- the income ceiling of \$100,000 had not been increased since the inception of the program more than 20 years ago;²⁰
- it is administratively difficult to comply with since applications have to be filed by February while one may not know their taxable income (and therefore their eligibility for the program) until May or later;
- it creates horizontal inequities because two property owners with identical properties may pay significantly different property taxes depending on their age and income; and
- some question the efficacy of using age as a proxy for need.

Deferrals

The final property tax relief mechanism is a deferral of property tax liabilities. These programs recognize that the base of the property tax is the asset value of a home, while the property tax liability has to be paid out of current income. The District has two property tax deferral programs:

- low-income homeowners can defer the increase in their real property tax liability from the prior year on their principal residence if their household income is less than \$50,000. They have to pay 8 percent interest annually on the deferred balance and the total amount deferred, including accrued interest, cannot exceed 25 percent of the assessed value of the property.

¹⁹ The City Council passed legislation in 2013 increasing the income tax limit for eligibility for the senior property tax credit to \$125,000.

²⁰ If the income ceiling had been indexed to inflation since the program began in 1986 the income ceiling in 2010 would have been \$218,000. *Statistical Abstract of the US*, Table 727, Consumer Price Index of All Urban Consumers.

- Low-income, senior citizen (65 or older) homeowners can defer any real property tax owed in a given tax year on their principal residence if their adjusted gross income is less than \$50,000. They are required to pay interest on the deferred taxes at not more than 8 percent per year and deferred taxes and accrued interest cannot exceed 25 percent of the assessed value of the property.

Finally, there are two programs that are spatially focused. That is, the programs are designed to promote economic development and homeownership in development and enterprise zones. One program, Economic Development Zone Incentives, has been in effect since 1988 and the other, Homeowners in Enterprise Zones has been in effect since 2002. Neither program has any participants/beneficiaries in 2012, or is forecast to have any program participants/beneficiaries through 2015.

CONCLUSIONS

In 2011 the real property tax generated nearly 32 percent of tax revenues in the District of Columbia. According to Census data, in 2010 (the most recent year for which data are available) the District relies on the real property tax slightly more as a source of tax revenue than state and local governments nationally. In part, this reflects the fact that the District is prohibited from taxing 55 percent of the personal income generated by economic activity in the District and its extremely low reliance on user charges – 8 percent in the District compared with 22 percent for state and local governments nationally.

The District's real property tax has a firm foundation since it is based on 100 percent of market value and it is valued annually. This is the ideal situation for a real property tax that is assessed uniformly and promotes fairness, efficiency and transparency.

According to data from the Real Property Tax Administration, the property tax is generally being administered well. Residential assessments are within the professional standards of assessment set by the International Association of Assessing Officers, and residential assessments have improved over the last 5 or 6 years. Commercial assessments, however, are more problematic and the subject of another research paper by the Commission staff.

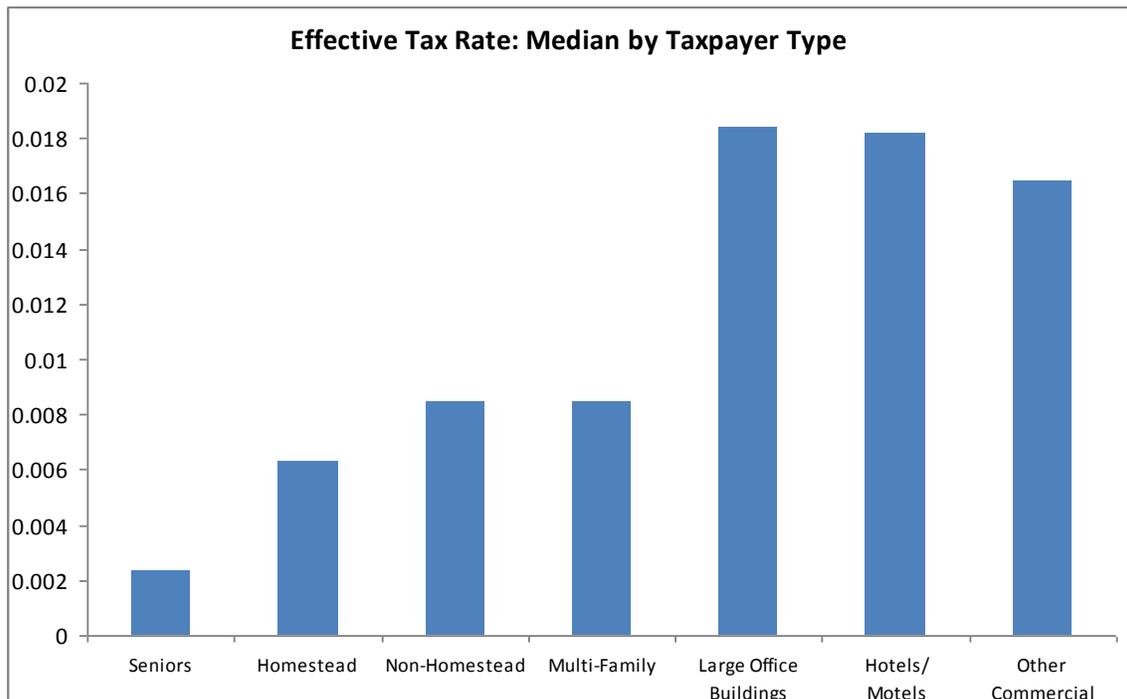
At this point in the process a number of tax relief mechanisms are put in place that provide preferential treatment to a variety of properties based on the use of the land or the characteristics of the owners. These relief mechanisms evolve incrementally over time as various stakeholders come before the Council asking for preferential treatment.

