Does Home Rule Overrule the State' s Role? An Analysis of Property Tax Administration in New York State

Tae Ho Eom*

Abstract: This essay analyzes the property tax system in New York State. Based on historical and comparative analyses of three critical factors in property tax administration—assessment standards, revaluation, and assessing units—this study reveals that the current property tax administration structure has deep roots in the "home rule" tradition in New York State, making it hard to achieve intradistrict equity in property tax burden for some assessing units. The study concludes that the state's lack of active role undermines public faith in the property tax system and in local governments. The state should not be overruled by the local government politics based on home rule.

Keywords: property tax, tax administration, local public finance

INTRODUCTION

The property tax remains the major revenue source of all local governments in New York State, and it is the only tax for which local governments exercise almost complete discretion in determining tax rates and, thereby, tax levies.[1] Reliance on property tax revenue to finance local governments has been relatively constant for the past decade in New York State; its portion of the total revenue of local governments has been around 30%. In 1998, property tax represented about 42% of the total revenue of local governments, excluding New York City, and about 61% of the total own revenue source, which excludes federal and state aid (New York State Office of the State Comptroller, 2000). Furthermore, in terms of the property tax burden per personal income, New York State ranked 10th among all states with a burden of $45.98 per $1,000 personal income, compared to the national average of $35.06 (Dornfest, 1998).

In spite of its importance, the property tax system in New York State has been regarded as one of the worst in the United States. The report of the Temporary State Commission on State and Local Finance stated, "New York's real property tax system has reached the critical juncture; without substantial reform, it will be subject to increasing and perhaps fatal attack" (1975, p. 12).

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* Assistant Professor, Department of Public Administration, Rutgers University-Newark. His research interests include local public finance, government accounting and education finance. He can be reached at theom@andromeda.rutgers.edu.

[1] In New York, the only constraint is the constitutional real estate tax limit provisions.

Subsequently, a number of reports have pointed out that in spite of such warnings, major reforms have not been made (Interagency Task Force on Real Property Valuation, 1996; League of Women Voters of New York State, 1979; New York Temporary State Commission on the Real Property Tax, 1979). Recently, in an overview written for the New York State Board of Regents, Berne and Netzer (1995) identified many issues related to the real property tax system in New York State and answer the question "What is wrong with the property tax system in New York State?" in one sentence: "The one-word answer is, for practical purposes, 'everything'" (41).

This paper attempts to evaluate the fundamental issues related to the property tax system in New York State by comparing it with practices in other states. Specifically, the comparative as well as historical analysis highlights that the unique property tax administration system in New York State has deep roots in traditional so-called home rule; therefore, the lack of state law enforcement leaves many local governments struggling with poor property assessment quality. Because the low property assessment quality means intradistrict inequities of property tax burden, evaluations and recommendations for improving property tax assessment quality have significant implications for the incidence of property tax. This paper begins by presenting a general overview of property tax assessment that emphasizes its importance, value concepts, and measures of uniformity. Then, it provides a general overview of the assessment quality in New York State, highlighting a wide disparity among local districts. The next three sections evaluate three core administration factors that have been identified in the literature as key determinants of property tax assessment uniformity and make a comparison with the practices with other states. A section of recommendations follows.

THE IMPORTANCE OF ASSESSMENT UNIFORMITY

Negative public attitudes toward property taxes are not exclusive to New York State.[2] Historically, the property tax has been attacked as the most unfair tax even from its inception because of its unique structure. Undoubtedly, part of its unpopularity is based on the visibility of the tax. Unlike the sales tax, which is paid in small amounts, the property tax is paid in one lump sum (or quarterly installments), which makes tax increases more visible.[3] Equally important, the property tax is traditionally considered regressive in a strictly partial-equilibrium framework. This is based on the argument that because it has flat tax rates and lower-income households spend a larger fraction of their income on housing, property tax liabilities constitute a larger proportion of the incomes of those with lower incomes (Netzer, 1966).[4] Imperfect association between homeowner income and property

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[2] A survey by the Advisory Commission on Intergovernmental Relations (ACIR, 1991) shows that about 30% of respondents think the property tax is the least fair tax; this is the highest percentage compared with federal and state income tax and the state sales tax.

[3] Visibility is, in some sense, a virtue of property tax in that it provides a sense of the link between tax and public service to taxpayers.

[4] A new view holds that because nearly all communities tax local property, the average tax rate essentially becomes a national tax on capital; therefore, property tax is most likely

tax burden, as well as fiscal disparities across jurisdictions, are also cited as major factors that make the property tax unfair. The association between homeowner income and property tax burden, however, can be improved by providing property tax relief for certain groups of taxpayers.[5] However, the issue of fiscal disparity is essentially a problem for every local tax, so it is hard to say this is a problem that applies only to the property tax.

The most fundamental difference between the property tax and other types of taxes is the way it is administrated. The stages of property tax administration include registration, assessment, and collection processes. Chief among these administrative issues is the process of determining tax bases, called *assessment*. Unlike other taxes, property tax requires assessment processes in which tax bases are determined by assessors rather than observed from market transactions. Assessment processes inevitably involve some types of estimate, which can be inaccurate due to imperfect information and/or a lack of assessors' professional proficiency. Simply speaking, the lack of assessment accuracy or assessment uniformity means that two households with the same market values for their houses may have different assessment values and tax burdens, violating the principle of horizontal equity.

Another serious consequence of the lack of assessment uniformity is that lower-income households may pay a higher effective tax rate than higher-income households. This possibility is based on some assumptions: Low- (high-) income households own low- (high-) value houses, and the price of low- (high-) value houses has increased at a slower (faster) rate than that of high- (low-) value houses, and all the houses have not been reassessed for a significantly long period of time. When these assumptions hold, low-income households bear higher effective tax rates because their actual assessment ratio is now significantly higher than the ratio for high-income households.

