Land Lines

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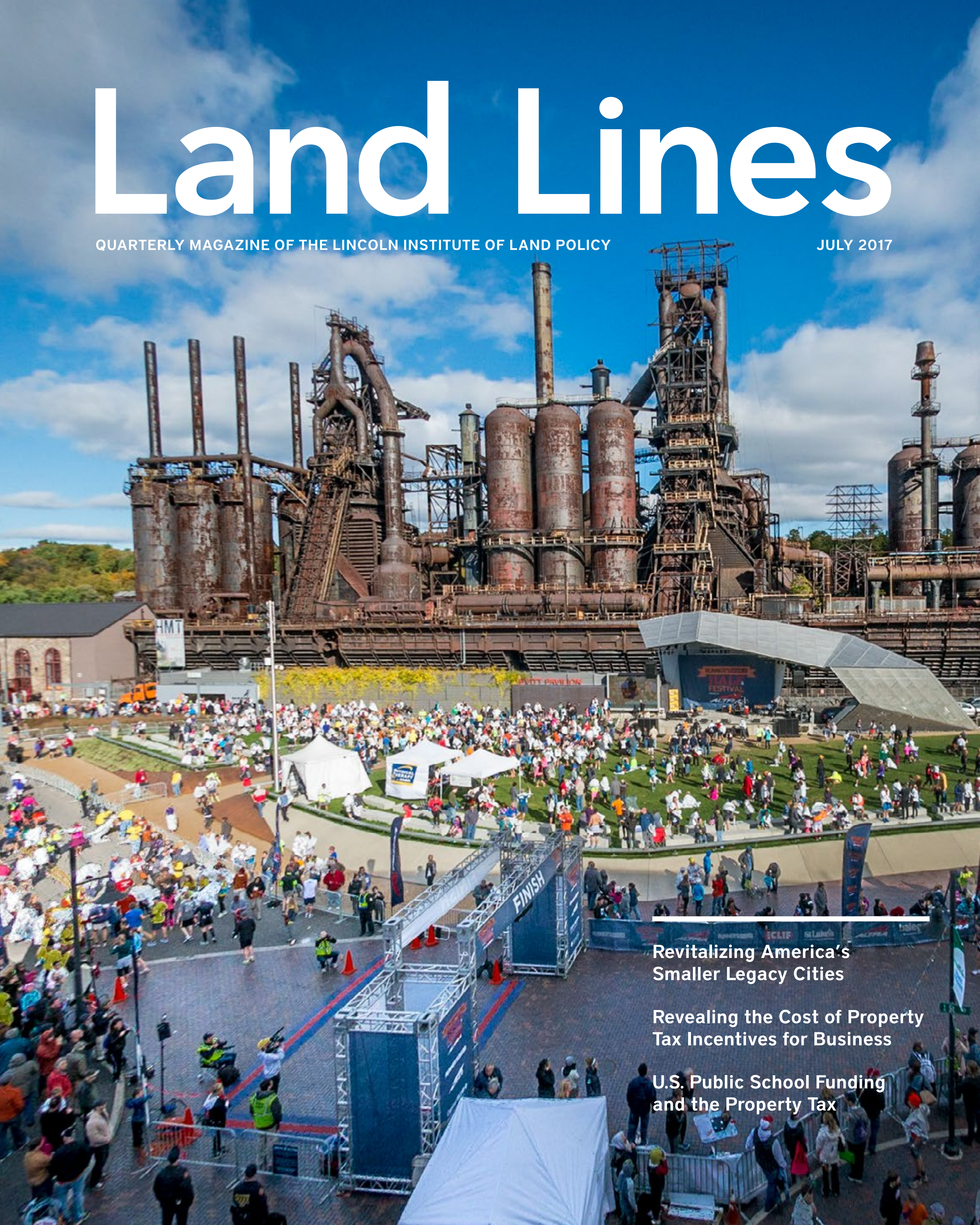

Revitalizing America's Smaller Legacy Cities

Revealing the Cost of Property Tax Incentives for Business

U.S. Public School Funding and the Property Tax

Land Lines

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THE LINCOLN INSTITUTE OF LAND POLICY is an independent, nonpartisan organization whose mission is to help solve global economic, social, and environmental challenges to improve the quality of life through creative approaches to the use, taxation, and stewardship of land. As a private operating foundation whose origins date to 1946, the Lincoln Institute seeks to inform public dialogue and decisions about land policy through research, training, and effective communication. By bringing together scholars, practitioners, public officials, policy makers, journalists, and involved citizens, the Lincoln Institute integrates theory and practice and provides a forum for multidisciplinary perspectives on public policy concerning land, both in the United States and internationally.

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LINCOLN INSTITUTE OF LAND POLICY

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SteelStacks Arts and Cultural Campus in Bethlehem, Pennsylvania, won the 2017 Rudy Bruner Gold Medal.
Credit: Ryan Hulvat

Making Sense of Place

HUMAN CONNECTIONS TO LAND PREDATE SCIENCE and logic; they are so fundamental to our identity that we rarely question or examine them. Importantly, these ties to land evoke strong, and often irrational, expression. Land policy, on the other hand, expresses a more modern aspect of our identity: a need to impose rationality on the world through logic, analysis, and the rule of law. At the Lincoln Institute, our land policy research is driven by a commitment to careful, objective, rigorous analysis. This analysis defaults to the dispassionate, driven by our technical expertise in statistical and economic modeling. These techniques lead us to propose policies that balance competing interests to reach outcomes that we consider socially, politically, and economically optimal.

Thus, we've argued stridently that a land value tax is the best mechanism for raising public revenues—far superior to more regressive or distortionary mechanisms like sales or income taxes. And yet, despite more than seven decades of avid promotion, we must admit that a pure land value tax is both rarely enacted and evanescent when it is implemented. And its second-best but far more prominent cousin, the property tax, is almost universally despised by taxpayers. Time and again, voters opt for inferior ways to raise new revenues, often preferring sales tax increases to better, fairer, and more efficient property or land taxes.

We've opined about why the property tax is so unpopular. Current hypotheses focus on the administration of the tax—how it is paid infrequently, in large lump sums. Unlike sales or income taxes, property owners know exactly how much they pay and when they must pay it. In contrast, income or sales taxes are collected incrementally—withheld from paychecks, or added in small amounts to purchases. When pressed, most taxpayers have no idea how much they pay annually in sales or income taxes. Invariably, they know exactly how much they pay in property taxes. Given these observations, we've proposed a remedy: to collect the property tax more frequently, in smaller chunks. While this might attenuate some of the hostility directed toward the property tax, it might not level the scales for voters.

This is because, as with other land policies, we ignore the intangible but important ties between people and land when we implement a property tax. The wedge between this superior tax policy and what is chosen by voters may be driven by a human propensity to violate self-interest in defense of our ties to land. The problem with a land or property tax is not in its administration, but in its enforcement. If one does not pay sales or income tax, the most likely outcome is a fine or penalty, or in extreme cases incarceration. If one does not pay the property tax, enforcement involves loss of the property. To the extent that a taxpayer's identity is linked to ownership of property, seizing it may be tantamount to identity theft, with associated destruction of self-esteem, individuality, self-definition—in other words, the psychological manifestations of identity.

As we navigate between optimal and practical in land policy, it might behoove us to examine hard-to-measure human ties to land. Although they are hard to measure, they are not hard to observe or understand. If we care about effective implementation of land policies, we ignore these ties at our peril. After U.S. urban planners devised urban renewal in the 1940s—a strategic, low-cost way to redevelop blighted areas of cities—they were blindsided for decades by spontaneously mobilized, pitched resistance from residents of the very neighborhoods they intended to improve. The mischief created by denizens of Boston's West End, Soho in New York, or the Embarcadero in San Francisco grew into a political movement that back-fed land policy through formalized finance mechanisms to subsidize historic and cultural preservation. This organized response permanently checked the power of urban planners and the planning profession more broadly, forcing them to engage citizens as partners in the planning process rather than subjects of it. And this movement crossed the Atlantic, to Covent Gardens in London, to Kreuzberg in Berlin, or more recently to Gezi Park in Istanbul.

The failure to account for human attachment to property erodes the quality of our economic prognostications as well. This was illustrated in the hugely inaccurate predictions by pundits regarding the depth of the housing crisis that began a decade ago. Many economists and financial analysts assumed that home owners who owed more on their properties than they could expect to recover through selling them—often called "underwater" owners—would walk away from the homes. Economists even had a term of art to describe this hard-nosed stance in decision making: ruthlessness. Yet, at the height of the housing crisis in 2011, more than 16 million home owners across the country were underwater. That year, there were 1.9 million foreclosure filings, many for homes that were above water.

As we navigate between optimal and practical in land policy, it might behoove us to examine hard-to-measure human ties to land. If we care about effective implementation of land policies, we ignore these ties at our peril.

Residents resisted urban renewal in the 1950s to preserve Hell's Hundred Acres, known today as Soho in New York City. Credit: iStock.com/Bustitaway

As devastating as the financial crisis that ensued was, it would have been ten times worse if home owners acted ruthlessly. As irrational as it might seem, more than 90 percent of underwater home owners paid their mortgages regularly, rather than walking away from their homes. This was not without precedent. When local housing bubbles burst in Massachusetts in the late 1980s and in California in the early 1990s, a larger percentage of owners continued paying mortgages on time although they owed 20 percent more on their mortgages than they could recover through the sale of their homes.

What explains the dogged persistence of home owners to violate their self-interest by staying in underwater properties? Perhaps something other than narrow economic interests attaches people to their homes, and they risk more in deciding to leave than they would in walking away from a bad investment. They risk losing themselves. This might explain the habit of stubbornly remaining in risky or declining areas. From a distance, it seems entirely irrational for residents of hurricane-prone areas to stay in homes that are near or below sea level, like the gritty population of Plaquemines Parish just south of New Orleans. Similarly, families that remain in areas struggling with long-term economic decline, such as central Appalachia or Rust Belt cities, stay put rather than seek better opportunities elsewhere. What possesses people to cling to these places, to risk life and limb for a difficult life in a place with a dim future? There must be a story behind these decisions that eludes more scientific analysis.

Land policy analysis needs to incorporate more than economic dimensions of policies if we hope to see them through to successful implementation. Our analysis should acknowledge, honor, and account for our irrationally human attachment to land and places. Although our methods for studying these intangible dimensions are more empirical than theoretical, more pattern recognition than rigorous statistical analysis, they are critical for informing both policy formation and its implementation.

Something other than narrow economic interests attaches people to their homes, and they risk more in deciding to leave than they would in walking away from a bad investment. They risk losing themselves.

South of New Orleans, Plaquemines Parish and its population of 23,495 sit precariously beside the mighty Mississippi River as it nears the Gulf of Mexico. Credit: PJF Military Collection/Alamy Stock Photo

Residents paint a mural in the Idora neighborhood of Youngstown, Ohio. Credit: Youngstown Neighborhood Development Corporation

Over the last two decades, the Lincoln Institute has dabbled with less formal methods for examining the relationship between people and land. For example, in our partnership with Solly Angel and his team at New York University to produce the Atlas of Urban Expansion, we studied historic patterns of growth in cities around the world as viewed from satellites orbiting the earth. We compared the nature of new development on the urban periphery with more historic development in the urban core, and we hypothesized about the implications of the patterns we observed. In another effort, we used a narrative frame to understand the evolution of three American cities in video documentaries of Cleveland, Phoenix, and Portland. In other efforts, we've convened practitioners and elected officials from around the world to share experiences of intended and unintended consequences that result from implementing land policies.