Between years 2002 and 2011, the District Council responded to rapidly increasing property values by providing a variety of tax relief measures to homesteaders. Over that period, the residential tax rates went from \$0.96 to \$0.85, the homestead deduction went from \$30k to \$67.5k and the tax cap went from 25% to 10%.

While well intentioned, all of this tax relief had some unintended consequence. Specifically, the combination of all the tax relief and their interaction with each other resulted in a large number of homesteads having a zero tax liability or near a zero percent tax rate. In response, a remedy was developed and passed by the Council that requires all homesteaders have a tax liability that is at least equal to the residential tax rate (\$0.85) applied to 40% of the home value. This 40% minimum was enacted as law for tax year 2011. This ensures that every homeowner will pay something toward the cost of city provided goods and services.

As a result of these tax relief measures, there are substantial differences in effective tax rates within and across groups of taxpayers. Such differentials undermine the uniformity of the tax thereby compromising the equity, efficiency and transparency of the property tax.

The figure below reports the cumulative impact of the mosaic of property tax relief mechanisms on effective tax rates by taxpayer type. For example, homeowners 65 years of age or older pay a median effective property tax rate of 0.23 percent. Non-elderly homeowners in the District who receive the homestead deduction pay a median effective property tax rate of approximately 0.63 percent, while non-homestead residential property and multi-family residential property pay a median effective tax rate of 0.85 percent. In other words, non-elderly homeowners pay a median effective property tax rate 274 percent of that paid by elderly homeowners and about 75 percent of the rate paid by non-homestead residential and multi-family properties.



In addition to significant variation in median effective tax rates across taxpayer groups, there is also significant variation within each group. For example, for nearly 18,000 elderly tax payers the median ratio is 0.23 percent but the range is from a low of 0.07 percent to a high of 0.85 percent – a sevenfold difference. Similarly, for nearly 75,000 non-elderly homestead properties, effective tax rates range from a low of 0.09 percent to a high of 0.93 percent – a tenfold difference.²¹

Such inequities across properties and taxpayers undermine the fairness and transparency of the real property tax.

²¹ Generally speaking, the only reason for a residential property to have an effective tax rate higher than 0.85 is for that property to be taxed at the commercial rate of 1.65/1.85, the vacant rate 5.00 or the blighted rate 10.00 for half of the tax year. This means, there was probably tax class changes taking place for some properties. These situations are anomalies and affect few properties.

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A P P E N D I X A

Table A1: Property Tax as Share of General Revenue 1992, 2002, 2010

State	1992	2002	2010
United States	18.4%	16.6%	17.7%
Alabama	5.6%	6.4%	7.6%
Alaska	9.4%	11.5%	9.4%
Arizona	20.1%	16.7%	17.4%
Arkansas	9.1%	7.6%	8.6%
California	16.4%	13.3%	16.5%
Colorado	18.3%	15.9%	20.3%
Connecticut	26.1%	26.3%	27.3%
Delaware	7.6%	7.4%	7.8%
District of Columbia	19.2%	11.6%	18.0%
Florida	21.6%	18.1%	20.7%
Georgia	16.4%	15.0%	16.8%
Hawaii	9.8%	8.3%	11.4%
Idaho	13.9%	14.5%	13.0%
Illinois	24.2%	22.9%	24.3%
Indiana	17.0%	18.5%	16.5%
Iowa	19.7%	17.1%	15.9%
Kansas	21.6%	17.3%	17.3%
Kentucky	9.1%	9.3%	9.6%
Louisiana	7.6%	7.4%	8.3%
Maine	21.8%	23.7%	21.3%
Maryland	17.5%	16.8%	17.3%
Massachusetts	20.5%	22.4%	21.1%
Michigan	25.0%	16.9%	18.8%
Minnesota	17.7%	15.7%	16.1%
Mississippi	12.1%	10.8%	10.5%
Missouri	13.5%	13.4%	14.0%
Montana	18.9%	16.6%	15.9%
Nebraska	20.2%	17.8%	18.4%
Nevada	13.8%	14.9%	19.4%
New Hampshire	36.0%	33.9%	33.6%
New Jersey	27.2%	29.0%	29.7%
New Mexico	5.7%	7.0%	7.3%
New York	20.7%	17.2%	18.6%
North Carolina	11.8%	12.3%	12.7%
North Dakota	14.0%	13.3%	9.9%
Ohio	16.8%	16.2%	14.6%
Oklahoma	7.9%	8.2%	8.8%
Oregon	21.4%	14.5%	16.6%
Pennsylvania	16.0%	15.2%	16.1%