A strand of the major property tax reforms has focused on improving intrajurisdiction assessment uniformity because it is one of the most fundamental and critical components of the property tax system and determines the extent to which the property tax is regarded as fair. In short, although a better property tax administration system does not guarantee horizontal or vertical equity of property tax burdens, without a good property tax administration, property tax equity cannot be achieved.

MEASUREMENT OF ASSESSMENT QUALITY

Although there are some variations in application, a property should be appraised at its market value by an assessor.[6] The appraised value of a property refers to an assessor's judgment as to the full market value on a specific appraisal date, which is solely the responsibility of the assessor. The appraisal value estimated by an assessor could be different from the market value of the property, mainly because the assessor estimates the

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to be progressive because higher-income households own a disproportionately large share of the stock of capital (Mieszkowski, 1972).

[5] For example, an income tax credit (circuit breaker) could be provided for elderly households whose tax liability exceeds a certain fraction of their income.

[6] This is true in every state in the United States. The variations in this context refer to technically different appraisal methods for estimating the market values of properties.

market value based on outdated information in cases in which there has not been a reassessment for a long period of time, or because the assessor's appraisal performance is not good enough to make the appraisal value close to the market value.

The *assessment ratio* refers to the nominal ratio of assessed value to market value set by an assessing unit. The assessed value is defined as the appraisal value multiplied by the assessment ratio, and this figure is used for tax base. Although the nominal assessment ratio is the same for all properties in an assessing unit (e.g., 50% of appraisal value), the actual assessment ratio can vary substantially within the assessing unit.[7] This is due to the discrepancy between the market value and the appraisal value of the property. Under ideal circumstances, if the appraisal value of all property were exactly the same as its market value, the actual assessment ratio would be equal to the assessment ratio. However, in reality, there are always some variations in actual assessment ratio within an assessing unit. For example, two identical houses in an assessing unit may have two different actual assessment ratios, say 50% and 60%, respectively. This means that the tax base for the first house is 50% of its market value, whereas the ratio of assessed value to market value is 60% for the second house. Looking only at the two ratios, it is uncertain what assessment ratio is being applied in the assessing unit because no information is provided about the difference between the house's appraisal values and the market values. However, it is clear that the second home owner has to bear more property tax than the first.

Such variations in the actual assessment ratio among the properties within an assessing unit can be very small or quite large. When the variations are small, the assessment is accepted as being relatively uniform in an assessing unit, and vice versa. Hence, assessment uniformity within an assessing unit essentially depends on the degree of variation in the actual assessment ratio that exists in an assessing unit.

The most widely used measure of assessment uniformity is the *coefficient of dispersion* (COD), which measures the average percentage deviation of individual assessment ratios from the median assessment ratio.[8] For example, assuming that the COD is 10 in an assessing unit, with a median assessment ratio of 0.8, an average property in this assessing unit would have an assessment ratio either 0.08 higher (0.88) or lower (0.72) than the median assessment ratio. A low COD indicates relatively uniform assessments in an assessing unit, meaning that the properties are assessed at relatively consistent percentages of their market values.

The International Association of Assessing Officers (IAAO) has established a set of standards for acceptable levels of COD, and this guidance is widely accepted and used by assessors and oversight agencies (IAAO, 1990a, 1999). The range of acceptable levels of

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[7] The (nominal) assessment ratio could be different in the classified assessment system, in which different types of property are assessed at different assessment ratios.

[8] COD = $(((\Sigma|(A_i/S_i)—M|)/ N) / M) * 100$, where A_i represents the individual assessment ratio of property i, S_i is the market value of individual property i, M refers to the median assessment ratio, and N is the number of parcels.

Another popular measure of variability is the *coefficient of variation* (COV), which represents the standard deviation of the assessment ratios expressed as a percentage of the mean assessment ratio. In spite of its familiarity, COV is logically inferior to COD in that the normal distribution assumption on the assessment/sales ratio is hardly met, making it excessively weighted by extreme values of assessment/sales ratios (Sorensen, 1983, p. 19–20).

COD varies according to several factors—such as the property type, the degree of diversity of property, and the relative ages of structures—but generally falls between 10 and 20. For example, for residential properties in homogeneous areas, the IAAO recommends the COD should be equal to or less than 10.

Table 1. CODs for Residential Properties in New York State

	1990	1992	1994	1996	1998	2000
less than 10	60	265	424	72	60	50
10 to less than15	223	222	234	189	212	200
15 to less than 20	220	183	135	151	142	158
20 to less than 30	311	222	143	145	147	150
above 30	166	81	47	44	45	50
Non sample[a]	0	0	0	382	386	382
Total	980	980	973	983	983	992

Notes:

[a]CODs are not computed for these assessing units because they performed reassessment for the last three years

Source: Assessment Equity in New York, 1990, 1992, 1994, 1996, 1998, 2000 (Office of Real Property Tax Service, New York).

Table 1 shows the recent trends in CODs for properties in New York State, based on the Market Survey Data provided by New York State Board of Real Property Tax Service. Looking at the figures, we can identify two distinctive trends in assessment uniformity that give us a critical insight into the current policy of New York State with regard to property tax administration. First, the number of assessing units whose assessment uniformity levels are acceptable (CODs less than 10) has increased dramatically from 60 in 1990 to 432 in 2000, including the nonsample units; however, there has been no notable change since then. Second, although the number of assessing units with relatively low assessment uniformity (CODs of 30 or higher) decreased significantly from 1990 to 1994, it has also remained fairly stable since 1994. These trends are most likely to be outcomes of the current policy direction of New York State's property tax system. The long heritage of highly decentralized property tax administration in New York State has produced substantially unfair property tax burdens with assessing units. In the next three sections, the property tax system in New York State will be discussed in the context of improving assessment uniformity. Empirical evidence and historical and comparative analysis will be provided as well.