In the coming months, we plan to expand our exploration of the connections to people and land under the rubric of "Making Sense of Place." This exploration will not substitute for our more orthodox policy analyses. Instead, it will supplement and improve them by providing illustrative examples that validate our conclusions or provide countervailing evidence that will drive us to improve our methods. We hope to review and update the three urban documentaries and possibly commission others. We also will experiment with other analytic and narrative forms to identify and interpret the relationship of people with place in new ways, through multimedia case studies, short videos, or animated "explainers." We will build a library of case studies of effective land policies and track them from creation to implementation. We will curate these stories to help others learn from the ways that policies have been adapted for successful implementation in a complex world in which shorter-term economic or political interests are not always as powerful as more primal forces. Because the moment our primordial ancestors emerged from the sea so that we can stand upright on the ground, a fundamental aspect of our human identity was forged, and it is inextricably tied to the land.

Revitalizing America's SMALLER LEGACY CITIES

Strategies for Postindustrial Success from Gary to Lowell

By Torey Hollingsworth and Alison Goebel

With support from Goodyear and other partners, Akron, Ohio, is redeveloping the historic East End neighborhood as a business, residential, and entertainment center. Rendering courtesy of: Industrial Realty Group, LLC

STRONG LOCAL LEADERSHIP, A SHARED COMMUNITY VISION, INCLUSIVE GROWTH, CREATIVE PROBLEM SOLVING, cross-sector collaboration, and placemaking are all important ingredients for success in America's smaller legacy cities.

For generations, these industrial centers were essential to building American middle-class prosperity. Places like Scranton, Pennsylvania, and Worcester, Massachusetts, created job opportunities that enabled massive numbers of rural migrants and foreign immigrants to achieve a comfortable life through relatively low-skilled work. Yet as the national economy has transitioned away from manufacturing, many of these communities have struggled with entrenched poverty, neighborhood disinvestment, and a workforce with skills that do not match employers' needs.

With traditional economies built around manufacturing and populations that peaked in the 20th century then declined to 30,000 to 200,000, America's small to midsize legacy cities are found nationwide but concentrated most heavily in New England and the Great Lakes region, from Gary, Indiana, to Lowell, Massachusetts (figure 1). In national conversations, they frequently fall under the shadow of their larger counterparts. While researchers and community leaders have identified strategies to revitalize places like Pittsburgh and Baltimore, less attention has been paid to how these approaches might transfer to communities like Dayton, Ohio, or Binghamton, New York. Smaller legacy cities often lack major corporate headquarters or significant anchor institutions, assets that have been leveraged successfully in larger cities, meaning that even proven strategies will require creative adaptation in places like Camden, New Jersey, or Youngstown, Ohio.

For generations, these industrial centers were essential to building American middle-class prosperity.

In *Regenerating America's Legacy Cities*, a 2013 report from the Lincoln Institute of Land Policy, Alan Mallach and Lavea Brachman posit that the surest way to revitalize legacy cities is through strategic incrementalism—or "melding a long-term strategic vision with an incremental process for change." Establishing a path for success, they suggest, requires a shared community vision for the city's future and sustained efforts by local leaders to further that long-range view. This process may be especially important for smaller cities, which have fewer local assets and resources, leaving even less room for risk.

Through the Greater Ohio Policy Center (GOPC), we recently completed a study of 24 smaller legacy cities in seven midwestern and northeastern states to assess how well they were performing and determine which strategies might contribute to their vitality. We analyzed economic, social, and demographic data from three years: 2000, 2009, and 2015. We also interviewed local leaders in each city to learn what helped some of them thrive and what contributed to poor performance in others.

That research builds on Mallach and Brachman's report to show that strong local leadership, a shared community vision, inclusive growth, creative problem solving, cross-sector collaboration, and placemaking are all important ingredients for success. How cities get there—the factors that increase the likelihood of success—is the focus of this article, which derives from our forthcoming Policy Focus Report, *Revitalizing America's Smaller Legacy Cities: Strategies for Postindustrial Success from Gary to Lowell*, scheduled for publication by the Lincoln Institute of Land Policy in August 2017.

Figure 1

Smaller Legacy Cities in the Midwest and Northeast

METHODOLOGY

To gain a broad perspective on how well small and midsize legacy cities are faring, the Greater Ohio Policy Center (GOPC) collected data on 65 cities in seven states throughout the Midwest and Northeast that had a population of 30,000 to 200,000 in 2013; had a substantially smaller population in 2000 compared to its peak, even if it had rebounded to some extent; had a strong history of manufacturing; and was not primarily a college town or a suburb of a larger city.

After selecting 24 representative cities to study in greater depth, we analyzed data from each place's 2000 U.S. Census as well as from American Community Survey five-year estimates for 2009 and 2015 in the following categories: population, foreign-born population, young professional population, percentage of residents working in the city, unemployment rate, labor-force participation rate, median household income, poverty rate, college-degree attainment, long-term housing vacancy rate, owner-occupancy rate, percentage of home sales with a mortgage, median home value, median rent, employment industries, and occupations.

We calculated the percentage changes in each category for 2000–2015 and then in two subsets, 2000–2009 and 2009–2015, to gain a clearer sense of the Great Recession's impact on each city's trajectory. In addition, GOPC collected data on employment and jobs in 2002 and 2014 from the U.S. Census Bureau's OnTheMap website. Using that data, we categorized places as high-, moderate-, and low-performing, based on their current conditions and trajectories over time. These groupings helped to convey how the cities' trajectories compared to one another and to identify continued challenges and factors contributing to revitalization.

—Torey Hollingsworth and Alison Goebel

Collaboration for a Global Economy

Small and midsize legacy cities, perhaps even more than their larger peers, must plan to determine how they can fit into the changing global economy. Legacy cities generally do not benefit from the pattern of increasing consolidation, in which corporations move to thriving global cities. A smaller city's economic niche—one that will allow it to thrive—depends on local assets including geographic location, economic drivers, demographics, and local leadership. This means that the right niche for one city might not be right for another.

Some smaller legacy cities were once able to function independently in the global market, but that is much less likely in the future. For some cities, long-term success will hinge on aligning economic growth with that of other small cities in their region. In the Capital District of New York—which includes Albany, Schenectady, and Troy—the individual cities have maintained their own identities while building on synergies. They've branded themselves as the Tech Valley and they're working to promote the region's assets, such as strong technology companies, vibrant neighborhoods, and a relatively low cost of living.

Other smaller cities may align with larger legacy cities, the way Akron and Canton have aligned with Cleveland, to compete for national and global employers to relocate there. If the larger legacy city is not a strong economic engine on its own, several smaller cities may be able to collaborate to create a regional identity that helps draw new businesses and residents.

Some states, such as New York and Indiana, have embraced a regional model for economic development in which cities must work together to compete for state grants and incentives. These relatively new programs could help drive smaller legacy cities to focus on competing for jobs and residents alongside their neighbors.

If a smaller legacy city is near a large metropolis that is successfully competing on the global level, it can carve a niche as a logistics hub, staging ground, or bedroom community for a major market. A number of smaller legacy cities on the East Coast serve in these roles, including Bethlehem, Pennsylvania, which repositioned itself as a shipping and logistics hub for the Philadelphia and New York markets after the closure of the Bethlehem Steel plant.

Food trucks build on the legacy of market culture in Lancaster, Pennsylvania, home of the nation's oldest continuously operating farmer's market. Credit: Yarvin Market Journeys/ Alamy Stock Photo

Benefiting from "place luck," Bethlehem, Pennsylvania, remained resilient after the closure of Bethlehem Steel in 1999, in part because of its proximity to Philadelphia and New York City. Credit: Ryan Hulvat

Common Factors in Success

Our research revealed several factors that help determine progress or persistent struggle in small to midsize legacy cities:

LOCATION, LOCATION, LOCATION

The greatest predictor of a city's performance is the region in which it is located: cities in the Northeast consistently fare better than their peers in the Midwest, according to nearly all indicators. Within those regions, cities in certain states also appear to fare better or worse. All the Ohio cities in our study struggled, particularly in the years following the Great Recession; even those cities with very positive trajectories between 2000 and 2009, such as Hamilton, slipped to the bottom of the rankings from 2009 to 2015. Akron and Hamilton were among the top performers in 2000, but by 2015 they had slipped into the moderate-performing group.

The two regions' histories explain a great deal of their relative strengths today. Many of the midwestern cities' economies were based on auto manufacturing, which had been declining for decades as jobs moved offshore or to other parts of the country, hitting its lowest point during the Great Recession. In many northeastern cities, manufacturing had bottomed out many decades earlier. According to the Federal Reserve Bank of Chicago, the two regional economies began to diverge substantially in the 1980s, as the Northeast continued to move away from manufacturing while the Midwest experienced a short-lived renaissance in that sector. The longer transition period may have placed midwestern cities at a disadvantage, as their northeastern counterparts had more time to focus on attracting new kinds of jobs and retraining their workforces to compete in the 21st-century economy. Many midwestern cities also were historically more reliant on manufacturing than their peers on the East Coast, meaning that their economies needed—and may still need—a more fundamental restructuring.

This situation may have some positive aspects. Although many midwestern cities lag behind those in the Northeast, they have the opportunity to learn from the successes and mistakes their peers experienced while remaking their cities for the new economy. Experimentation and innovation are necessary for revitalization, but small and midsize cities in the Midwest can adapt proven strategies from the outset instead of relying on trial and error.

NEARNESS TO LARGER CITIES AND MARKETS

Cities near major East Coast markets have benefited economically and demographically more than cities in the Midwest because the East Coast markets are larger, stronger, and form a critical mass. Camden, New Jersey; and Scranton, Allentown, and Bethlehem, Pennsylvania, have all shown the economic power of positioning themselves as support locations for New York City and Philadelphia. Worcester and Lowell benefit from their proximity to Boston, especially via commuter rail. According to local leaders, 1,300 people commute from Worcester to Boston every day, linking the two cities' economies and talent pools.

Researchers call the economic benefit of location "place luck," noting that cities near strong markets do see some quantifiable economic benefits. However, place luck alone is not enough. Local public policies related to crime, education, and public services are the most important factors in shaping a city's economic health.

HITTING ROCK BOTTOM

Turning around a struggling city is certainly difficult, but some small and midsize legacy cities are doing just that. Interviews with local stakeholders revealed a common theme: Cities had to hit "rock bottom" before they could manage a turnaround.

Stakeholders in Lowell said that the city was too poor in the 1950s and 1960s to undertake traditional urban-renewal programs, which would have demolished parts of the historic downtown and neighborhoods. Eventually, this proved to be a boon for the city. When the empty downtown textile mills were designated a national historic site, the city hoped to revitalize through tourist activity. However, high levels of tourist traffic never materialized, and in the 1980s a major local employer went into bankruptcy. At that point, Lowell slid into very hard times. But in the late 1990s, the city decided to take the risk of acquiring the mills and putting out bids to redevelop them as housing. Years later, Lowell has shaped its renewal around that strategy, turning millions of square feet of vacant industrial space into apartments, artists' studios, and retail stores. Lowell's success in adaptive reuse of historic buildings shows that successful revitalization efforts can take hold, even from the depths of economic distress.

In the late 1990s, the City of Lowell acquired the historic textile mills on the Merrimack River (left, credit: iStock.com/DenisTangneyjr) and began transforming millions of square feet of vacant industrial space into apartments, artists' studios, and venues such as the farmer's market, shops, and The Luna Theater in Mill No. 5 (right, credit: Joel Laino).

