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Mobile Homes, Taxes, and Your Community

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This is one in a series of papers in the general housing area. Papers in this series include:

"Preparing or Supervising a Housing Market Analysis" (EC--415)
"Characteristics of Indiana's Mobile Home Residents" (EC--416)
"Mobile Homes, Taxes, and Your Community" (EC--417)
"Implications of Planning and Zoning as They Relate to Housing" (EC--418)

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MOBILE HOMES, TAXES, AND YOUR COMMUNITY

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Do Mobile Home Residents Pay Enough Property Tax?

During the past ten to fifteen years many communities have experienced more rapid growth in mobile homes than in more conventional types of housing. Depending on the community's zoning ordinances, these homes may appear in mobile home parks, mobile home subdivisions, or as single units scattered through the community. The basic distinction between a park and a subdivision is that the land in a park is rented while the land in a subdivision is owned by the mobile home resident.

Many citizens and elected officials are concerned about the impact of mobile home housing on their community. For instance, a frequently asked question is "Are mobile home residents paying enough in local taxes to support the public services they receive?" This issue is generally raised in connection with the implications for local schools but other public services are also of concern.

This concern arises, in part, because in Indiana mobile homes are taxed differently
from conventional housing. A mobile home is assessed as personal property and the lot with its improvements is assessed as real property. Of course, in assessing conventional housing the combined property, house and lot, is assessed as real estate. In the case of the mobile home park the personal property tax is billed to the home owner and the real property tax is billed to the park owner. Ultimately, the mobile home owner pays the real estate tax in the form of rent payments to the park owner.

Mobile homes provide a different sort of tax base because they depreciate whereas conventional housing often appreciates. Assessors in Indiana are instructed to allow depreciation and obsolescence of 25 percent the first year and 5 percent for each of nine years thereafter [8].

But even when the differences in methods of assessment are recognized, an investigation of the situation reveals that the answer is obviously "no" to the question "Are mobile home residents paying enough in local taxes to support the public services they receive?" Mobile home residents do not pay enough in local taxes to cover the cost of the community services they receive. But this answer is neither very useful nor profound because it is true for housing in general.

Property taxes constitute the source of practically all local tax revenue in Indiana. About one-third of these property taxes are collected from residential properties while two-thirds are from other sources, primarily business and agricultural properties [4]. On the other side of the ledger, local schools receive about 60 percent of all property tax revenue in Indiana. Property taxes also support welfare, health, recreation, and police and fire protection programs. The majority of these local government expenditures are made on programs which benefit people and, consequently, only indirectly benefit the business and agricultural firms. Recognition of this situation leads to the conclusion that, in general, public services used primarily by households are subsidized by business and agricultural firms.

Family Life-Cycle Considerations

Although the vast majority of households are subsidized by other property tax sources, the extent of subsidy varies considerably from household to household. It is reasonable to assume that families with an employed household head between the ages of 50 and 65 are very likely to own more property and have fewer school age children than younger families. Consequently, it is generally true that young families which have not as yet accumulated much property are not paying as much for the public services they receive as mature families that own relatively large amounts of property.

As time passes the young families with small amounts of property and school age children evolve to mature families with accumulated property and few school age children. Concurrently, new young families will form and the newly evolved group of mature families will then be paying relatively more for public services. The point here is that over a family's life-cycle it has different needs for public services and also a changing property base on which it pays taxes.

Since the typical mobile home family is comparatively young [9], it would not be surprising to find that they pay relatively less for public services than does the average household. But studies have shown that these families are likely over time to own a more conventional home. A recent Department of Housing and Urban Development report concludes"...the data suggest that mobile homes serve a significant segment of the nation's households during a relatively short period of the life-cycle, replacing a certain part of the requirement for rental housing and deferring some of the demand for conventional ownership housing." (HUD Survey, Page 97.)
A Critique of Previous Studies

When it is recognized that the household sector, in general, does not pay enough property taxes to support the services it receives and that a household places different requirements on public services in different stages of its life-cycle, the question "Are mobile home residents paying enough in taxes for the public services they receive?" is diminished in importance.