Standard of Assessment Level: Potential Impact of the Full-Market-Value Standard

The causal link that value concepts and assessment standards affect the assessment uniformity is not straightforward. Assessment uniformity within an assessing unit matters only if there is substantial variation in the actual assessment ratio. This section first reviews current systems and historical changes to assessment standards that have been implemented

in the states and then examines the impact of the full-market-value standard on assessment uniformity, both theoretically and empirically.

As reviewed previously, the assessed value is defined as a certain portion of the appraised value. According to various laws across the United States, the assessed value should be fair market value, full value, actual value, true money value, cash value,[9] or a specified fractional proportion of such value. These appraisal and assessment processes are some of the most important components of the property tax administration because these processes directly determine property tax bases.

The nominal assessment ratio, referred to as the *assessment standard*, determines the assessed value of property based on appraisal value. Assessment standards and appraisal value concepts employed in the United States between 1991 and 2000 are summarized in Table 2. By examining the assessment standard currently used in each state, we can identify some interesting variations across states and peculiar features in New York State. With regard to the legal assessment ratio, 21 states employ the full-market-value standard, and another 21 states have a specific fractional assessment ratio set by state law or regulation. The remaining 8 states have somewhat flexible standards. Some states simply limit the maximum assessment level or specify the range of variation. New York and Rhode Island simply require that a uniform assessment level be determined by local jurisdictions. Legislation enacted in New York in 1981 actually sanctioned the de facto practice of assessing units by requiring the level of state enforcement be limited to uniformity within an assessment jurisdiction. The legislation was enacted in response to substantial deviation in the practical assessment ratio applied in the assessing units from the full-market-value standard mandated in the Real Property Tax Law (RPTL).

Substantial disparity between legal and actual assessment standards was common in many states during the 1960s and 1970s. Table 3 shows that among 20 states that employed the full-market-value standard, 14 states had an actual assessment ratio of assessment value to sales prices that was lower than 50%. In the case of New York State, this incompatibility was more serious, with an actual assessment ratio of only 25.8%, the fifth lowest in the county. For this reason, between 1961 and 1971, 14 states abandoned the full-market-value standard in favor of the more politically realistic fractional standard, although two states, Washington and North Carolina, adopted the full-market-value standard during this period (ACIR, 1974).

Actually, the full-market-value standard has a long history in New York State, dating back to 1788.[10] Despite the statutory mandate for assessment at full market value, and because the courts of the state had not been enforcing this standard, local jurisdictions were essentially free to determine the assessment ratio (Sockowitz, 1990).[11] Such a widespread practice, however, faced a critical challenge in the court case *Hellerstein v. Assessor of Town of Islip* (37 N.Y. 2d 1 [1975]). The court rejected the common belief that the fractional assessment satisfies the full-market-value standard required by the RPTL and

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[9] Although there are slight differences among these values in terms of definition and practical application, generally these values are regarded as market values that are determined by the reasonable buying and selling process in the market.

[10] Act of March. 7, 1788, chapter 65, N.Y. Laws 769.

[11] Different assessment ratios by type of property were not allowed, except in Nassau County and New York City.

declared that the full-value standard did not permit assessors to assess at less than the full-market-value.

Combined with the revaluation order, the full-market-value standard of enforcement implied a substantial shift in the property tax burden at that time, which was politically infeasible for the legislature and the governor. In order to avoid the court order, the legislature decided to repeal the full-value standard in 1981 instead of establishing effective tools to enforce the compliance with the legal requirement. By eliminating the full-value standard and legitimizing the de facto practice in 1981, New York State lost a chance to remedy the unfair tax burden caused by improper property tax administration.

The long tradition of local governments underassessing property values is one of the main factors that contribute to the widespread fractional assessment practices (Johnson, 1967). State aid formulas for local governments of New York use the property tax as a measure of the capacity of local governments to raise taxes. The aid is distributed inversely to property wealth; therefore, there is significant incentive for local governments to underassess their own property tax base. Although such incentives were eliminated by the states' use of the equalization rate as a distribution basis, taxpayers still fear large increases in the property tax base because it would not be accompanied by a commensurate reduction in tax rates (ACIR, 1974). Although several states adopted mandatory rate reduction statutes, taxpayers generally perceive that a higher level of assessment means higher tax burdens, and they are more sensitive to their own assessed value than to the tax rate, which is equally applied to all taxpayers (Gaskell, 2002).

By the same token, to politicians, raising tax rates has political ramifications far less adverse than sending out individual notices of increased assessment value to each taxpayer (Shannon, 1967). The tradition of local assessment autonomy, a historical heritage in the colonial states (Benson, Benson, McClelland, & Thomson, 1965), is a distinctive feature that hinders the implementation of statewide full-value assessment. In contrast to the southern and western states, in the eastern states, including New York State, most decisions regarding property tax administration are determined by local jurisdictions. This "home-rule" tradition in New York State, which implies that the state government cannot enforce certain policies without providing adequate financial support, is based on the logic that in the absence of effective political support, it is futile to give state tax authorities coercive power over local assessment officials (Shannon, 1967).

Table 2. Legal Assessment Ratios

	1999	1991		1999	1991
AK	100%	100%	MT	100%	100%
AL	N/A[b]	20%	NC	N/A[b]	100.0%
AR	100%	20%	ND	4.5%	4.5%[f]
AZ	10%	10%	NE	100%	100%
CA	100%	100%	NH	100%	100%
CO	N/A[b]	14.34%	NJ	N/A[b]	20%-100%
CT	70%	70%	NM	33.3%	33.3%
DE	N/A[b]	100.0%	NV	35%	35%
FL	100%	100%	**NY**	**UNIFORM**	**UNIFORM**[g]
GA	40%	40%	OH	35%	35%[i]
HI	100%	100%	OK	N/A[b]	[e]
IA	100%	100%	OR	N/A[b]	100%
ID	100%	100%	PA	N/A[b]	100%
IL	33.3%	33.3%	RI	N/A[b]	100%[h]
IN	N/A[b]	33.3%	SC	N/A[b]	4.0%
KS	11.5%	12%	SD	100%	Max 100%
KY	N/A[b]	100%	TN	25%	25.0%
LA	N/A[b]	10%	TX	100%	100%
MA	100%	100%	UT	100%	71%
MD	40%	40%	VA	100%	100%
ME	N/A[b]	100%	VT	N/A[b]	100%
MI	N/A[b]	50%	WA	N/A[b]	100%
MN	N/A[b]	[d]	WI	100%	100%
MO	19%	19%	WV	60%	60%
MS	10%	10%	WY	9.5%	9.5%

Notes:

[a]Residential Single Family Property.