In the 1990s, the redevelopment of Armory Square helped revitalize commerce in downtown Syracuse. Credit: Philip Scalia/Alamy Stock Photo

Revitalization Strategies

Revitalization begins with an honest assessment of the city's situation, grounded in data and facts as well as residents' perceptions, positive and negative, about how the city is faring. Using this realistic picture, cities can make decisions grounded in where they are right now and can begin to create a vision for the future.

In our study, interviews with local leaders helped us to identify eight revitalization strategies that small and midsize legacy cities have deployed successfully. Each strategy is built around existing assets and a realistic acknowledgment of limitations. None of these strategies should be seen as a "silver bullet" that can rescue a seriously challenged city. The strategies are paired with examples of best practices to illustrate how legacy cities can develop priorities for revitalization, given their limited resources.

Local leaders helped identify eight revitalization strategies that smaller legacy cities have deployed successfully. Each is built around existing assets and a realistic acknowledgment of limitations. None should be seen as a "silver bullet."

1. Build civic capacity and talent.
Charting a new path requires strong leaders who can envision and work toward change. Small and mid-size legacy cities must focus on retaining local talent while also drawing new leaders from outside to fill critical roles such as city manager, economic development director, and head of a major anchor institution. Efforts should include cultivating a pool of talented younger individuals who can step into leadership roles as they arise. A healthy population of young professionals is one indicator that a city is replenishing its pool of civic leadership.

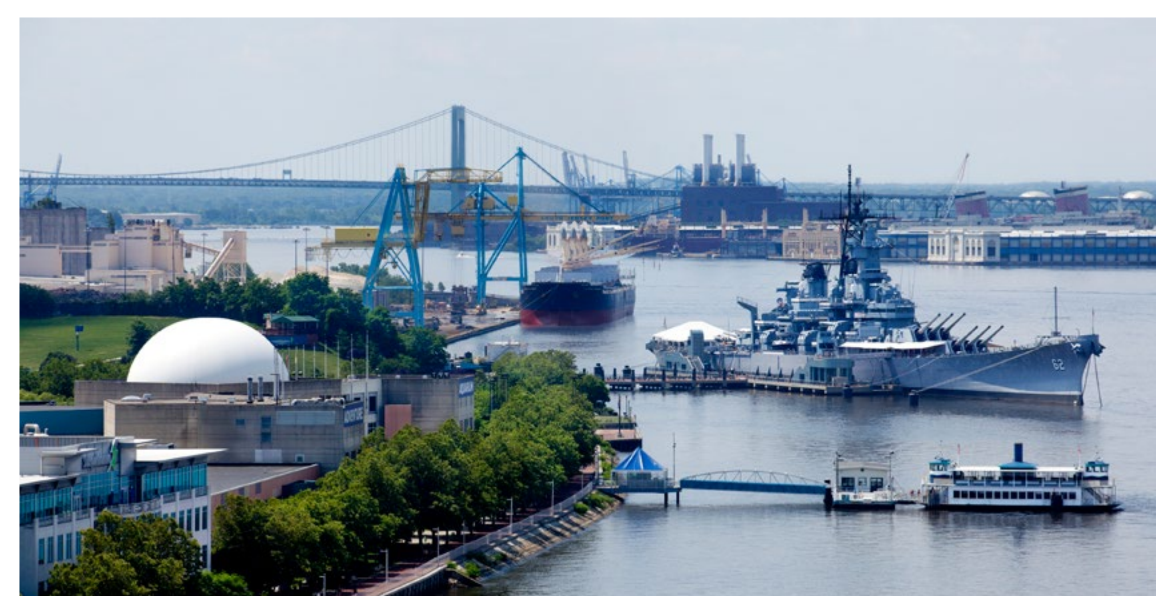
In Hamilton, Ohio, leaders had long treated the city as if it were a walled garden, allowing little collaboration and few external influences to catalyze creativity. As major employers left and the Great Recession took hold, some city-council members decided an infusion of outside energy could help put the city back on track. They recruited a city manager from outside, who focused on building a culture of collaboration within city government, between the private and public sectors, and among regional governments and organizations. Hamilton also focused on attracting talent and supporting leadership development. A 2011 public-sector program, the Russell P. Price Fellowship draws talented recent college graduates to take on management-level projects within the city government. The fellows are provided with housing downtown and encouraged to become part of the fabric of the community professionally and personally. Many have remained in Hamilton after their terms ended, adding to a new generation of local leaders.

2. Encourage a shared public- and private-sector vision.
Local government officials and private-sector leaders must jointly "own" the need for urban revitalization and work collaboratively to find solutions. Research by the Federal Reserve Bank of Boston on resurgent smaller legacy cities found a common denominator: cross-sector leaders who recognized that "it was in their own interest to prevent further deterioration in the local economy" and took responsibility for improvement. Turnaround stories demonstrate that a committed group of local leaders, including elected officials, business leaders, civil servants, grassroots advocates, philanthropic partners, can chart a new direction for the city and work together to advance their vision.

In 1984, the RCA Corporation, Campbell Soup Company, and City of Camden, New Jersey, came together to discuss redeveloping the downtown waterfront land they owned. Together they launched the nonprofit Cooper's Ferry Development Association (CFDA) to create a vision and master plan that would allow for public access to the waterfront and promote revitalization. CFDA attracted and coordinated more than $600 million in private and public investment and established the building blocks for a vibrant mixed-use waterfront community, anchored by family entertainment venues, office buildings, and residential lofts. CFDA then began working with residents to direct private and philanthropic investment in the city's neighborhoods. In 2011, CFDA merged with the Greater Camden Partnership to form the Cooper's Ferry Partnership, the city's lead organization for collaborative efforts in economic development, arts and culture, and the preservation and creation of open space.

3. Expand opportunities for low-income workers.
Revitalization efforts won't succeed if they focus only on higher-income residents. Cities must create greater access to opportunity for all, including lower-income residents who need jobs. Visible poverty and inequality create a negative image that can scare businesses away from the city's urban core, leading to lost tax revenues and a massive drag on city finances to pay the long-term costs of reducing blight.

Syracuse has demonstrated how urban revitalization and poverty reduction can be addressed together. CenterState CEO, a regional chamber of commerce and economic development organization, created the Work Train Collaborative with a "dual client" approach: finding good jobs for low-income workers and training good employees for local businesses. With the help of grassroots efforts, CenterState CEO led a workforce development strategy that tied a redevelopment project near a local hospital to high-paying jobs and skills training. Since that pilot project, the program has expanded from construction into healthcare jobs, added employers, and increased its geographic reach.



With Philadelphia in view across the Delaware River, the waterfront in Camden, New Jersey, is home to Adventure Aquarium, Battleship New Jersey, and the Port of Camden. Credit: iStock.com/Aneese

4. Build on an authentic sense of place.
Placemaking—creating interesting places where people want to spend time—is a proven economic development strategy for many cities. Michigan, which has a number of smaller legacy cities, has embraced placemaking as an economic development tool at the state level. Placemaking should build on existing assets like historic neighborhoods, compact and walkable downtowns, and legacy cultural institutions. Cities should consider which demographic groups might be particularly interested in these assets, such as young people who have moved away but want to return home to start families or take care of aging parents, regional residents attracted to urban living, immigrants looking for inexpensive housing, and rehabbers who can't afford to buy a home in a larger city. Highly skilled workers are likely to first choose where they want to live and then look for a job in that place. Smaller legacy cities can build on their authentic sense of place to attract workers and the jobs that follow them.

When the Bethlehem Steel plant closed in 1999, the city of Bethlehem, Pennsylvania, braced for devastating economic impacts. However, the mill site, which was the largest brownfield in the country, offered developable land along the riverfront. A group of local partners, including Bethlehem Steel, Lehigh University, the City itself, and a local arts nonprofit called ArtsQuest, collaborated to create a new vision for the site. In 2007, the Sands Casino Resort purchased land zoned for a mixed-use entertainment district, remediated the site, and opened a casino and hotel, keeping one of the mill's blast furnaces as a nod to the city's past. ArtsQuest now maintains an arts and cultural campus there, including an outdoor amphitheater. The campus has become a significant regional draw, with one million visitors in the first five years of operation. It also provides a new venue for Musikfest—the nation's largest free music festival, estimated to produce $55 million annually for the region's economy.

With its very low housing costs, Dayton, Ohio, led the nation with the highest percentage of home buyers under 35 years old in 2016. Credit: Ohiostockphotography

Youngstown, Ohio, has used data to pinpoint struggling neighborhoods and then leveraged a variety of financial resources to triage housing in poor condition. Credit: Ohiostockphotography

5. Focus regional efforts on rebuilding a strong downtown.
Numerous studies have found that strong regions are built around strong central cities, and strong cities are built around strong downtowns. One great asset in many small and midsize legacy cities is a historic downtown. Even when they no longer serve as the center of business and commerce, downtowns are the public face of the entire region. New technologies, suburbanization, and car-centric commuting patterns mean that many economic functions will take place outside of the downtown. But downtowns can still be vibrant regional centers as mixed-use residential and entertainment areas.

Muncie, Indiana, chose to focus on attracting young professionals specifically because Ball State University, with more than 20,000 students, is located there; as a result, the city saw significant growth in its young professional population between 2009 and 2015. In other places, a different demographic group, such as empty nesters, may be a better target for residential development; that group, because of higher incomes related to downsizing from homes in the suburbs, can often pay more to live downtown. Regardless of the demographic, building mixed-use downtowns with bars, restaurants, retail, and housing appears to be a winning strategy for many cities.

Akron, Ohio, and its regional partners have worked together to attract businesses to the region. Officials from the city, county, and regional chamber of commerce created a partnership that has drawn foreign businesses to the area. But the city's policies did not encourage businesses to locate downtown or within Akron proper, so suburban office and industrial parks became the default location for many new employers. This made it difficult for transit-dependent workers to take jobs outside the city and increased office vacancy rates in the downtown. While regional economic growth is valuable for the city as a whole, much of the new business growth has occurred at Akron's expense. The downtown organization and other stakeholders have now developed a strategic plan for the city's urban core, and some new political leaders understand the value of focusing economic development activities there. This renewed focus on downtown as a business, residential, and entertainment center is likely to pay long-term dividends for the city.

The strongest smaller legacy city in the Midwest, Grand Rapids, Michigan, revitalized its struggling downtown by gathering representatives from the business, government, and academic communities and using data to create a new vision and plan for the central business district. Credit: iStock.com/DenisTangneyJr.

6. Engage in community and strategic planning. One great advantage of smaller legacy cities is that their scale allows for greater community-wide consensus building about the city's future. But the scarcity of resources means that not all visions can take root. Careful, data-driven planning is still necessary to allocate resources effectively and ensure community support for revitalization strategies.

Grand Action, a coalition of community and civic leaders in Grand Rapids, Michigan, spearheaded the visioning and implementation of much of the city's downtown revitalization. The city planning department made sure that community members were included in discussions about downtown and their neighborhoods. The city creates "neighborhood pattern workbooks" with zoning overlays that capture community needs and desires. Both city staff members and developers appreciate that the process provides a clear sense of neighborhood concerns and reduces the likelihood of facing challenges in the public-approval process.

7. Stabilize distressed neighborhoods. One of the greatest liabilities for smaller legacy cities is neighborhood disinvestment, resulting in the decay of physical structures and a decline in the quality of life. In some cities, the Great Recession caused severe declines, not just in neighborhoods that were already stressed but also in once-stable middle- and working-class areas as foreclosures and vacancies reduced property values and kicked off a cycle of disinvestment. Stabilizing a distressed neighborhood is no small task. Multiple interventions are needed just for housing: critical repairs of occupied homes, rehabilitation of vacant homes, and, in some cases, targeted demolition. Beyond housing, stabilization requires interventions to address the neighborhood's systemic problems.

