

# A Mess to Reassess

**When was the last time your home was reassessed for tax purposes? If you can't recall, it was at least 11 years ago—and that's probably not a good thing.**



By Reid Champagne

Illustration by Craig LaRotonda

**S**uperintendent George Meney of the Colonial School District says it's hurting education. Richard Heffron of the Delaware State Chamber of Commerce says it creates uncertainty for business. Ed Ratledge, director of applied demography at the University of Delaware, says it's a fundamental of

public policy that government should not act unfairly.

It is property tax reassessment, and it's not unlike the weather: Everyone complains about it, but no one, including county executives who are charged with the responsibility, seems able to change it.

Most people cite lack of political will as the reason that there has been no countywide property tax reassessment in New Castle County since 1983, Kent County since 1987 or Sussex County since 1974. So the system remains grossly skewed.

Consider a few examples. A 56-year-old home in Greenville currently selling for \$499,000 pays just \$2,430 in annual property taxes, while a 31-year-old home on the market for the same price there pays \$4,130. A 12-year-old home selling for \$500,000 in Hockessin pays \$3,156 in annual property tax, while a 19-year-old home there pays \$4,088. But the biggest howler may be in Rehoboth Beach, where a home built in 2006, on the market for nearly \$1.2 million, is paying a mere \$2,049 in annual property taxes.

The last example, according to Judge William Chandler of the Delaware Court of Chancery, amounts to nothing short of a government-sanctioned tax shelter.

"Property tax is a form of wealth tax," Chandler says. "Property taxes are based on a value that is a measure of wealth, an ability to pay. But by assessing a property today according to a value as if it had been built in 1974, you are grossly understating that wealth. This creates an inequality in tax payments that is difficult to reconcile in any notion of fairness."

Ratlidge believes continued lack of fairness in the system may have its roots in the way Delaware funds education. He he has been working with state officials for more than 30 years to fix things.

“Unlike most other states, Delaware funds almost 70 percent of its education budget at the state level,” Ratlidge says. “Fair and equitable reassessment would be a much more urgent issue in the state if schools relied primarily on county-collected property tax for their funding.”

According to Meney, however, schools do rely on locally collected property taxes for good planning. Without an equitable system, good planning can’t happen. “Inequity puts a definite strain on our ability to confidently provide the services we should be providing,” he says.

Though the most direct impact of an inequitable property tax system may fall hardest on school districts, it can also harm business development and growth.

“The lack of uniformity creates uncertainty,” says Heffron, senior vice-president for government affairs with the Delaware State Chamber of Commerce. “There is enough uncertainty in business without adding the lack of uniform rules and regulations for property tax assessment.”

Heffron believes the current system limits the state’s ability to attract new businesses.

“People are not looking to locate businesses where there is uncertainty or dysfunction in government,” he says. “They need to be able to plan, and with an inequitable system, they can’t. Plus, we need a reputation for having good, well-funded schools in order to attract new businesses to the state.”

Ask almost anyone in office where the reluctance to conduct regular reassessments lies and they tend to cite the one-third theorem. “In any county-wide reassessment, one-third of the properties will go up, one-third will stay the same, and the final one-third will go down,” says Eddy Parker, director of assessment for Sussex County.

Ratlidge suggests those numbers add up to a strong resistance to periodic reassessments.

“Basically, the two-thirds of the property owners who will see their assessments either stay the same or go up represent a strong majority against any interest in reassessment,” he says. The obverse would work out the same way: The two-thirds for whom reassessments will go down or stay the same would tend to be more or less indifferent to a full reassessment.

Either way, it adds up to a necessity that can be sidestepped, though it’s not much of a stretch to believe most politicians would like to keep sweeping the issue under a rug, regardless of how lumpy that rug is becoming. In a speech during the Livable Delaware Conference in March, Chandler acknowledged as much.