[b]No Response.

[c]Residential Property.

[d]Adjusted by "Net Tax Capacity" Factor.

[e]Currently Set between 11%-14% (Max 35%).

[f]Assessed Value is 50% of the Full & True Value / Taxable Value is 10% (9%) of Assessed Value.

[g]Max 100% Full Value.

[h]or Uniform with Max 100%.

[i]State law sets tax value at no more than 35% of true value; commissioner set taxable value at 35%.

Sources:

1999: IAAO (2000) "Property Tax Policies and Administration in Canada and the United States."

1991: Census of Government (1992) Volume 2. Taxable Property Values.
IAAO (1990b, 1991), "Taxanomy of Administrative and Legal Features of States and Provinces of the United States and Canada."

Table 3. Legal and Actual Assessment Ratios, 1971

State	Actual Assessment Ratio	Legal Assessment Ratio
AK	75.1%	100.0%
AL	19.7%	30.0%
AR	12.5%	20.0%
AZ	10.7%	18.0%
CA	20.0%	25.0%
CO	20.7%	30.0%
CT	47.8%	UNIFORM (MAX 100%)
DE	36.5%	100.0%
FL	63.2%	100.0%
GA	35.7%	40.0%
HI	54.0%	70.0%
IA	23.3%	27.0%
ID	10.6%	20.0%
IL	37.8%	50.0%
IN	23.5%	33.3%
KS	21.3%	30.0%
KY	83.8%	100.0%
LA	13.1%	UNIFORM (Not Below 25%)
MA	49.3%	100.0%
MD	47.8%	100.0%
ME	52.9%	100.0%
MI	41.5%	50.0%
MN	8.5%	30.0%
MO	23.1%	100.0%
MS	14.7%	100.0%
MT	7.7%	30.0%
NC	44.6%	Determined Locally
ND	15.1%	50.0%
NE	27.5%	35.0%
NH	65.1%	100.0%
NJ	58.3%	UNIFORM (20-100%)
NM	27.5%	100.0%
NV	27.1%	35.0%
NY	**25.8%**	**100.0%**
OH	36.9%	UNIFORM (MAX 100%)
OK	18.2%	35.0%
OR	87.1%	100.0%
PA	26.6%	100.0%
RI	50.5%	Determined Locally
SC	4.0%	100.0%
SD	36.5%	60.0%
TN	32.6%	35.0%
TX	18.1%	100.0%
UT	14.9%	30.0%
VA	34.8%	100.0%
VT	33.3%	Determined Locally
WA	36.1%	50.0%
WI	46.7%	100.0%
WV	36.2%	100.0%
WY	16.6%	100.0%

Sources: Advisory Commisstion on Intergovernmental Relations (1974). The Property Tax in a Changing Environment:

One might question why the fractional assessment is detrimental to assessment uniformity, which is most relevant to our empirical analysis. The common argument for the fractional assessment is that as long as an assessor makes an equivalent effort to assess all properties at the same percentage, the results of the fractional assessment are not really different from those of the full-market-value assessment. Although this argument seems valid in theory, empirical evidence indicates that fractional assessment reduces assessment uniformity. In their study of uniform assessment in Virginia, Bowman and Mikesell (1978) found that the actual assessment ratio, not the legal standard, had a significant effect on the uniformity of property tax assessment measured by the COD. The theory supporting this hypothesis is that the closer assessments are to market value, the greater the information they convey to taxpayers. The higher level of information to taxpayers provides information that is necessary when deciding whether to appeal, and this is a valuable contribution to assessment equity (Bowman & Mikesell, 1978). This argument is in line with the conventional wisdom that the fractional assessment is thought to serve as a "graveyard" of assessors' mistakes (Shannon, 1967).

Another influential study by Bowman and Butcher (1986) explored the effects of the full-value standard. Between 1971 and 1980, Virginia returned to the full-market-value assessment standard, but it had not yet been fully implemented by 1980. Taking advantage of this institutional change, Bowman and Butcher found that the actual assessment ratio had a highly significant effect on assessment uniformity. Besides these two studies, a body of research has identified the significant effects of higher assessment ratio on the assessment uniformity (e.g., Geraci, 1977; Geraci & Plourde, 1976).[12]

Recent trends in legal assessment standards indicate increased adoption of the full-value standard. The first observation is that between 1971 and 1991, seven states (Idaho, California, Iowa, Montana, Nebraska, Washington, and Hawaii) decided to initially adopt or return to the full-value standard, whereas five states (West Virginia, Maryland, New Mexico, Missouri, and South Carolina) abandoned the full-value standard. Such a trend is substantially different from that found between 1961 and 1971, when 14 states abandoned the full-market-value standard, whereas only two states adopted this standard. Another feature of interest is that two states, Vermont and New Jersey, recently repealed the locally determined assessment standard and adopted a full-market-value standard. Combined with the first observation, this implies that an increasing number of states have come to realize the importance of the full-value standard.

Revaluation: Is A Specific Revaluation Cycle Critical?

One of the most significant property administration factors affecting assessment uniformity is the assessment cycle, because valuation is the heart of the operation of the property tax (Mikesell, 1980). While the assessment standard indirectly affects assessment quality through its behavioral influence on assessors and property owners, revaluation directly affects assessment quality. Logically, when the market values of properties are changing rapidly, especially when there is heterogeneity in growth rates among properties,

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[12] Unfortunately, none of the previous studies on this issue corrects for the potential endogeneity of the assessment ratio except for some studies that take advantage of natural experimental opportunities (e.g., Bowman & Butcher, 1986).

the lower the revaluation frequency, the lower the assessment uniformity as defined by the COD.