The first observation tells us that we should not expect to find that the residents of mobile homes or any other type of housing are taxed enough to pay for the services they require. This suggests that the question should be restated to inquire about how mobile homes and conventional housing compare on community costs and taxes.

The second observation tells us that, if we want to make this comparison, our analysis should compare the cost of services and taxes received over the entire life-cycle of a typical family. If local taxes paid and services required by mobile home residents are compared without doing a life-cycle analysis, the comparison should be made with families in the same stage of the life-cycle.

Previous studies on the impact of mobile homes on community taxes and expenses have often made the first observation but not the second [2, 3, 6]. Typically some sort of cost-benefit approach is used to determine whether a new subdivision should be developed as a modern mobile home park or a moderately priced housing development. The usual procedure is to begin by determining the taxes paid by mobile home park residents and the services required by mobile home park residents. These figures are then compared to similar figures from conventional housing. Such studies often show that tax revenue per school age child or per acre and personal income per acre are higher with mobile homes than with moderately priced conventional housing.

This procedure is likely to result in misleading conclusions because it compares families in different stages of their family cycles. Families in the housing development are assumed to be larger with more school age children and possess other characteristics of families somewhat more mature than the typical mobile home family. In addition, this procedure assumes that, if the prospective mobile home resident is not allowed to live in a mobile home, he will choose not to live in the community.

Another reason studies comparing the community impacts of mobile versus conventional housing are often misleading is because cost and revenue figures are stated on a per acre basis. Developers often find these concepts useful, but they are generally not appropriate measurements for planners or citizens studying the community impacts of alternative housing forms.

If it is assumed that many of the potential mobile home residents cannot live in a mobile home but choose to remain in the community, where are they likely to live? Considering this question the Indiana Mobile Home Association writes:

Living in a modern Mobile Home Park is not inexpensive. Rents usually $50 per month or over, plus utilities in addition to the payment on the Mobile Home, makes living in a modern Mobile Home Park compare closely in cost to apartment dwelling. Therefore, the modern Mobile Home Park appeals to contract families, retirees, newly marrieds and generally the same market that goes to the apartment dwellings. In fact, the best prospects for Mobile Home sales are apartment dwellers. ("Mobile Home Parks -- Community Costs Versus Revenue," Indiana Mobile Home Association, Inc., p. 2, undated.)

There is good reason, then, to believe that apartments are the most likely housing alternative for mobile home residents. As noted in the quotation above, the cost of mobile home living per month is generally not much different from renting an apartment.
Typically mobile home owners make monthly payments for loan and pad of $125 to $175.

Mobile Homes Versus Apartments

With this information it seems reasonable to rephrase the question asked at the beginning of this paper. Instead of asking whether mobile homes are paying enough taxes for the public services they receive, it now appears that a more appropriate question to ask is: From the community's viewpoint of providing public services and collecting property taxes, what type of housing should the community encourage for its citizens who are typically mobile home or apartment residents?

To help answer this question let's look at community costs and revenues that could be expected from having citizens reside in modern apartment developments rather than in modern mobile home parks. Let's begin by comparing the differences in costs for several community services.

In this example, we are assuming that the same people reside in the community. The only consideration is whether they live in mobile homes or apartments. Consequently, the number of school children the community has to educate remains the same. Therefore, school costs are not expected to be affected very much.

Similar reasoning applies to many other types of services. Modern mobile home parks and apartment complexes both install and maintain internal streets, street lighting, water systems, sewage systems, and garbage collection points. Both have a manager who may be able to settle some minor internal problems among occupants and, since the residents have similar socio-economic characteristics, police protection costs would not differ significantly. It is commonly felt that mobile homes are more of a fire hazard, but since we do not have evidence to support this we will assume that there is no difference in fire protection costs.

It appears that community costs will be about the same whether its residents live in modern mobile home parks or apartments. The other side of the question relates to community revenue. Does it make any difference to a community's tax revenue if its residents choose to live in a mobile home park?