"I said I understood how that property reassessment is politically problematic," Chandler says. "Essentially, it is the equivalent of imposing a capital gains tax on still unrealized gains. Reassessment is akin to the third rail in politics. No politician is willing to touch it."

In the speech, Chandler speculated that if officials didn't address the issue of reassessment, a court will eventually be asked to do so. "We live in a time when courts are often asked to resolve questions that would be better resolved by the people's elected representatives," he says.

Talk with some representatives doesn't reveal a fear of backlash from voters over property reassessment, but an argument about the expense.

"We estimate that it could cost anywhere from \$7 million in New Castle County alone, or as much as \$12 million statewide to conduct a complete reassessment of up to 400,000 parcels in the state," says New Castle County Executive Chris Coons. Sussex County Administrator Dave Baker cites \$9 million for a reassessment of all properties there.

They weigh that against the amount of revenue a reassessment is allowed by law to generate—no more than 15 percent in the first year after a reassessment.

"If we can't increase our revenues accordingly, then why do it?" says Coons. Says Baker, "We collect a total of \$12 million from property tax. How do we justify a \$9 million expenditure that will also limit any revenue increases we would realize?"

Coons nevertheless admits there is a fundamental issue of fairness that should be addressed. "Of all the ways to achieve tax fairness, a reassessment remains the most reasonable," he says.

If cost alone is preventing a reassessment, Meney offers a fairly simple solution. "The state could issue a revenue bond to cover the costs statewide," he says.

While there is no action in the legislature, one representative, Republican Pam Maier of Drummond Hill is ready to "saddle up and ride if that's what it takes to get reassessment accomplished."

Senator Karen Peterson, a Democrat from Stanton, says there is software that would make rolling reassessments after a total reassessment affordable. "We had such software when I was on county council in New Castle when we did the last reassessment in 1983," she says. "I don't know what happened to it since, though."

With formal reassessments in the three counties 20 to 35 years out of date, the only quick fix is to reassess homes built now according to values from the last reassessment. But that's about as accurate as trying to value a 2008 Cadillac back to one built in 1974, 1983 or 1987. Chandler believes such a system can produce nothing but inequity.

“Assessing newly purchased or constructed property back to the 1974 assessments, in Sussex, for example, understates both the ability to pay, as well as the increased costs to the county that the new resident imposes in terms of sewer, water, schools, improved roads and so forth.”

Chandler offers an alternative.

“Why not conduct an assessment at the time of sale or construction, with no further reassessment until resale?” he says. “This is similar to what I believe they do in other states, including Maryland. This would reduce the risk of inequities, especially to those longtime residents, such as a widow who’s lived in her home for, say, 50 years. Her home would not be reassessed until the sale or transfer of the property.”

Whatever method is eventually used, Chandler leaves no doubt the current system is a “distortion.” “Those who own or build the most valuable properties are paying disproportionately less than those who own properties worth far less,” he says.

Chandler thinks there are more ominous long-range issues created by the system, which has lured many new residents from high-tax states like New Jersey and Pennsylvania. The same laxity in taxing can infect other aspects of development and regulation.

“It all goes hand in hand,” Chandler says. “Political lassitude regarding reassessment also produces the kinds of gaps in fairness we’re seeing when it comes to new construction. Cheap development costs here incentivize developers to select prime farmland and open space outside development zones. It all has a snowball effect, causing, in my opinion, the system to become more lax about enforcing meaningful environmental regulations or enforcing other regulations designed to protect our quality of life in the future.”

Critics have suggested it was an inequitable property tax in New Castle County that Verizon leveraged in a suit against the county to have property taxes reduced by more than \$3 million. Those same critics point to the current administration and legislature’s attempts to increase state revenues by attacking specific groups of taxpayers instead of finding a more equitable way to raise revenue. These activities demonstrate how a climate of inequity can pervade other aspects of governance.

Says Chandler, “It breeds an overall lack of responsibility on the part of government.”