New York is one of the few states that have no legal provision for a specific assessment cycle; the revaluation decision is determined solely by local assessing units (Table 4). In the IAAO's 2000 survey, nine states reported that they had no specific assessment cycle. Comparing the 2000 IAAO survey and the information from the 1992 Census of Government suggests there has been a distinctive trend toward shorter assessment cycles. Specifically, it reveals that (1) eight states (Hawaii, Kentucky, New Hampshire, South Carolina, South Dakota, Tennessee, West Virginia, and Wisconsin) adopted the annual assessment cycle; (2) three states (Arkansas, Colorado, and Mississippi) abandoned the annual assessment cycle and instead adopted a longer assessment cycle; (3) three states (Maine, Connecticut, and Montana) shortened or lengthened the assessment cycle; (4) one state (Oregon) abandoned a specific assessment cycle and allowed the local jurisdictions to decide their own assessment cycles.

Table 4. Legal Assessment Cycle

	1999		1991		1999		1991
State	**Legal[a]**	**Common**	**Legal**	**State**	**Legal[a]**	**Common**	**Legal**
AK	LOCAL	2-3	LOCAL	MT	6	4-6	3
AL	LOCAL[b]	4	LOCAL[b]	NC	[c]	4-8	8
AR	3	5	ANNUAL	ND	LOCAL	5-10	NONE
AZ	ANNUAL	ANNUAL	ANNUAL	NE	(*4)	5-10	NONE
CA	LOCAL	ANNUAL	NONE	NH	ANNUAL	[d]	NONE
CO	2	2	ANNUAL	NJ	LOCAL	Varies	NONE
CT	4	4	10	NM	2	2	2
DE	LOCAL	Varies	NONE	NV	5	5	5
FL	ANNUAL	ANNUAL	ANNUAL	**NY**	**LOCAL**	**Varies**	**NONE**
GA	4	3	NONE	OH	[c]	6	[c]
HI	ANNUAL	ANNUAL	NONE	OK	4	4	4
IA	2	2	4	OR	LOCAL	6	6
ID	5	5	5	PA	LOCAL	[d]	NONE
IL	4	4	4	RI	[c]	10	[h]
IN	4	4	4	SC	ANNUAL[e]	5	NONE[i]
KS	ANNUAL	ANNUAL	ANNUAL	SD	ANNUAL	[d]	NONE
KY	ANNUAL	[d]	4	TN	ANNUAL[f]	6	4 TO 6
LA	4	[d]	4	TX	3	3	3
MA	3	3	3	UT	ANNUAL[g]	5	ANNUAL
MD	3	[d]	3	VA	ANNUAL to 6	4	2 TO 4
ME	[c]	[d]	4	VT	[c]	[d]	ANNUAL
MI	[d]	[d]	NONE	WA	ANNUAL to 6	ANNUAL	2 TO 4
MN	[d]	[d]	4	WI	ANNUAL	ANNUAL	5
MO	2	2	2	WV	ANNUAL	ANNUAL	3
MS	4	4	ANNUAL	WY	ANNUAL	ANNUAL	ANNUAL

Notes:

[a] LOCAL: Locally Determined.

[b] No assessment cycle but if COD>30 or assessment level <85% or>105%, the local assessing unist should reassess by the order of DOR (Department of Revenue).

[c] Other cycle longer than 6 years.

[d] No Response.

[e] Or every 8 years depending on the type properties.

[f] Or every 6 years depending on the type properties.

[g] Or every 5 years depending on the type properties.

[h] At least 10 years.

[i] But South Carolina Tax Commission has a power to oreder reappraisal based on sales ratio study.

Sources

2000: IAAO (2000) "Property Tax Policies and Administration in Canada and the United States."

1991: Census of Government (1992) Volume 2. Taxable Property Values.
IAAO (1990b, 1991), "Taxanomy of Administrative and Legal Features of States and Provinces of the United States and Canada."

As in the Hellerstein assessment standard case, legal provisions for the assessment cycle do not guarantee that the actual revaluation will occur within the cycle (Mikesell, 1980). Without effective enforcement tools, it is hard to implement the legal requirement, primarily due to political controversy and substantial costs caused by revaluation. In some cases, revaluation means simply updating assessment rolls by applying trending techniques to a flat percentage increase on all properties. Strictly speaking, a true revaluation means the reappraisal of all properties to reflect the true market-value changes of properties. In this regard, the results of the IAAO survey are somewhat ambiguous because the survey items do not distinguish full reappraisal from simple updating of assessment rolls, especially in the case of the annual revaluation, where full reappraisal is unlikely. It is also true that the assessment cycle does not necessarily dictate that all the properties within a jurisdiction should be revalued at the same time—this is called *mass cyclical assessment.* Some states specify segmental revaluation, in which only a certain portion of the properties are revalued each year; within the specified cycle, all the properties should be completely revalued.

Tables 5 and 6 provide information on the status of revaluation in New York State.[13] One of the most striking findings is that among 133 assessing units, 13.4% have not revalued within the past 30 years. Some assessing units in Putnam County and Westchester County have not performed revaluation since the World War II. Only half of the assessing units have revalued within the past five years, and the average revaluation age is 9.16 years. Table 5 shows that 282 assessing units (28.4%) did not carry out a revaluation between 1990 and 1999. On average, assessing units have revalued only 1.14 times within this period.

Although these figures cannot be exactly compared with those of other states,[14] the IAAO's 2000 survey results imply that New York State is among the lowest states with regard to actual revaluation activities.