Table 1 summarizes the information necessary to compare the property taxes which would be paid by high, medium and low valued mobile homes and apartments. Of course apartment values vary, but assessed valuation of $3,000, $2,250, and $1,500 for high, medium, and low value two-bedroom apartments is assumed to be reasonable. Assuming an average property tax rate of $9.50 per $100 of assessed valuation, the corresponding property tax revenue per apartment is $285, $214, and $142. The assessed valuation of high, medium and low valued 12 x 60 feet mobile homes and lots is assumed to be $2,100, $1,500, and $1,000. The corresponding tax revenue is $200, $142, and $95.

These figures are hypothetical and do not apply to any specific community. Additional detail and assumptions for this illustration are noted in the footnotes of the table. Figures for an individual community can be obtained by consulting the local assessor's office.

Assumptions and Implications

This analysis indicates that the community would generally be tax revenue ahead to encourage its citizens to reside in apartments rather than in mobile homes. (In addition to having lower assessed valuations, one study found in Marion County that 28 percent of mobile home taxes were delinquent versus almost no delinquencies for single family residences [1].) The costs of community services are expected to be almost identical, whichever mode of housing, mobile home or apartment is chosen.

In this illustration it was assumed that the people would be living in the community regardless of whether they lived in mobile homes or apartments. Under this assump-
Table 1. A Hypothetical Comparison of Community Tax Revenue from Mobile Homes in a Modern Park and Apartments in a Modern Development.

<table>
<thead>
<tr>
<th>Item</th>
<th>Mobile home</th>
<th>Apartment</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Assessed valuationa/</td>
<td>$2,100b/</td>
<td>$1,500c/</td>
</tr>
<tr>
<td>Property tax revenuef/</td>
<td>$  200</td>
<td>$142</td>
</tr>
</tbody>
</table>

a/ The assessed valuation is calculated as one-third of the valuation placed on the property.
b/ The high value mobile home and lot assessment assumes an average value of $4,200 for the mobile home, excluding depreciation and the value of equipment, and a lot value of $2,100.
c/ The medium value mobile home and lot assessment assumes an average value of $3,000 for the mobile home, excluding depreciation and the value of equipment, and a lot value of $1,500.
d/ The low value mobile home and lot assessment assumes an average value of $2,100 for the mobile home, excluding depreciation and the value of equipment, and a lot value of $900.
e/ The assessed value for an apartment in Indiana is calculated as one-third of the "true market value." This value is not the same as the price an average apartment would bring if it were sold.
f/ This figure assumes the average property tax rate in Indiana in 1970, $9.50 per $100 of assessed valuation.

It was also assumed the mobile homes were located in a modern park or development. Frequently single units are scattered throughout the community or grouped in developments that are not modern. In these cases it is likely that community costs per unit will be higher and tax revenue lower than in the above example. In a recent fact sheet of the Indiana Manufactured Housing Association, Inc. it was estimated that the 66,405 mobile homes in Indiana paid $4,787,000 of personal property tax [6]. This is an average of $73.46 per mobile home.

This example has been approached from the standpoint of the community. From this viewpoint it appears that communities would incur larger tax revenues and no differences in costs by encouraging their citizens to live in apartments rather than mobile homes. But our society has a history of giving individuals a great deal of freedom in choosing their type of home and, obviously, many people have chosen mobile homes.

The HUD survey identified some of the reasons for this preference:

"The comparatively lower cost of obtaining and living in a mobile home is cited by over 44 percent of those who answered this question. Forty-nine percent said they like the style of living in mobile homes. Seventeen percent related their preference to the fact that the family head can freely move his home with him; this despite the fact that only 2 out of 100 have moved since buying their mobile homes. Eight percent claimed no other housing was available. Miscellaneous other reasons were cited by 13-1/2 percent of the households." (HUD Survey, p. 98.)

It appears that individuals may choose to live in mobile homes for a variety of reasons. Yet we have seen that the community may have reason to encourage potential mobile
home residents to live in apartments. Consequently, community and individual interests may be in conflict. Both positions have justification and each needs to be considered when public leaders establish a community's position on mobile homes.

References


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