Rhode Island	23.7%	22.0%	22.2%
South Carolina	14.3%	14.6%	14.1%
South Dakota	18.9%	17.1%	15.5%
Tennessee	11.3%	12.6%	12.4%
Texas	22.8%	22.5%	22.4%
Utah	14.0%	11.4%	12.1%
Vermont	23.2%	21.4%	22.1%
Virginia	19.5%	17.2%	19.1%
Washington	17.3%	15.9%	15.6%
West Virginia	8.9%	8.9%	9.4%
Wisconsin	21.5%	19.9%	21.2%
Wyoming	18.2%	16.3%	18.3%

Table A2: Property Tax as Share of Own Source Revenue 1992, 2002, 2010

State	1992	2002	2010
United States	22.5%	21.1%	23.5%
Alabama	7.3%	8.7%	10.8%
Alaska	10.7%	15.3%	12.2%
Arizona	24.2%	21.5%	25.6%
Arkansas	12.1%	10.5%	12.5%
California	20.2%	17.0%	21.4%
Colorado	21.9%	19.0%	24.9%
Connecticut	31.3%	31.9%	34.4%
Delaware	8.9%	8.9%	10.2%
District of Columbia	30.8%	19.7%	29.0%
Florida	25.1%	21.8%	26.2%
Georgia	20.2%	19.0%	23.1%
Hawaii	11.8%	10.5%	14.8%
Idaho	17.2%	18.4%	18.1%
Illinois	28.9%	28.1%	31.6%
Indiana	20.7%	22.9%	21.5%
Iowa	23.7%	21.7%	21.9%
Kansas	25.9%	21.9%	21.9%
Kentucky	11.8%	12.5%	14.0%
Louisiana	10.2%	9.9%	12.9%
Maine	27.6%	31.0%	30.4%
Maryland	20.9%	20.5%	22.7%
Massachusetts	25.2%	26.6%	27.7%
Michigan	30.4%	21.5%	25.9%
Minnesota	21.1%	19.2%	21.1%
Mississippi	16.8%	15.4%	16.9%
Missouri	17.0%	17.9%	20.0%
Montana	25.2%	24.1%	24.0%
Nebraska	24.3%	22.3%	24.1%
Nevada	16.2%	17.4%	24.0%
New Hampshire	44.4%	42.5%	44.2%
New Jersey	31.9%	34.7%	36.7%
New Mexico	7.2%	9.8%	11.8%
New York	25.4%	22.5%	24.3%
North Carolina	14.6%	16.0%	17.1%
North Dakota	18.7%	18.8%	13.6%
Ohio	20.7%	20.6%	20.1%
Oklahoma	9.7%	10.9%	12.7%
Oregon	26.7%	20.7%	22.6%
Pennsylvania	19.8%	19.5%	21.2%

Rhode Island	31.8%	30.0%	32.0%
South Carolina	18.3%	19.5%	18.5%
South Dakota	25.5%	24.3%	23.0%
Tennessee	14.8%	17.4%	17.8%
Texas	27.3%	28.5%	30.3%
Utah	17.5%	14.4%	16.4%
Vermont	29.7%	29.7%	32.6%
Virginia	22.6%	20.5%	23.5%
Washington	20.7%	19.8%	20.3%
West Virginia	12.1%	12.7%	13.8%
Wisconsin	25.8%	24.8%	27.8%
Wyoming	24.8%	22.7%	25.3%