As Table 1 shows, many assessing units have recently performed revaluations, thereby achieving high assessment uniformity. However, given that there has been neither active state involvement nor legal enforcement of regular revaluation, such increasing revaluation activities are more likely due to other factors, such as requests from the business sector, court orders,[15] or political pressure resulting from increased recognition of the inequity of the property tax administration.

The policy orientation of New York State is not to enforce certain assessment practices by establishing legal provisions but to induce better performance by subsidizing revaluation activities. The state uses two types of aid to encourage revaluation: annual reassessment aid, which is paid for by the assessing units upon completion of a full revaluation, and supplemental attainment aid, which is paid for by assessing units that attempt to update the

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[13] The data in this paper include only cities, towns, or sometimes two counties (Nassau and Tompkins); village data are not available, but because the importance of village data is not substantial in terms of the number of parcels, the analysis is not substantially affected by the village-level data.

[14] Some states did not state the average actual revaluation cycle, and furthermore, those figures are not formally calculated or reported information, such as Census of Government data, although survey respondents were at the responsible position in property tax administration in each state.

[15] The Nassau County Supreme Court case is a notable example.

initial revaluation in subsequent years (SBRPS, 2000). However, given that the revaluation decision is determined through complicated political processes within assessing units, current state aid programs may encourage assessing units that have good property tax administration to continue to revalue, although they may not be effective tools for solving the political conflicts prevailing in assessing units that have not reassessed in a long time. To put it another way, without legal enforcement provisions for revaluation, state aid programs are not likely to improve the uniformity of assessment in assessing units that have not revalued for decades. Breaking the status quo without legal provision is extremely hard.[16]

[16] Numerous court cases in Nassau County have attempted to break this long-standing status quo.

Table 5. Revaluation Lag (Number of Years since Last Reassessment before 1999)

Reassessment Lag	Number of Assessing Units	Percentage	Cumulative Percentage
0	87	8.8	8.8
1	135	13.6	22.4
2	90	9.1	31.4
3	73	7.4	38.8
4	56	5.6	44.4
5	62	6.2	50.7
6	60	6.0	56.7
7	32	3.2	59.9
8	61	6.1	66.1
9	55	5.5	71.6
10	19	1.9	73.5
11	23	2.3	75.8
12	11	1.1	76.9
13	13	1.3	78.3
14	4	0.4	78.7
15	3	0.3	79.0
16	8	0.8	79.8
17	7	0.7	80.5
18	6	0.6	81.1
19	11	1.1	82.2
20	1	0.1	82.3
21	5	0.5	82.8
22	1	0.1	82.9
23	10	1.0	83.9
24	3	0.3	84.2
25	17	1.7	85.9
26	4	0.4	86.3
27	1	0.1	86.4
28	1	0.1	86.5
29	1	0.1	86.6
30	133	13.4	100.0
Total	993	100	

Source: Reassessment Activities in New York, 1990, 2000
(Office of Real Property Tax Service, New York)

Table 6. Revaluation Frequency (Number of Reassessments Computed 1990–99)

Frequency	Number of Assessing Units	Percentage	Cumulative Percentage
0	282	28.4	28.4
1	413	41.6	70.0
2	203	20.4	90.4
3	69	7.0	97.4
4	23	2.3	99.7
5	1	0.1	99.8
7	1	0.1	99.9
10	1	0.1	100.0
Total	993	100	

Source: Reassessment Activities in New York, 1990, 2000
(Office of Real Property Tax Service, New York)

The capitalization theory provides an effective tool for understanding the complicated stakes facing property owners, as well as a strong argument for periodic revaluation. Differentiated property tax burdens, which are caused by assessment errors or revaluation lag, are capitalized into house values in line with these differences for as long as the differences are expected to persist. Therefore, the property owners have windfall capital gains from underassessed property values or losses from overassessed values when they sell their houses. Subsequent owners do not have any windfall gains or losses because the tax differences are already reflected in their property values. If such tax differences are eliminated suddenly, the subsequent owners of underassessed houses will experience capital losses because they paid higher prices for their houses, expecting that the underassessment—and therefore the lower tax burden—would continue. The reverse can be applied to the subsequent owners of overassessed houses. Although an unexpected correction for assessment values may cause inequities among new home owners, if the revaluation is an ongoing process, not a one-time correction, it will induce long-term horizontal equity (Yinger, Borsch-Supan, Bloom, & Ladd, 1988). That is, the expectation that the distorted assessment values will be corrected or updated in the near future and periodically will reduce the degree to which the current tax differences are capitalized into the house values, thereby minimizing windfall capital gains or losses to home owners. The longer the period between revaluations, the larger the potential capital losses from revaluation and the more politically difficult it is to get a consensus to support revaluation.

Infrequent revaluation could cause more serious social problems than unfair economic gains or losses. In the case of *Coleman et al. v. Seldin* (181 Misc. 2d 219, 687 N.Y.S. 2d 240 [1999]), the Supreme Court of New York, Nassau County, declared,

> Beginning in 1964, litigation involving the county's methods of assessment has shown that it may have a disparate impact, and has highlighted the inevitability of county-wide assessment. What in the past may have been viewed as "unintentional" discrimination may now fairly be considered intentional, and the county's continued failure to act in reliance on "unintentional" discriminatory results can no longer act as a shield for the county's practices.

Nassau County is now under revaluation by the court order.

Such discrimination is primarily due to the differentiated market-value changes among certain groups of properties, which are generally divided by resident's socioeconomic status. The property tax exploitation caused by infrequent revaluation has been proved empirically (e.g., Heavey, 1983).

Assessing Units: What Level of Government Should Have the Assessment Function?

Property tax experts[17] in New York State consistently point out that the most fundamental issue in property tax administration is the structure of highly decentralized assessing units. In terms of the number of assessing units, New York State ranks fourth; only Wisconsin, North Dakota, and Michigan outnumber New York (Table 7). New York is also one of only a few states that have village- or equivalent-level assessing units. In contrast, 27 states have only state- or county-level assessing units, and five states (Delaware, Minnesota, Tennessee, Missouri, and Iowa) have predominantly county-level assessing units plus a small number of other levels of assessing units (mainly municipalities).