In Youngstown, Ohio, more than one in ten homes was vacant and likely abandoned when the city and the Raymond J. Wean Foundation created the nonprofit Youngstown Neighborhood Development Corporation (YNDC). The program, which focuses on targeted neighborhoods, pairs

One great advantage of smaller legacy cities is that their scale allows for greater community-wide consensus building about the city's future. But careful, data-driven planning is still necessary to allocate resources effectively and ensure community support for revitalization strategies.

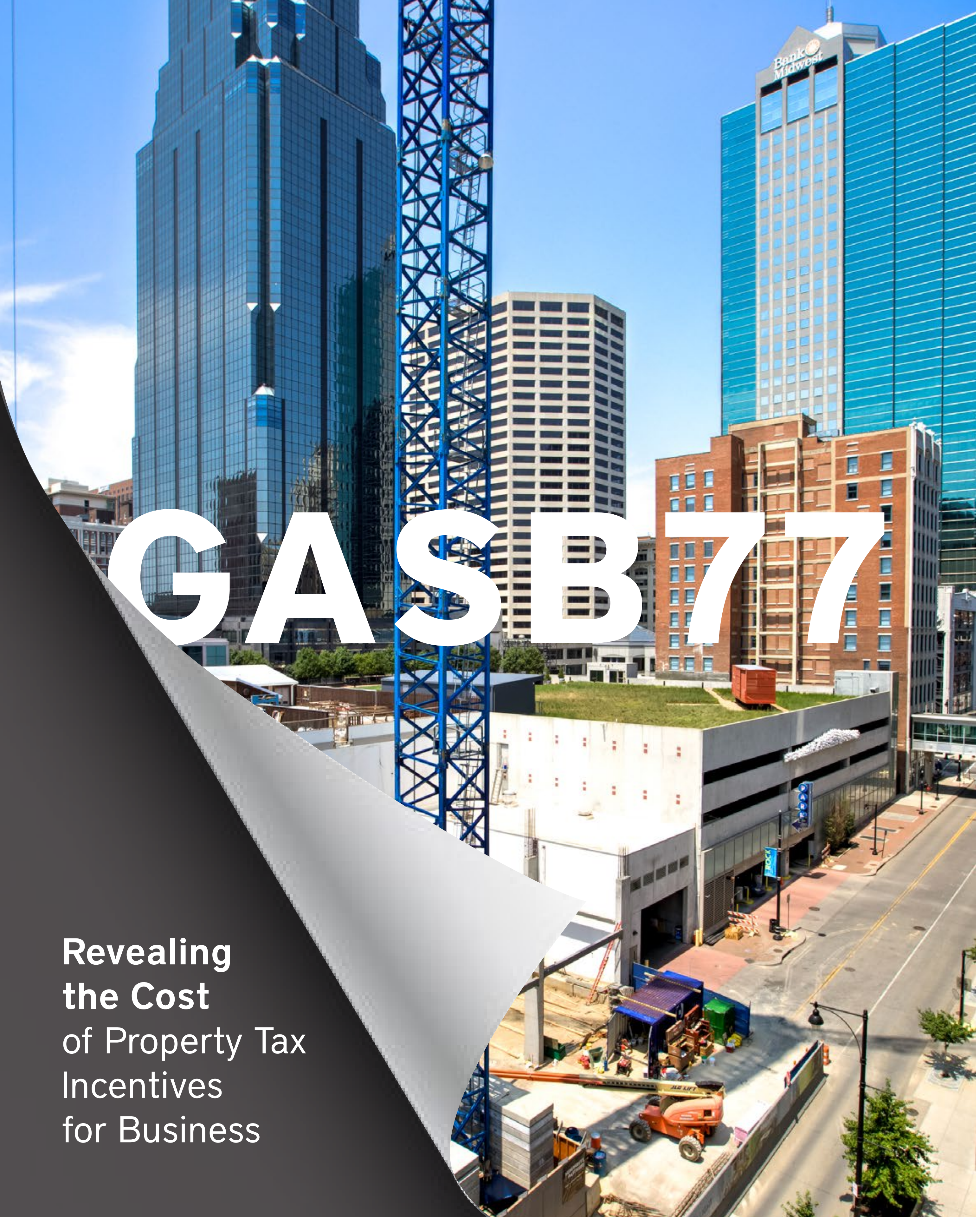
targeted housing rehabilitation and demolition with activities like business development, community organizing, and urban farming. Housing values are extremely low, making market-rate development very difficult without subsidies. YNDC collects extensive data to analyze which neighborhoods might support market-rate development and which will require additional interventions. In some, YNDC uses HOME Investment Partnership or Community Development Block Grant dollars to make repairs on occupied homes. In others, it works with the county land bank to acquire vacant properties for rehabilitation and resale. YNDC has its own construction crew, which lowers costs and allows rehabilitation without subsidy beyond the donation of homes. The for-sale units are very popular and are sold primarily to prequalified buyers on a waiting list. All homes are entered on the Multiple Listing Service, even if they are presold, to build comparable data for future appraisals in the neighborhood. The private market has moved in, furthering revitalization efforts.

8. Strategically leverage state policies. Few successful smaller legacy cities have been able to revitalize without some assistance from their states via direct resources, economic incentives, or capacity-building programs. The Massachusetts Gateway Cities program, for example, provides resources to create communities of choice and attract entrepreneurs to cities with populations between 35,000 and 250,000 that have median incomes and educational attainment levels below the state average. The Clean Ohio Revitalization Fund made grants to municipalities for cleanup and redevelopment of brownfield sites. GOPC found that cities were able to leverage the state's investments into significant financial benefits in annual tax revenues, economic outputs, and job creation. We found that while state policies and funding alone cannot turn cities around, state programs have helped revitalization, and local leaders have used these resources strategically for the most catalytic projects.

Conclusion

Remaking small and midsize legacy cities for the 21st century means accepting and embracing that these places will not look the way they did in the 1950s. Creating stable, vibrant places for the long term requires vision, risk-taking, and patience. Some of the strategies for success require addressing equity challenges while supporting economic expansion. Some stronger cities have already made important strides by building the next generation of leaders across sectors, making investments in training low-skilled workers, or reimagining their downtowns. In the most challenged cities, local leaders will need to work together to determine the best path forward. This process may be painful as it becomes apparent that older ways of doing things and earlier visions of the city are no longer realistic. But, for many cities, this process is the only way to build a strong community and achieve a brighter future.

Torey Hollingsworth is manager of research and policy, and **Alison Goebel** is executive director of Greater Ohio Policy Center (GOPC), a statewide nonprofit organization that champions revitalization and sustainable growth in Ohio through research, advocacy, and education.



GASB 77

Revealing the Cost of Property Tax Incentives for Business

By Andrew Wagaman

In metropolitan Kansas City, the use of property tax incentives for businesses has led to corrosive competition among local governments within the region. Credit: peeterv

GOOD-GOVERNMENT ADVOCATES ACROSS THE IDEOLOGICAL SPECTRUM ARE HOPING A NEW ACCOUNTING RULE WILL SHED LIGHT on the costs of property tax incentives for business, following years of public skepticism about the purported economic benefits of these tax breaks. Known as "GASB 77," the Government Accounting Standards Board Statement No. 77 requires an estimated 50,000 state and local governments to report the total amount of tax revenue forgone each year because of incentives intended to attract or retain businesses within their borders.

Local governments have begun adhering to GASB 77 for the first time in their FY16 comprehensive annual financial reports (CAFRs), released in 2017. The disclosures will offer a vast new collection of data to elected officials, policy makers, researchers, and journalists looking to analyze the costs of business tax incentives and enable more accurate assessment of fiscal health in reporting jurisdictions.

Total business tax incentives have tripled since 1990, according to a report released in February by the W. E. Upjohn Institute for Employment Research (Bartik 2017). Author Timothy Bartik found that state and local governments spent $45 billion on total business tax incentives in 2015, including $12 billion a year on property tax abatements alone.

While many public officials offer business tax incentives for commendable reasons, critics claim these deals can conjure a brief illusion of prosperity but fail to offset the toll taken on fiscal health, both short- and long-term. Attracting new businesses to a jurisdiction can increase income or employment opportunities, expand the tax base, and revitalize distressed urban areas (Kenyon, Langley, and Paquin 2012). But opponents point to a growing body of research suggesting that incentives erode tax bases while spawning additional roads, sewers, and public services that governments must maintain and finance for the foreseeable future (Wassmer 2009, Marohn 2011).

State and local governments spent $45 billion on total business tax incentives in 2015, including $12 billion a year on property tax abatements alone.

"Right now, the story about incentives is largely focused on the potential benefits of bringing in business, without much attention to the tradeoffs," said Adam Langley, senior research analyst for the Department of Valuation and Taxation at the Lincoln Institute of Land Policy. "Disclosure has definitely increased in the past decade, but in a lot of places there's still so little public information about the tax revenue lost because of incentives."

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) REPORTING REQUIREMENTS

All 50 state governments prepare their annual financial statements according to GASB's Generally Accepted Accounting Principles, and about 70 percent of local governments comply, though not all are required. GASB is not a government entity like the Internal Revenue Service and its principles are not legislation, but the benefits are obvious enough to inspire broad compliance. The uniform disclosure of governments' financial information enables easy fiscal comparisons among states and public agencies, and it can inspire public confidence that a given government is conducting business with transparency and accountability. This confidence helps build and sustain healthy credit ratings, which allow governments to borrow cheaply.

Before GASB 77, the amount of financial information that local governments provided on tax incentives varied by state, depending on state-specific tax expenditure reporting policies, but most did not require local governments to report lost revenue tied to property tax incentives.

Since GASB issued Statement 77 in December 2015, governments must report the total amount of estimated revenue forgone because of tax incentives, estimated revenue losses tied to another government body's abatements, and job creation targets or other commitments made by subsidy recipients as part of the tax break deals. Governments also must explain their power to recapture forgone taxes. For example, some abatement deals include "claw-back" provisions, in case companies don't meet commitments.

GASB defines a tax abatement as "an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens."

GASB 77 does not require governments to name the companies that received tax breaks or quantify the number of tax breaks given. This makes it difficult to determine the average cost of deals or whether these agreements are becoming more or less common, notes Greg LeRoy, executive director of Good Jobs First. Crucially, GASB 77 also does not require disclosure of tax revenue lost in future years—a departure from other recent GASB disclosure requirements related to future pensions obligations.

It's likely that more than 50,000 local governments will eventually disclose tax incentive numbers because of GASB 77, but many have not reported yet. LeRoy said, "The data will start trickling this April, flow strongly by June, and reach fire-hose proportions by November and December of 2017" (LeRoy 2017).

Langley cautioned that it's premature to predict the impact of GASB 77. Reporting in the first year is likely to include errors and incomplete compliance, and GASB 77 will not cover all forms of tax increment financing (TIF), he said.

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What's at Stake

Before GASB 77 took effect in December 2015, public officials could return repeatedly to the tax incentive "cookie jar" under the radar of taxpayers, and sometimes at their expense. Tax breaks for economic development are easily the costliest job subsidies, according to the national policy resource center Good Jobs First, which tracks incentive deals and has strongly advocated for more transparency (GJF 2015b).