Table 3: Property Tax as Share of Taxes 1992, 2002, 2010

State	1992	2002	2010
United States	32.1%	30.8%	34.8%
Alabama	12.1%	15.2%	19.4%
Alaska	27.9%	40.1%	21.4%
Arizona	33.3%	29.5%	37.3%
Arkansas	17.2%	15.7%	18.3%
California	28.8%	25.1%	31.2%
Colorado	33.3%	29.9%	39.1%
Connecticut	39.1%	39.6%	42.0%
Delaware	14.1%	14.9%	18.6%
District of Columbia	37.5%	24.9%	37.0%
Florida	38.4%	35.2%	42.9%
Georgia	29.6%	27.6%	35.2%
Hawaii	16.4%	14.5%	21.1%
Idaho	25.1%	29.1%	30.1%
Illinois	38.5%	38.1%	43.6%
Indiana	30.5%	35.2%	32.8%
Iowa	35.0%	34.5%	34.8%
Kansas	37.1%	31.7%	34.4%
Kentucky	16.9%	18.3%	21.5%
Louisiana	16.7%	15.9%	20.9%
Maine	38.4%	42.1%	40.6%
Maryland	28.0%	27.2%	30.1%
Massachusetts	34.3%	36.5%	38.8%
Michigan	43.7%	32.0%	40.3%
Minnesota	31.4%	28.3%	30.7%
Mississippi	27.0%	25.2%	28.2%
Missouri	24.1%	25.7%	30.2%
Montana	40.0%	39.9%	39.8%
Nebraska	36.1%	32.9%	36.8%
Nevada	24.0%	26.5%	34.5%
New Hampshire	60.1%	60.3%	64.6%
New Jersey	43.3%	46.3%	48.4%
New Mexico	12.2%	15.5%	19.8%
New York	33.3%	30.2%	32.4%
North Carolina	20.6%	24.0%	26.2%
North Dakota	31.3%	30.8%	19.8%
Ohio	29.3%	29.4%	30.0%
Oklahoma	14.9%	16.9%	21.1%

Oregon	41.2%	34.9%	37.6%
Pennsylvania	27.8%	29.0%	30.4%
Rhode Island	42.1%	40.4%	45.6%
South Carolina	28.5%	31.8%	35.8%
South Dakota	39.1%	36.3%	35.9%
Tennessee	22.6%	26.6%	27.6%
Texas	39.3%	41.6%	45.2%
Utah	27.1%	23.6%	27.6%
Vermont	41.7%	41.9%	45.8%
Virginia	32.7%	30.3%	36.1%
Washington	29.3%	29.7%	31.5%
West Virginia	17.7%	19.4%	21.3%
Wisconsin	35.3%	34.7%	39.5%
Wyoming	42.5%	38.1%	42.5%

Table A4: Property Tax as Share of Personal Income 1992, 2002, 2010

State	1992	2002	2010
United States	3.4%	3.1%	3.5%
Alabama	1.0%	1.3%	1.6%
Alaska	4.5%	3.9%	4.2%
Arizona	3.7%	2.9%	3.3%
Arkansas	1.6%	1.5%	1.8%
California	3.1%	2.5%	3.4%
Colorado	3.2%	2.6%	3.7%
Connecticut	4.2%	4.0%	4.5%
Delaware	1.5%	1.5%	1.9%
District of Columbia	5.3%	3.0%	4.3%
Florida	3.6%	3.1%	3.8%
Georgia	2.8%	2.6%	3.1%
Hawaii	2.0%	1.6%	2.5%
Idaho	2.6%	2.7%	2.6%
Illinois	3.7%	3.7%	4.2%
Indiana	3.0%	3.4%	3.4%
Iowa	3.8%	3.4%	3.6%
Kansas	3.7%	3.1%	3.5%
Kentucky	1.7%	1.9%	2.0%
Louisiana	1.6%	1.7%	1.9%
Maine	4.5%	5.1%	4.8%
Maryland	2.7%	2.7%	3.0%
Massachusetts	3.6%	3.4%	3.8%
Michigan	4.7%	3.2%	4.1%
Minnesota	3.6%	3.0%	3.3%
Mississippi	2.4%	2.5%	2.7%
Missouri	2.1%	2.3%	2.6%
Montana	4.2%	3.6%	3.7%
Nebraska	3.7%	3.3%	3.7%
Nevada	2.2%	2.5%	3.5%
New Hampshire	6.1%	4.9%	5.6%
New Jersey	4.8%	4.7%	5.5%
New Mexico	1.3%	1.6%	1.9%
New York	4.7%	4.0%	4.7%
North Carolina	2.0%	2.3%	2.5%
North Dakota	3.0%	3.1%	2.5%
Ohio	2.8%	3.1%	3.1%
Oklahoma	1.4%	1.6%	1.8%
Oregon	4.5%	3.0%	3.5%
Pennsylvania	2.9%	2.8%	3.1%

Rhode Island	4.5%	4.3%	4.9%
South Carolina	2.6%	2.9%	3.1%
South Dakota	3.4%	3.1%	2.9%
Tennessee	1.9%	2.1%	2.2%
Texas	3.9%	3.9%	3.9%
Utah	2.8%	2.4%	2.6%
Vermont	5.0%	4.5%	5.4%
Virginia	3.0%	2.7%	3.1%
Washington	3.1%	2.9%	2.9%
West Virginia	1.8%	2.1%	2.3%
Wisconsin	4.1%	3.9%	4.4%
Wyoming	5.1%	4.3%	5.5%