Comparing changes in the number of primary assessing units between 1991 and 1999 provides a mixed picture (Table 8). In three states (Mississippi, Virginia, and New Mexico), the number of primary assessing units was expanded to include lower levels of local jurisdictions (e.g., from the county level to county/municipality levels), and therefore the number increased notably. However, these changes should not be directly interpreted as evidence that the assessment function became more decentralized in those states because the surveys are not exactly comparable. The 1999 survey asked for the exact number of assessing units in each jurisdictional category (state, county, municipality, town, and other), whereas the 1991 survey asked for only the total number of primary assessing units. In the 1991 survey, some respondents may have included only the number of primary assessing units, excluding other levels of assessing units. Given that the delegation of assessing responsibilities to lower-level jurisdictions would place substantial financial burdens on local jurisdictions, and because the demand for uniform assessment is increasing among taxpayers and courts, the trend toward decentralized assessing systems is hardly perceivable. In contrast, two states made big shifts to more centralized assessing systems: Minnesota no longer has town/township assessing units, and Montana has only state-level assessment following the past centralization trend (ACIR, 1963; Chicoine & Giertz, 1986).

In New York State, approximately 10% of assessing units were reduced during this period. Looking at Table 9, which gives time-series information, we see a consistent trend toward reducing the total number of assessing units and increasing the number of assessing units that share multijurisdictional assessors, who have more specialized expertise. The reduced number of assessing units is mainly due to the fact that a substantial number of villages (348 out of 554) terminated their status as assessing units, recognizing the advantages of town-level assessment (SBRPS, 2000). Very recently, the Coordinated Assessment Aid Program was initiated by the Office of Real Property Tax Service (ORPS)

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[17] Based on interviews with Gaskell (2002), a former executive director of the Office of Real Property Tax Service (ORPS); Moorman (2002), a government officer in the Syracuse Regional Office of ORPS; and Martins (2002), the assessor of the town of Manlius, New York.

to encourage assessing units, especially town-level units, to combine their assessing functions. As of January 1, 2000, 73 assessing units had been combined into 31 units (SBRPS, 2000).

These encouraging figures, however, could be misleading to some extent. First, most of the small towns and villages are still serving as assessing units. Second, ORPS's policies for coordinated assessment may only be encouraging consolidation of jurisdictions that are trying to improve their systems, leaving most of the jurisdictions with low quality assessment unchanged.

Why does the size of an assessing unit matter? At least two rationales have been emphasized in the literature and by practitioners. Economies of scale might be the most compelling reason for county- or higher-level assessment (e.g., ACIR, 1963; Sjoquist & Walker, 1999; Stiles, 1967).

Historically, the primary reason given for the poor assessment quality of local assessing units has been the lack of adequate resources for small assessing units to effectively perform their assessing responsibilities (Jensen, 1931). Furthermore, larger assessing units can benefit from specialization by hiring assessors with a functional expertise in each class of property (e.g., industrial, commercial, or residential assessment).

Although it has not been much discussed in the academic literature, practitioners in the field almost unanimously state that the primary drawback of such a system is the vulnerability of small assessing units to political influences (Gaskell, 2002; Martins, 2002). Complaints about assessment values can affect, through political processes, assessors' professional judgment.

Table 7. Number of Assessing Units

State	State	County	Municipality	Township	Others	Total	Rank
AK	1	12	13			26	43
AL	1	67				68	30
AR	1	75				76	28
AZ	1	15				16	46
CA	1	58			1	60	35
CO	1	63				64	34
CT			19	150		169	15
DE		3	1			4	47
FL	1	67				68	31
GA	1	159				160	16
HI		4				4	48
IA	1	99	8			108	20
ID	1	44				45	38
IL	1	102	920			1023	6
IN	1	92	1008			1101	5
KS	1	105				106	21
KY	1	120				121	18
LA	1	70				71	29
MA	1		39	312		352	10
MD	1					1	49
ME			492			492	8
MI	1		267	1245		1513	3
MN	1	87	9			97	23
MO	1	114	1			116	19
MS	1	82	301			384	9
MT	1					1	50
NC	1	100				101	22
ND	1	53	361	1380		1795	2
NE	1	93				94	25
NH	1		259			260	11
NJ			335	232		567	7
NM	1	33	101			135	17
NV	1	17				18	45
NY	**1**	**2**	**61**	**920**	**215**	**1199**	4
OH	1	88				89	26
OK	1	77				78	27
OR	1	36				37	41
PA		67				67	32
RI			8	31		39	40
SC	1	46				47	37
SD	1	65				66	33
TN	1	95	1			97	24
TX					253	253	12
UT	1	29				30	42
VA	2	95	40	91		228	14
VT	1		251			252	13
WA	1	39				40	39
WI	1		584	1255	6	1846	1
WV	1	55				56	36
WY	1	23				24	44

Source: IAAO (2000) "Property Tax Policies and Administration in Canada and the United States."