Businesses paid about $258 billion in property taxes nationwide in 2015, the largest share (36.5 percent) of total state and local business taxes, and more than half (53 percent) of all property tax revenue, according to the Council on State Taxation (COST 2016). Local governments are particularly reliant on property taxes, which made up 30 percent of all local revenue in 2014, according to the Lincoln Institute (Reschovsky 2014). In many places, the property tax is the primary source of funding for public education, road and sewer maintenance, and emergency services. It's generally less susceptible to economic downturns than sales and income tax revenue, and it's more progressive than the sales tax (Reschovsky 2014).

"GASB 77 will start a conversation about the real costs of these commercial tax abatements," said R. Crosby Kemper III, executive director of the Kansas City Public Library. A former banker and frequent critic of corporate subsidies, Kemper said, "I think the numbers are going to scare the hell out of citizens, which is precisely why we haven't seen them to this point."

Ellen Harpel, founder of economic development consulting firm Smart Incentives, believes targeted subsidies can provide an economic stimulus and morale boost that compensate for the lost tax revenue. When deals go wrong, Harpel said, it's often because communities lack coherent economic objectives or fail to communicate them—not because tax incentives are inherently flawed. She views GASB 77 as an opportunity to educate taxpayers on how responsible tax deals are just one way economic development groups help communities achieve their goals (Harpel 2016).

In a best-case scenario, attracting a large facility can increase worker productivity and draw related firms to the area, creating a positive feedback loop (Kenyon, Langley, and Paquin 2012). Ideally, targeted incentives lure businesses that in turn lure other companies, creating "agglomeration economies" with valuable spillover effects for the whole community. One high-tech industry job can create up to five more local jobs, according to a 2010 study by economist Enrico Moretti (Moretti 2010). This is an example of the multiplier effect—the idea that new jobs created at a firm receiving incentives will support additional jobs in the local economy because of increased purchasing from local suppliers and higher spending on local goods and services.

The greatest challenge for public officials, however, is figuring out whether a business is actually deciding between two or more locations or looking for a cherry on top of a done deal. Kenyon and Langley have found tax breaks are much more likely to affect a firm's location decision within a metropolitan area—not between metropolitan areas. Studies by the Upjohn Institute have found that businesses sometimes negotiate for tax incentives after they have already made up their minds (Fisher 2007). Some governments require businesses to promise in writing that they would locate elsewhere if it weren't for the tax break. Ultimately, though, officials have no surefire way to peer into this black box. And calling a business on its bluff can signal that a community isn't "business friendly"; economic development officials believe this message can set a community back if similar or nearby metropolitan areas continue offering tax incentives.

Plenty of research indicates that incentive deals often pit two or more communities with a shared labor market against each other, rather than targeting communities in different regions. That means a corporation's final location decision would have little effect on where its employees choose to live and socialize, nor would it create many, if any, additional jobs for the larger commutable region. In this case, abated property taxes divert dollars away from public services without actually spurring economic activity.

In Kansas City, Missouri, eight times as many TIF deals were approved in low-poverty areas such as Country Club Plaza (left) than in areas with poverty rates above 30 percent such as East Kansas City (right). Credit: Eric Bowers

KANSAS CITY, MISSOURI

Business tax incentives gave rise to such corrosive competition within the Kansas City metropolitan area, which straddles the Missouri-Kansas border. Business executives were pitting local governments within the region against one another by threatening to relocate to the municipality that offered the sweeter deal. A particularly extreme economic development war between political jurisdictions on each side of the border got so bad in recent years that 17 business leaders wrote to the two states' governors in 2011 and begged them to end the rivalry.

"The states are being pitted against each other and the only real winner is the business that is 'incentive shopping' to reduce costs," the letter read. "The losers are the taxpayers who must provide services to those who are not paying for them."

Don J. Hall, Jr., president and CEO of Hallmark Cards, has been a particularly vocal advocate for reform, to little avail. The Hall Family Foundation has calculated that, as of this spring, Wyandotte and Johnson counties in Kansas have sacrificed a combined $161 million in taxes to spur businesses to relocate 6,003 jobs from Jackson County over the state line in Missouri. Meanwhile, Jackson County has spent $114 million to poach 4,474 jobs from Wyandotte and Johnson counties in Kansas.

None of the combined $275 million was spent creating truly "new" jobs for the larger metropolitan area, notes Angela Smart, vice president of the foundation. "It's corporate welfare in many respects, at the expense of eroding tax bases," she adds.

Kansas City also suffers from a lack of transparency related to Tax Increment Financing (TIF). With TIF, growth in property taxes or other revenues in a designated geographic area is earmarked to support economic development in that area, usually to fund infrastructure improvements. Unlike property tax abatements, TIF does not lower taxes on business, but earmarking property tax revenue is an option in all TIF programs (Kenyon, Langley, and Paquin 2012). Economic development officials in Kansas City did not respond to requests for comment.

Cities promote TIF districts as an effective tool for combating blight and encouraging redevelopment in impoverished areas (Rathbone and Tuohey 2014). But in Kansas City, eight times as many TIF deals were approved in low-poverty areas than in areas with poverty rates above 30 percent (Rathbone and Tuohey 2014), according to the Show-Me Institute, a think tank founded by Kemper.

Development proposals made to TIF commissions around Missouri must include a blight analysis and explain whether a given area would go undeveloped if it weren't for the tax subsidy. But developer-hired consultants typically conduct these analyses; researchers in 2014 could not identify a single time such a consultant reached a conclusion that was unfavorable to the developer (Rathbone and Tuohey 2014). "We've created a fundamental right to real estate tax relief for developers and corporations in Kansas City," said Kemper.

Michigan researchers Laura Reese and Gary Sands have found that tax incentives can actually perpetuate inequality between high- and low-income areas, because incentives go further in areas with higher income. The suburbs award tax breaks at a higher rate per capita than cities, promoting sprawl and making it harder for lower-income people living downtown to access the "new" jobs (Sands and Reese 2012). In Greater Cleveland, 80 percent of deals that followed the creation of community reinvestment programs involved businesses moving out of the city into Cuyahoga County suburbs, Good Jobs First found.

"I think GASB 77 will awaken some of the social justice warriors, because the inequality argument definitely has resonance," said Kemper, who believes the annual dollar value of tax abatements and other government incentives in Kansas City could eventually hit $150 million.

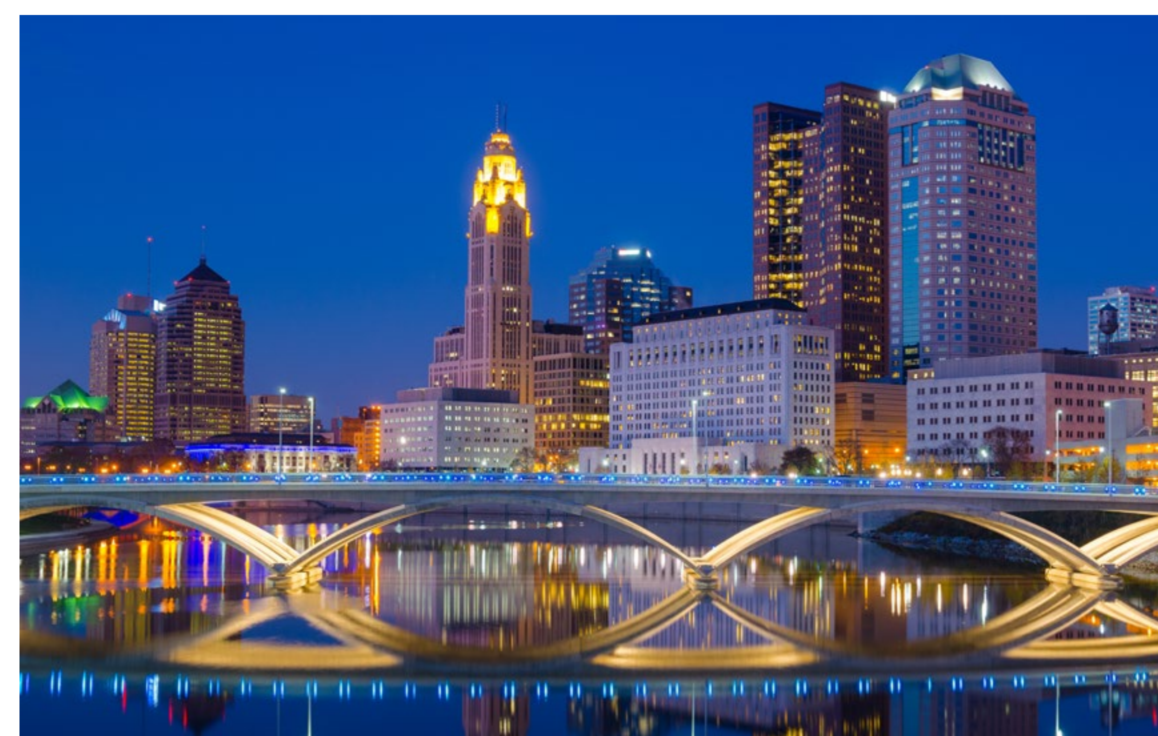
"This is money that's being taken away from social services—from the most socioeconomically deprived folks in the community—to subsidize the most profitable people and corporations in the community. How could that possibly be fair?"

FRANKLIN COUNTY, OHIO

Officials in Franklin County, Ohio, have also made plentiful use of property tax abatements and TIF, but officials there are seeing the benefits of greater transparency. The total amount of property value in an abatement or TIF zone increased from about $1.4 billion in 1999 to about $6.7 billion in 2014, according to the *Columbus Dispatch* (Bush 2014). This escalation occurred, Franklin County Auditor Clarence Mingo notes, with "very little public awareness about the consequences."

"I was alarmed," Mingo said in April, "by the fact that governments keep awarding abatements with no data on hand to measure the impact on the community."

In 2016, Mingo commissioned the Lincoln Institute to conduct an evaluation of property tax abatements. The conclusions of the analysis, released in March 2017, suggested abatements have actually had a modest positive impact in Franklin County. The study revealed that a one-percentage-point increase in the share of total property value that is abated in a given school district is correlated with slightly lower property tax rates and marginally higher property values (Kenyon, Langley, Paquin, and Wassmer 2017).



Columbus, Ohio, was the second large municipality after New York City to release its annual financial report with disclosures required by GASB 77. Credit: iStock.com/Davel5957

But Lincoln researchers, including Kenyon and Langley, criticized the lack of reliable information about property tax abatements that Franklin County taxpayers have at their disposal. The issue isn't the quantity of combined data released by local governments, the county, and Ohio state agencies; it's the quality, especially when it comes to calculating forgone revenue.

For example, seven cities in the county provide basic information on incentive programs, such as eligibility criteria and benefits, but none report the cost of abatement programs. Others participate in Ohio's Online Checkbook, a transparency initiative where governments can report every expenditure and check issued. But it doesn't include property tax abatements or any other tax expenditures. The State of Ohio publishes a tax expenditure report, but it does not include property tax abatements.

Mingo would like to see tax incentives evaluated every few years. He hopes Franklin County can partner with surrounding counties in central Ohio to create a regional version of the Congressional Budget Office.

"Municipalities would do well to hire an independent authority to provide a cost-benefit analysis before awarding an abatement," he said. "That is a worthy spend on behalf of taxpayers."

The City of Columbus, Franklin's county seat, has offered a preview of the GASB 77 debates to come. In April 2017, Columbus became the second large municipality after New York City to release its annual financial report with disclosures required by GASB 77. The report revealed that 2016 tax abatements cost Columbus $1.9 million in forgone tax revenue (City of Columbus, 2017). But this figure did not include the nearly $31 million that was redirected last year to the city's TIF districts.

City Auditor Hugh Dorrian said, "Governments, ours included, should disclose these various incentives. The more open governments are, the better they function. That's why I'm very supportive of the principle behind GASB 77, even if there is disagreement over how to interpret it."

