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Lessons Pennsylvania Could Learn From Colorado

Last week in ***Policy Brief*** 21, we noted that Allegheny County has very high property tax rates compared to most areas of the country and suggested it is time for a thorough study that will look at ways of lowering that burden. The need for such a study is made even more pressing by the negative impact high taxes have on the economy's ability to grow and the stifling effect on home values.

The Pittsburgh region's relatively slow growth in terms of jobs, total income, and population over the past decade have been documented in previous ***Policy Briefs***. High taxes are undoubtedly a major contributor to that sluggish performance. However, high property taxes have another important effect. They suppress home prices. The table below reports home price changes between 1990 and 2000 for several metro areas comparable in size to Pittsburgh. The correlation between home prices and tax rates are clear. Areas with lower property taxes have enjoyed more rapid gains in home prices than the higher tax metro areas.

Median Sales Price*

MSA	1990 ($ Thousands)	2000 ($ Thousands)	% Change	Effective Tax Rate/$100
US Average	92	139	51.1	na
Atlanta	86.4	131.2	51.9	1.95
Baltimore	105.9	153	44.5	2.41
Charlotte	93.1	140.3	50.7	1.00
Columbus	81.6	129.1	58.2	1.67
Denver	86.4	196.8	127.8	0.78
Indianapolis	74.8	112.3	50.1	1.66
Minneapolis	88.7	151.4	70.7	1.31
Pittsburgh	70.1	93.6	33.5	3.00**

*Figures from the National Association of Realtors
**Allegheny County Only

The comparison of Denver to Pittsburgh is especially dramatic. The median sales price of a home in Denver rose 128 percent from 1990 to 2000. In Pittsburgh, the median price was up 33.5 percent in the same period. Property taxes in the Pittsburgh region, particularly Allegheny County at $3.00 per $100 valuation, dwarf the Denver rate of $0.78.

It is also instructive to look at what has happened to home prices since 1992. That was the year Colorado adopted the Tax Payer Bill of Rights (TABOR). Under TABOR, no level of government (state, local or school district) can increase tax rates without a voter referendum. Moreover, TABOR places firm spending limits on government and requires that excess revenues be returned to the taxpayers. Suffice it to say that Colorado has enjoyed tremendous economic growth since 1992 and tax revenues have grown even faster than income resulting in state refunds every year because spending limits have kept outlay increases well below the increases in revenue.

The impact in Denver has been remarkable. Over the last 8 years employment has been rising at 3 percent per year and per capita income is up at a 5 percent rate. Meanwhile, in the Pittsburgh metro area employment has managed only a 1.3 percent yearly rate during the same period and per capita income grew by 4 percent annually. Thus, total income growth in Denver has greatly surpassed that of Pittsburgh.

Home Price Effects

To what extent do the differences in approach to taxes and the level of taxes affect home prices? Consider the following. In 1992, the median sales price in Pittsburgh 1992 was $78,600 and by 2000 had raised to $93,600 an appreciation in value of $15,000. In Denver, the 1992 median price was $96,200 and by 2000 had soared to $196,000, a rise of $100,000. The difference in appreciation represents an enormous disparity in capital gains for the typical homeowner. Bear in mind that the lower property tax rate in Denver saves the owner of a $100,000 home $2,200 per year compared to the taxes paid on a comparably valued home in Allegheny County. It is like getting a much lower mortgage rate.

And while the appreciation of homes in Denver is truly stunning, it is noteworthy that Minneapolis with its low property tax rate of $1.31 per $100 valuation has also shown very strong home price gains. Median priced homes sold for $94,200 in 1992 but by 2000 were selling for $151,400, an appreciation of $57,000. Again, this is far higher than the $15,000 rise in the Pittsburgh market.

Obviously, there could be other socio-economic or demographic variables at work in the explanation of metro area home prices in but there can be little doubt that high property taxes play a very important role.

Lesson: It seems clear that the Pittsburgh metro area and Pennsylvania could benefit enormously from following the Colorado experience with its severe constraints on tax rates and its firm limits on government spending increases. The Pittsburgh regional economy would almost certainly perform better and home ownership would yield a much higher rate of return on investment if we were to adopt the Colorado model.

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