Table 8. Changes in the Number of Assessing Units, 1991–99

	1999		1991			1999		1991	
State	NO.	Units[a]	NO.	Units[a]	State	NO.	Units[a]	NO.	Units[a]
AL	68	C	67	C	MT	1	S	56	C
AK	26	C,M	26	C, M	NE	94	C	93	C
AZ	16	C	15	C	NV	18	C	17	C
AR	76	C	75	C	NH	260	M	259	C, M, T
CA	60	C	58	C	NJ	567	M, T	567	M
CO	64	C	63	COUNTY	NM	135	C, M	33	C
CT	169	M, T	167	M, T	**NY**	**1199**	C, M, T, V	**1328**	C, M, T, V
DE	4	C, M	4	C, M	NC	101	C	100	C
FL	68	C	67	C	ND	1795	C, M, TS	1800	M, TS
GA	160	C	159	C	OH	89	C	88	C
HI	4	C	4	C	OK	78	C	77	C
ID	45	C	44	C	OR	37	C	36	C
IL	1023	C, TS	969	C, TS	PA	67	C	67	C
IN	1101	C, T	1008	T	RI	39	M, T	39	M, T
IA	108	C	111	C	SC	47	C	46	C
KS	106	C	105	C	SD	66	C	66	C
KY	121	C	120	C	TN	97	C	100	C, M
LA	71	C	70	C	TX	253	C[b]	253	C
ME	492	M	492	M	UT	30	C	29	C
MD	1	S	1	S	VT	252	S, M	251	M, T
MA	352	M, T, TS	351	M, T, TS	VA	228	C, M, T	135	C, M
MI	1513	M, T, TS	1527	M, T, TS	WA	40	C	39	C
MN	97	C, M	2713	C, M, T, TS	WV	56	C	55	C
MS	384	C, M	82	C	WI	1846	M, T	1893	C, M, T, TS
MO	116	C	115	C	WY	24	C	23	C

Notes:

[a] **S**: State
C: Counties
M: Municipalities
T: Towns
TS: Townships
V: Villages

[b] Consolidated Counties.

Sources

1999: IAAO (2000), "Property Tax Policies and Administration in Canada and the United States."

1991: IAAO (1990b, 1991), "Taxanomy of Administrative and Legal Features of States and Provinces of the United States and Canada."

Table 9. Changes in the Number of Assessing Units, New York State

Year	Total No. of Ass. Units	Percent Change	Assessing Units with Multi-Jurisdictional Assessors[a]	
			No. of Assessing Units	Number of Assessors
1983	1546		N/A	N/A
1987	1435	-7.18%	144	59
1992	1294	-9.83%	190	74
1997	1177	-9.04%	361	133
1998	1164	-1.10%	368	132
1999	1147	-1.46%	398	140

Note: [a]Assessing units that hire assessors who are in charge of multiple assessing units.
Source: SBRPS (2000)"2000 Report on Effectiveness of State Technical and Financial Assisstance Programs for Assessment Administration."

At present, there are two county-level assessing units in New York State, Nassau County and Tompkins County. The processes that those counties took to become countywide assessing units are different. In 1981, in response to Hellerstein v. Assessor of Town of Islip, New York State established a unique assessment system for Nassau County and New York City to sanction the de facto practice of assessing real properties in the two jurisdictions. The main component of the provisions was to freeze the tax shares among classes (Class 1 = one-, two-, and three-family residential real property plus condominiums; Class 2 = residential property not in Class 1; Class 3 = utility real property; Class 4 = real property not in Classes 1, 2, or 3).[18] In contrast, Tompkins County chose to be a countywide assessing unit in 1970 with the consensus of one city (Ithaca), nine towns, and five villages.

The following comments by Jay Franklin (2002), the assessor of Tompkins County, clearly show the typical attitude of field experts toward the highly decentralized assessing system in New York State:

> We had the foresight to see that they could maintain a higher standard of the assessment function at a fraction of cost if we were to consolidate 15 municipalities' assessing offices into 1 central location . . . Besides the cost savings, we felt that we could take the politics out of the assessment function if it was taken from the municipalities. Now there is very little leeway in the assessment function.[19]

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[18] For detailed information about the assessment system of Nassau County, refer to Berne and Netzer (1995).

[19] As evidence, he mentioned the fact that Tompkins County was maintaining 100%-market-value standard.

Another decentralized feature that hinders the state's move toward centralized assessment is the localized assessment of utility and railroad properties. New York State[20] is one of only four states[21] (Alaska, Maine, New York, and Texas) in which the assessment of both utility and railroad properties is performed by local assessing units (SBEA, 1993). Decentralized assessment of utilities and railroads combined with no state-mandated assessment standard renders enormous variation in the taxing powers of local jurisdictions. Some local governments receive substantial tax base windfalls from this practice, making its elimination difficult unless adequate compensation is provided. Substantial shifts in tax bases and the apportionment of assessment values among local governments, when the statewide assessment is introduced, may be one of the critical issues New York State should deal with. Although New York State realizes the problem, it doesn't seem that the state has enough motivation to push toward centralized assessment systems. The State Board of Equalization and Assessment (1993) concluded its survey of railroad and utility taxation practices among states by pointing out this issue:

> Based on the research contained in this report, it appears that unitary assessment and apportionment of value is both conceptually and practically sound. For a variety of reasons including efficiency, professionalization, data compilation, and statewide consistency, it appears to be preferable to the duplicative, poorly understood, and fragmented system now employed in New York.

CONCLUSION

This essay has shown the unique features of the property tax system in New York State, primarily focusing on three administrative components—assessment standards, revaluation, and assessing units—that have been both theoretically and empirically identified as a key factors in the quality of property tax assessment. Without achieving assessment uniformity, the local politics that determine the level of public service, and thereby property tax, cannot function very well because individual property owners' burdens to provide the enhanced level of public service are unfairly distributed simply by poor property tax administration. The current situation of property tax administration in New York State seriously violates two major principles of the tax system: horizontal and vertical equity. More importantly, inaccurate assessments undermine public faith in the property tax system and local governments.

Based on the foregoing evaluation of the three key factors in property tax administration, the recommendations for improving property tax administration are straightforward: A full-market-value standard, a specific revaluation cycle, and county- or state-level assessment

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[20] The state values all "special franchise" properties and establishes value ceilings on railroads.

[21] In Florida and New Hampshire, state governments assesses railroad and local governments assesses utilities; In Vermont, railroads are assessed by the state and the state also provides advisory appraisals on utility properties; In all other states, state governments assess both types of properties.

functions are prerequisites for a high level of assessment uniformity. All of these recommendations are essentially efforts to minimize the politics surrounding property tax administration. So-called home rule, which has been a deep-rooted tradition in policy making in local governance in New York State, should not be able to overrule the state's role in achieving equity and fairness in property tax burden.

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