Good Jobs First Executive Director Greg LeRoy noted that Dorrian, Columbus's auditor since 1969, had a stellar reputation for disclosing costs of tax subsidies long before GASB ever intervened. But in a written statement released last April, Good Jobs First chided the city for not counting the TIF payments and tax rebates as abatements in its 2016 CAFR.

"Columbus is the state capital and Ohio's largest city," LeRoy wrote. "If it sets a flawed example, other jurisdictions might avoid disclosure of tax abatements and undermine this landmark transparency reform" (GJF 2017).

With little public awareness of the consequences, officials in Franklin County, Ohio, made plentiful use of property tax abatements for business, but officials there are now seeing the benefits of greater transparency. Credit: iStock.com/aceshot

Metro Denver's Economic Development Corporation includes more than 70 governments, economic development organizations, and industry groups committed to a Code of Ethics that encourages regional cooperation regarding property tax incentives for business. Credit: iStock.com/nick1803

REGIONAL COOPERATION AND TRANSPARENCY IN DENVER, COLORADO

Economic development officials in Denver have been devoted to transparency since the 1980s, and their experience suggests that GASB 77 may help public officials regain control over counterproductive business tax incentives by institutionalizing respect and trust on a regional level.

The guiding principle of Metro Denver's Economic Development Corporation (MDEDC) is "more information is better than less." Members are kept in the loop about economic development activity without compromising the confidentiality of business clients. The tradition dates to the oil collapse of 1986, which triggered an economic development fracas that had businesses essentially moving back and forth across the street, said Laura Brandt, economic development director for the MDEDC.

That experience drove a small group of local officials to decide that communities would work together under a common entity—what would eventually become the MDEDC—to promote the entire region first and individual communities second.

Members sign a Code of Ethics that has hardly been revised since the late 1980s. It's a legally nonbinding document that acknowledges its own limitations. The preamble includes this sentence: "We fully realize that no Code of Ethics is of value without an inherent level of trust in the integrity of one another and a commitment from each of us to conduct ourselves at the highest levels of professional conduct" (MDEDC 2004).

Believe it or not, the Code of Ethics has worked. The MDEDC today includes more than 70 governments, economic development organizations, and industry groups. "People call all the time and ask, 'How did you do this?'" Brandt said. "It wasn't easy at first. But now it's become a habit."

Members who sign the code promise to notify another member community if a company located in the latter expresses an interest in relocating. Per the code, "Violation of this commitment shall be viewed as the single most serious breach of our membership pledge." Breaking the code warrants a sit-down intervention of sorts with an MDEDC committee.

Companies interested in the Denver area are directed straight to the MDEDC, which then provides all member communities information about the type of property the company is looking for without revealing the company. The MDEDC introduces business decision makers to local officials only after it has narrowed potential sites to less than a handful.

"The model relies upon trust," Leigh McIlvaine wrote in a 2014 Good Jobs First report. "Its members believe that the system will serve their communities fairly and feel confident that investments in neighboring communities will benefit their own as well" (McIlvaine and LeRoy 2014).

Taxpayers in Denver have benefited for decades from the metropolitan region's commitment to transparency regarding property tax incentives for business. Credit: Peeter Viisimaa

Improving Tax Incentive Programs

Besides promoting greater transparency and more regional cooperation, communities can improve tax incentive programs by taking a few clear steps, experts say.

Limit the length of the tax abatement. Property tax deals tend to span more than 15 years, according to Bartik—considerably longer than other types of government-sponsored incentives. The longer the abatement deal, the less likely the government involved will ever collect full taxes on the property at hand. Plus, business executives are generally focused on a relatively short time frame—think stock prices and company revenue targets—and discount the future when making business location and expansion decisions, Bartik said. One dollar's worth of tax incentives provided 10 years from now is worth an estimated 32 cents to businesses today (Bartik 2017). A few extra years of a tax deal, in other words, makes little difference to a participating business while costing the local government.

Structure abatement deals so that the percentage abated decreases as the deal unfolds. Kenyon said this can help businesses avoid sticker shock when the deal runs out, driving them to negotiate with another municipality across town for a whole new deal.

Establish wage and employment targets in abatement deals as well as claw-back provisions if businesses fall short of such targets. Public officials could require incentive recipients to offer a certain percentage of full-time jobs or wages greater than or equal to the region's average wage, as a precondition for the agreement. Or deals can stipulate that local residents are hired for at least a portion of the jobs. Deals should include claw-back provisions or penalties in case firms do not meet those targets.

In a 2009 Lincoln Institute report, Robert Wassmer offered four questions for public officials to consider when deciding whether or not to grant a tax abatement to a business (Wassmer 2009):

- Will the business actually relocate its operations if its tax abatement request is denied?
- Will the tax incentive make the business more profitable in your town than in other towns that are also offering similar subsidies?
- Will the firm still be responsible for taxes or fees that exceed the cost of providing new public services, once the tax deal is in place, so that government funds aren't depleted?
- If not, is the fiscal stress generated by the tax deal worth the benefits of jobs generation, potential neighborhood revitalization, and shot at additional businesses as a result of the multiplier effect?

GASB isn't the first effort to improve transparency around tax incentives, nor does it offer a final answer to the question of whether they build or destroy value in places. But it does help communities with tax abatement programs answer these questions with more than gut instincts or wishful thinking.

Will additional exposure sway public opinion enough to spur meaningful reform? Or are local leaders and taxpayers hooked on the promise of incentives? Time will tell.

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THE FUTURE OF U.S. PUBLIC SCHOOL REVENUE FROM THE PROPERTY TAX

By Andrew Reschovsky, Research Fellow, Lincoln Institute of Land Policy and Professor Emeritus, University of Wisconsin-Madison

The property tax is a critical funding source for elementary and secondary schools in the United States. Figure 1 shows that local property taxes provided more than a third of all money used to finance public education in 2013–14, the latest school year for which we have data.[1] Reliance on the property tax varied tremendously across states, but in Illinois it was as high as 58 percent of total school revenues.

Nevertheless, the property tax is perpetually under attack, and several states have recently tried to reduce or even eliminate it as a source of school funding. In Pennsylvania, legislation to eliminate the school property tax failed to pass by a single vote in the state Senate in 2016.[2] Supporters have reintroduced the bill and claim increased support following the 2016 U.S. presidential election. A proposed constitutional amendment to eliminate the local property tax in North Dakota was defeated by voters in 2012. In 2008, the legislature in Georgia considered, but ultimately rejected, a proposal to eliminate the property tax.

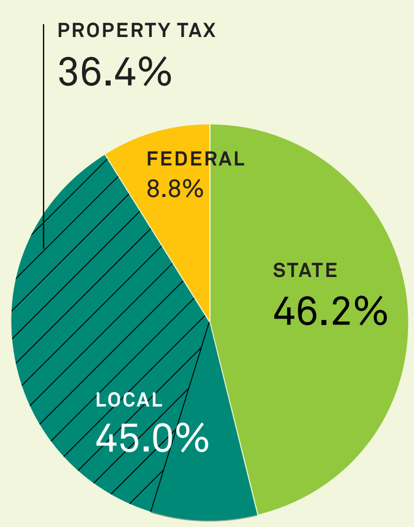
Despite attempts by state legislatures to reduce the role of the property tax in the funding of public education, since 1980 school property tax revenues have continued to grow at about the same rate as all other sources of public school revenue. As a result, the share of public school funding coming from the local property tax has remained remarkably stable. With the exception of two years, the local property tax share has fluctuated between 33 and 37 percent.

The property tax is a critical funding source for elementary and secondary schools in the United States. Nevertheless, it is perpetually under attack, and several states have recently tried to reduce or even eliminate it as a source of school funding.

Figure 1

Source of U.S. Public Education Revenue by Level of Government, 2013-14

Local governments provided 45 percent of public school funding in 2013–14, and more than 80 percent came from the property tax. The federal government provided less than 9 percent of the total revenue of public schools, and state governments contributed 46 percent.



Why Is Property Tax the Most Stable School Funding Source?

In the average state, local property taxes contributed 33.9 percent of total public school revenue in 2006–07. This percentage grew to 36.4 in 2013–14. During this period, the property tax grew in importance as a source of school revenues in 36 states (plus the District of Columbia). Both during and immediately after the Great Recession, state government tax revenues from the individual and corporate income taxes and from the sales tax all fell sharply. Figure 2 shows the annual percentage changes in revenues from these three taxes for the years between 2007 and 2014 and compares these variations to the changes in revenue from school property taxes. Property tax revenue increased every year, and the annual percentage changes remained modest compared with fluctuations in the three state taxes.

Federal and State Aid

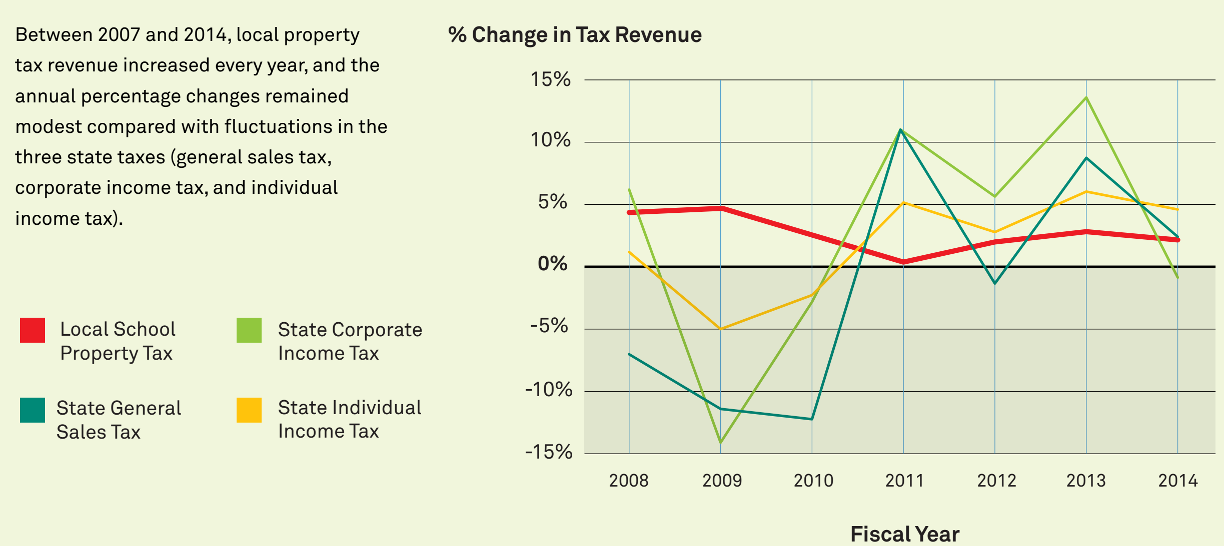
The share of total revenue from the property tax grew between 2007 and 2014 in part because of cuts to federal and state aid for education. Congress has reduced spending on public education since 2010, besides a large infusion of federal stimulus dollars for local school districts during and immediately after the Great Recession of 2007–2009. Between 2010 and 2016, the two primary sources of federal aid—Title 1 for high-poverty schools and special education aid—were cut by 8.3 and 6.4 percent respectively, after adjusting for inflation.[3]

In 31 states, 2013–14 state education aid per student was lower than in 2007–08 after adjusting for inflation, according to a survey conducted by the Center on Budget and Policy Priorities.[4] These state aid reductions averaged 9.6 percent. Initially cuts in state aid resulted from state legislative responses to sharp reductions in state tax revenue resulting from the Great Recession. More recently, state aid cuts resulted when legislators and governors in some states decided to cut state income taxes.

