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S&P Credit FAQ: Is Property Tax Reform A Growing Concern For U.S. Local Government Credit Quality?

Property taxes are the finance backbone for local governments in the U.S., supporting everything from government operations to public safety and public education. The enduring strength and stability of the revenue stream—even in tumultuous economic times—is a major factor to the overall creditworthiness of U.S. local governments rated by S&P Global Ratings. So, when property tax reform is passed, or proposed, it can call into question how essential government services would be funded if the revenue stream is reduced or eliminated.

Policy changes at the state and federal level routinely require spending adjustments for local governments, but major changes to property tax collections (amount or timing) can disrupt budgets if they are not addressed in a prompt and effective manner. Recently, several states passed property tax reforms and others have legislation under consideration.

Affordability Concerns Are Front And Center

Property tax reform and other kinds of tax reforms are being considered, introduced, and implemented across the country, often motivated by efforts to address affordability for residents. Legislative proposals to lower property taxes are particularly popular given the rise in home valuations: the S&P Coality Case Shiller U.S. National Home Price Index increased nearly 48% between 2020 and 2025. Given housing supply constraints, this level of property value growth has made home ownership even more expensive; rising home insurance costs exacerbate the situation. Furthermore, inflationary impacts on food costs and utilities, among other items, have squeezed discretionary income and contributed to the overall cost of living.

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