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Expect Higher Property Tax Rates

The downturn in real estate values continues to cause major budgetary problems for cities and counties across the nation.

According to a new study, property owners may face record tax rate increases in the next few years as local governments struggle to make ends meet.

REVENUES DECLINE

The 26th annual *City Fiscal Conditions* report by the National League of Cities (NLC) shows that general city revenues are continuing to fall, with a projected 2.3% decrease last year. This is the fifth straight year of revenue declines. The trend is expected to continue in 2012 and 2013.

Along with falling property tax revenues, cities have also been forced to contend with significant decreases in state aid. Since 2009, cities report cuts in general aid (50%), shared revenues (49%), and reductions to reimbursements (32%).

RATES RISE

With budgets already cut to the bone and tax revenues still falling, many cities have no choice but to raise tax rates.

While state and local laws make it difficult for some cities to raise rates, the NLC survey shows 20% of local municipalities increased property taxes in 2011. This year, another 20% will raise rates.

“Cities are squarely in the center of the economic downturn,” said Michael A. Pagano, Dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago, one of the authors of the NLC report.

“We anticipated that property tax receipts would catch up with declining property values,” Pagano said. “That they are now falling, while consumer confidence and employment falter make the budget-balancing decisions of cities more challenging than at any time in decades.”