Figure 2

Annual Percentage Change in U.S. Tax Revenue

Between 2007 and 2014, local property tax revenue increased every year, and the annual percentage changes remained modest compared with fluctuations in the three state taxes (general sales tax, corporate income tax, and individual income tax).



Local User Fees and State Income, Sales, and Business Taxes

Given reductions in federal and state aid, the only way for local school districts to reduce their reliance on the property tax is to adopt new sources of local government revenues. Recent research has demonstrated that school districts around the country have failed to utilize user fees and other forms of non-tax revenues as a means of substituting for property tax revenue.[5] While significantly more nonprofit organizations are providing financial support to schools, the revenues they raise remain very low on a per-pupil basis.[6]

Federal aid to education is likely to continue declining over the next decade. President Trump's fiscal year 2018 budget proposals and the House budget resolution call for very large cuts in non-defense discretionary spending over the next decade. Given that nearly all federal spending on education comes from discretionary programs, it is highly likely that federal grants for public education will continue to be reduced.

Another alternative to the property tax is for state governments to take over much of the financing of public schools. In most states, state funding of public education would require large, and politically unpopular, increases in state income, sales, and business taxes. Also, state funding would dramatically reduce local control of education. Local citizens, through their school boards, or via school finance referenda, would no longer have the power to increase property taxes as a means of paying for new courses, smaller class sizes, or other educational initiatives.

The Future of Public School Funding

Maintaining support for public schools will depend on public acceptance of the property tax as a fair and efficient means of financing education.

Federal aid to education is likely to continue declining over the next decade. Both President Trump's fiscal year 2018 budget proposals and the House budget resolution call for very large cuts in non-defense discretionary spending over the next decade. Given that nearly all federal spending on education comes from discretionary programs, it is highly likely that federal grants for public education will continue to be reduced.

Predicting future trends in state education aid is more difficult. While public education is a legislative priority in most states, state governments continue to face competing demands from rising unfunded pension liabilities, unmet infrastructure needs, and rising health care costs for both public employees and for the needy. If Congress enacts proposals to restructure the Medicaid program as a means of reducing federal Medicaid spending, states will face great pressure to increase their healthcare expenditures.

If funding from the federal government and/or state government fails to keep up with rising costs, local school districts will face the difficult decision of cutting spending or raising local taxes, which in most places means increasing property taxes. In some states, state-imposed property tax limitations prohibit property tax increases; in other states, tax increases above the limits require voter approval, sometimes with super-majorities.

Where property tax increases are allowed, local school boards' decisions about whether to increase property taxes will have to weigh the educational needs of their students against taxpayers' opposition to increases in property taxes.

Policies to Improve the Property Tax

One way to increase acceptance of the property tax as a source of public school funding is to improve it by addressing criticisms from taxpayers.

One frequent complaint is that using the property tax to fund public schools is unfair because property-wealthy school districts can raise much more money than other districts while using the same tax rate.[7] As a result, property-wealthy school districts will be able to spend much more per pupil than property-poor districts. Another complaint is that some taxpayers, especially the elderly, face high property tax bills relative to their incomes, creating substantial hardships. Other criticisms include tax bills that vary dramatically for similar houses in the same jurisdiction, the daunting size of annual or twice-annual tax payments, and big year-to-year changes in some home owners' tax bills.

To address these perceived problems with the property tax, some states have adopted the policy proposals listed below.[8]

ALLOCATE STATE AID USING FORMULAS THAT ACCOUNT FOR DIFFERENCES IN PROPERTY WEALTH AND COSTS

States can reform their state aid system by increasing the share of school funding that comes from the state, and by ensuring that school districts with lower property values per pupil and/or higher costs of education receive the largest amount of per-pupil state aid.

PROVIDE CIRCUIT BREAKERS

States can provide circuit breakers, which are a form of tax credit designed to reduce high property tax burdens on those with modest incomes.[9]

ALLOW TAX DEFERRAL

Allow taxpayers who face high property tax burdens or rapid rate increases to defer payment, by effectively lending them money to pay their taxes.

ALLOW MONTHLY OR QUARTERLY PAYMENTS

To ease the pressure on taxpayers to pay property taxes in one or two large payments, establish installment plans that allow smaller, but more frequent payments.

REASSESS FREQUENTLY

To ensure that neighbors with similar houses pay the same amount of property tax, municipalities should frequently assess properties to reflect changes in housing values.[10]

SHOW TAXPAYERS HOW FUNDS ARE USED

To increase the willingness of taxpayers to pay higher property taxes in support of public education, local government officials should do more to inform citizens about how their property taxes are being used. For example, local officials might indicate that a three percent increase in property taxes will pay for five new elementary school teachers and a new high school course on economics.

NOTES

1 National Center for Education Statistics, *National Public Education Financial Survey Data, 2013–14*, v. 1a, https://nces.ed.gov/ccd/stfis.asp. The calculated share of total revenue from the property tax does not include property tax raised directly by state governments.

2 See Denise Marie Ordway, "Drastic Measure: The Bill That Would Eliminate School Property Tax in Pennsylvania," *Land Lines*, April 2016.

3 Michael Leachman, Kathleen Masterson, and Marlana Wallace, "After Nearly a Decade, School Investments Still Way Down in Some States," Washington, DC: Center on Budget and Policy Priorities, October 2016.

4 Michael Leachman, Nick Albaers, Kathleen Masterson, and Marlana Wallace, "Most States Have Cut School Funding, and Some Continue Cutting," Washington, DC: Center on Budget and Policy Priorities, January 2016. Data were unavailable in five states.

5 Thomas A. Downes and Kieran M. Killeen, "So Slow to Change: The Limited Growth of User Fees in Public Education Finance, 1991–2010," *Education Finance and Policy*, Fall 2014.

6 Ashlyn Aiko Nelson and Beth Gazley, "The Rise of School-Supporting Nonprofits," *Education Finance and Policy*, Fall 2014.

7 Reliance on local sales or income taxes to fund schools would also lead to large spatial inequities in funding.

8 For detailed descriptions of each state's property tax system, see the Lincoln Institute's "State-by-State Property Tax at a Glance Narratives" at http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/state-by-state-property-tax-at-a-glance.

9 John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany Paquin, *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers*, Policy Focus Report, Cambridge, MA: Lincoln Institute of Land Policy, May 2009.

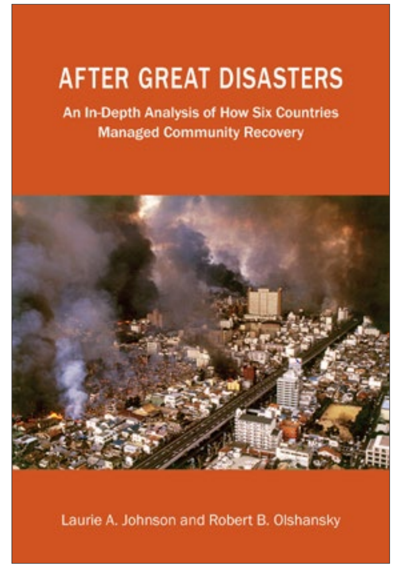
10 In some states, such as California, state law limits annual assessment increases and allows assessed values to reflect true market value only when a property is sold.

NEW LINCOLN INSTITUTE BOOK

After Great Disasters: An In-Depth Analysis of How Six Countries Managed Community Recovery

By Laurie A. Johnson and Robert B. Olshansky

We now have enough examples to develop effective models for the process of rebuilding human settlements after disasters.



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IN THE FACE OF EARTHQUAKES, TSUNAMIS, HURRICANES, AND THE EXTREME WEATHER IMPACTS OF CLIMATE CHANGE, communities need to plan ahead for their disaster recovery to ensure that they rebound and emerge stronger than before, according to a groundbreaking new book of in-depth case studies from six countries across three continents. *After Great Disasters: An In-Depth Analysis of How Six Countries Managed Community Recovery*, by Laurie A. Johnson and Robert B. Olshansky, synthesizes the authors' 25 years of collaborative experience as recovery planners onsite of major disasters ranging from the 1995 earthquake in Kobe to Hurricane Sandy in 2012. They recommend best practices for urban officials and policy makers based on firsthand research on the roles of various levels of government in successful disaster recovery and rebuilding in the United States, Japan, China, New Zealand, Indonesia, India, and several other countries around the world. The authors collected hundreds of documents and interviewed government officials, academic researchers, representatives of international aid organizations, community leaders, and disaster survivors, with the aim of finding common lessons in these disparate environments and facilitating the recovery of communities struck by future disasters.

The book expands on the research presented in the 2016 Policy Focus Report *After Great Disasters: How Six Countries Managed Community Recovery*, also by Johnson and Olshansky, published by the Lincoln Institute. This longer publication shows how metropolitan regions can rebuild for greater resilience during the reconstruction process after earthquakes, tsunamis, hurricanes, or terrorist attacks. "The level of detail in the book is invaluable for disaster recovery workers on the ground, compared to the concise recommendations in the earlier report, geared to readers at the executive level," said Olshansky, head of the Department of Urban and Regional Planning at the University of Illinois at Urbana-Champlain. Johnson is an urban planning researcher and consultant, and chairs the U.S. National Advisory Committee for Earthquake Hazards Reduction.

As Johnson notes, "Disasters can change the fortunes of a city or region forever." Chicago and San Francisco became more successful after fire and earthquake ravaged them, respectively. Tokyo successfully survived devastating fires caused by earthquake and war. But the city center of Managua, Nicaragua, never recovered from a 1972 earthquake, and Galveston, Texas, lost its status as a booming metropolis after its destruction by a great hurricane in 1900.

The management of recovery matters because disasters extend over time. They disrupt lives and businesses as people await assistance, infrastructure repair, and the return of their neighbors. Physical recovery from disasters takes many years, and the psychological scars can last for decades. Many people survive the initial disaster but then suffer from the recovery as the economy stagnates, social networks weaken, and health-care and support services decline. The process of recovery is a major aspect of a disaster, and its management can affect both the intensity and the duration of citizens' disaster experiences. Post-disaster reconstruction offers a variety of opportunities to fix longstanding problems by improving construction and design standards and quality, renewing infrastructure, creating new land use arrangements, avoiding hazardous locations, reinventing economies, improving governance, and raising community awareness and preparedness.

In the past 40 years, a number of serious international disasters have required large-scale, sustained intervention by multiple levels of government and nongovernmental organizations. Their activities and actions have increased knowledge of long-term post-disaster reconstruction. We now have enough examples to develop effective models for the process of rebuilding human settlements after disasters.

The 2008 earthquake in the Sichuan province of China caused severe damage to numerous cities throughout a wide region, including most of the industrial town of Hanwang, Mianzhu City. Credit: R. Olshansky (2011).

ABOUT THE AUTHORS

Laurie A. Johnson, Ph.D., AICP, is an internationally recognized urban planner specializing in disaster recovery and catastrophe risk management. In 2006, she was a lead author of the recovery plan for the city of New Orleans after Hurricane Katrina; she then coauthored the book *Clear as Mud: Planning for the Rebuilding of New Orleans* with Robert Olshansky. She is also a visiting project scientist at the Pacific Earthquake Engineering Center at the University of California, Berkeley. Her consultancy is based in San Rafael, California.

Robert B. Olshansky, Ph.D., FAICP, is professor and head of the Department of Urban and Regional Planning, University of Illinois at Urbana–Champaign. He coauthored *Clear as Mud: Planning for the Rebuilding of New Orleans* with Laurie Johnson, as well as the report *Opportunity in Chaos: Rebuilding after the 1994 Northridge and 1995 Kobe Earthquakes* with Laurie Johnson and Ken Topping, and he edited the four-volume *Urban Planning After Disasters* (Routledge). He and collaborators, with support from the National Science Foundation and the University of Illinois, have also researched and published on disaster recovery in China, India, Indonesia, Haiti, and Japan.

CONTENTS

Property Tax in Africa:
Status, Challenges, and Prospects

By Riël Franzsen and William McCluskey

AFRICA'S RAPID GROWTH AND URBANIZATION WILL REQUIRE STABLE LOCAL governments to deliver goods and services to billions of people. Authors Riël Franzsen and William McCluskey suggest that the property tax can help communities in Africa manage this challenge.

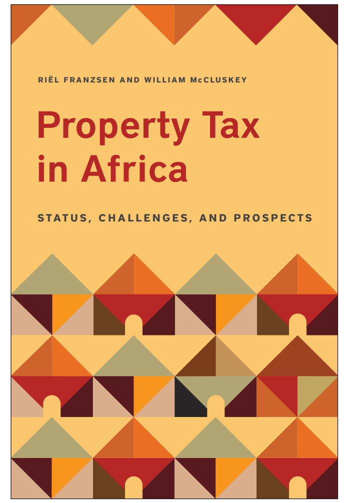
In *Property Tax in Africa: Status, Challenges, and Prospects*, Franzsen and McCluskey of the African Tax Institute at the University of Pretoria provide the first comprehensive study of the property tax on the continent, laying out challenges, opportunities, and pathways to improvement. They analyze property tax systems in 29 countries and offer four regional overviews, highlighting the key political, administrative, and technical issues that affect how these systems function.

The book comes at a critical time for Africa. The world's fastest growing continent, Africa has added more than 500 million people since 1990, and by 2050 it will hold a quarter of the world's population. The continent is rapidly urbanizing and, together with Asia, will absorb most of the world's urban growth in the coming decades.

"Nowhere are the fiscal challenges of urbanization more pronounced than in Africa," Lincoln Institute President and CEO George W. "Mac" McCarthy writes in the book's foreword. "It will require a lot of work to establish high-functioning systems capable of delivering reliable annual revenue flows to help cities make ends meet. But there is plenty of room for optimism."

Some African cities generate significant revenues from the property tax, despite the relatively low utilization of the tax in most African countries: 42 percent of all locally generated revenue in Freetown, Sierra Leone; 23 percent in Nairobi, Kenya; and 21 percent in Accra, Ghana, for example. On average in Africa, however, the property tax represents only 0.38 percent of gross domestic product, compared to more than 2 percent in the mostly developed countries that make up the Organisation for Economic Co-operation and Development (OECD).

The book comes at a critical time for Africa. The world's fastest growing continent, Africa has added more than 500 million people since 1990, and by 2050 it will hold a quarter of the world's population. The continent is rapidly urbanizing and, together with Asia, will absorb most of the world's urban growth in the coming decades.



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Property Tax in Africa identifies many common challenges, including poor tax collection and enforcement, weak administration, and inadequate systems for systematically assessing property values.

The book also highlights some successes in cities that have been able to bolster their property tax systems. The city of Kitwe, Zambia, undertakes supplementary valuations, which have increased the number of properties on the tax rolls and increased assessed values, leading to greater revenue. In Kampala, Uganda, officials from the national Uganda Revenue Authority and the Ministry of Finance collaborated with the local government to set up a new office for revenue collection, which more than doubled the collection of property tax in four years.

A resource for property tax scholars as well as public officials and practitioners, the book makes recommendations for improving the performance of the property tax in Africa, including the following:

- Thoroughly analyze the property tax system and decide how it relates to national economic development goals.
- Audit the legal underpinnings of the property tax and redraft laws, as needed, to lay the groundwork for more effective systems.
- In most countries, concentrate reform in the largest cities.
- Focus on collection and enforcement systems first.
- Plan gradual transitions that allow the tax administration to catch up and taxpayers to adapt to the new system.

In addition to continent-wide and regional overviews, the book includes detailed analyses of the 29 countries: Benin, Botswana, Cabo Verde, Cameroon, Central African Republic, Cote d'Ivoire, Democratic Republic of the Congo, Egypt, Equatorial Guinea, Gabon, The Gambia, Ghana, Kenya, Liberia, Madagascar, Mauritius, Morocco, Mozambique, Namibia, Niger, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe.

ABOUT THE AUTHORS

Riël Franzsen occupies the South African Research Chair in Tax Policy and Governance and is also director of the African Tax Institute at the University of Pretoria, South Africa.

Dr. William McCluskey joined the University of Ulster in 1986. He was appointed as Professor of Property Studies at Lincoln University, Christchurch, New Zealand from 2001-2002. He is currently Extraordinary Professor at the African Tax Institute, University of Pretoria, South Africa.

CONTENTS

50-State Property Tax Comparison Study: For Taxes Paid in 2016

By the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence

FOR THE 12TH YEAR IN A ROW, New York City has the largest discrepancy of any U.S. city in property tax rates for multi-family rental apartment buildings compared to owner-occupied homes, according to the annual *50-State Property Tax Comparison Study,* by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence.

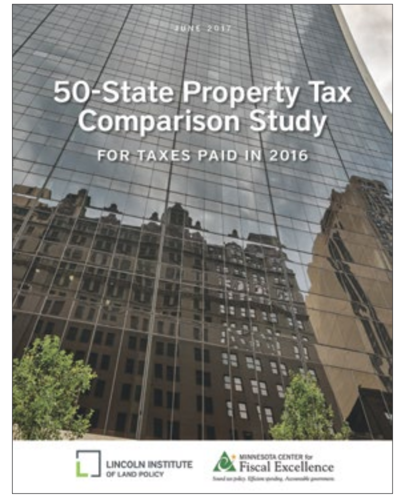
Because of assessment limits, valuation practices, and other factors, the result is that the effective tax rate on a typical owner-occupied home is just one-fifth of the rate paid by the owner of an apartment building. These costs are then passed along to renters.

The discrepancies in the New York City system emerge in a comprehensive analysis of the effective property tax rate—the tax payment as a percentage of market value—for residential, commercial, industrial, and apartment properties in more than 100 U.S. cities. The report underscores the importance of the property tax as a stable source of revenue for cities, and the challenges of fine-tuning property tax systems in widely varying U.S. market conditions.

Many cities with the highest property tax rates are struggling to make ends meet, dealing with a low tax base that requires higher tax rates to bring in enough revenue—and constrained by state laws that restrict their access to other revenue sources that would allow them to reduce their reliance on property taxes. Detroit, which has the highest effective tax rate on a median-valued home, has the lowest median home value of the cities covered in the report. In Bridgeport, which has the second highest rate on a median-valued home, the city relies more heavily on the property tax to fund local government than any of the other cities in the report because of state laws restricting their access to other broad-based taxes.

But in other places, high or low property tax rates are largely the result of other policy decisions made by local governments. Nowhere is that more true than in New York City, which has one of the nation's lowest tax rates on owner-occupied homes, but the highest tax rate on apartment buildings and the second-highest rate on commercial

The effective tax rate on a typical owner-occupied home in New York City is just one-fifth of the rate paid by the owner of an apartment building. These costs are then passed along to renters.



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properties. There, a $1 million commercial property faces an effective tax rate that is 4.1 times higher than a median-valued home, while a $600,000 apartment building has an effective tax rate that is 5 times higher. Discrepancies in New York City are larger than in any other city in the report.

The disparities in the New York City system, brought to light in many recent media reports, are the subject of ongoing research by the Lincoln Institute and the Regional Plan Association. That work will review the existing evidence, explore policy reforms that improve property tax efficiency and equity, and conduct empirical analysis to determine the impact of proposed reforms on different groups of taxpayers and on tax revenues.

As the largest source of revenue raised by local governments, a well-functioning property tax system is critical for promoting municipal fiscal health. *The 50-State Property Tax Comparison Study* includes data for 73 large U.S. cities and a rural municipality in each state, plus an analysis that explains why tax rates vary so widely. This context is important because high property tax rates usually reflect some combination of heavy property tax reliance, with low sales and income taxes; low home values that drive up the tax rate needed to raise enough revenue; or higher local government spending and better public services. In addition, some cities use property tax classification, which can result in considerably higher tax rates on business and apartment properties than on owner-occupied homes.

Property tax reliance is one of the main reasons why tax rates vary across cities. While some cities raise most of their revenue from property taxes, others rely more on alternative revenue sources. Cities with high local sales or income taxes do not need to raise as much revenue from the property tax, and thus have lower property tax rates on average. For example, the report shows that Bridgeport, Connecticut, has one of the highest effective tax rates on a median-valued home, while Birmingham, Alabama, has one of the lowest rates. In Bridgeport, however, city residents pay no local sales or income taxes, whereas Birmingham residents pay both sales and income taxes to local governments. Consequently, despite the fact that Bridgeport has much higher property taxes, total local taxes are higher in Birmingham ($2,560 versus $2,010 per capita).

Property values are the other crucial factor explaining differences in property tax rates. Cities with high property values can impose a lower tax rate and still raise at least as much property tax revenue as a city with low property values. The average property tax bill on a median-valued home for the large cities in this report is $2,871. Raising that amount in Detroit, which has the lowest median home values in the study, would require an effective tax rate more than 20 times higher than in San Francisco, which has the highest median home values.

There are also significant variations across cities in commercial property taxes, which include taxes on office buildings and similar properties. In 2016, the effective tax rate on a commercial property worth $1 million averaged 2.1 percent across the largest cities in each state. The highest rates were in Detroit, New York City, Chicago, Bridgeport, and Providence; all had effective tax rates that were at least three-quarters higher than the average for these cities. On the other hand, rates were less than half the average in Cheyenne, Seattle, Honolulu, Fargo, Billings (MT), and Virginia Beach.

There are wide variations across the country in property taxes on owner-occupied primary residences, otherwise known as homesteads. An analysis of the largest city in each state shows that the average effective tax rate on a median-valued homestead was 1.50 percent in 2016. On the high end, three cities have effective tax rates that are roughly 2.5 times higher than the average—Detroit, Bridgeport, and Aurora (IL). Conversely, six cities have tax rates that are less than half the study average—Honolulu, Boston, Denver, Cheyenne (WY), Birmingham (AL), and Washington DC.

Many cities have preferences built into their property tax systems that result in lower effective tax rates for certain classes of property; these features are usually designed to benefit homeowners. The "classification ratio" describes these preferences by comparing the effective tax rate on land and buildings for two types of property. For example, if a city has a 3.0 percent effective tax rate on commercial properties and a 1.5 percent effective tax rate on homestead properties, then the commercial-homestead classification ratio is 2.0 (3.0% divided by 1.5%).

An analysis of the largest cities in each state shows an average commercial-homestead classification ratio of 1.67, meaning that on average commercial properties experience an effective tax rate that is 67 percent higher than homesteads. Roughly a fourth of the cities have classification ratios above 2.0, meaning that commercial properties face an effective tax rate that is at least double that for homesteads.

Finally, the report also measures the impact of property tax assessment limits, which 19 states have adopted. Assessment limits typically restrict growth in the assessed value of individual parcels and then reset the taxable value of properties when they are sold, based on two factors: how long a homeowner has owned her home and appreciation of the home's market value relative to the allowable growth of its assessed value. As a result, assessment limits can lead to major differences in property tax bills between owners of nearly identical homes based on how long they have owned their home.

In Los Angeles, for example, the average home has been owned for 13 years, and the median home value is $542,100. Because of the state's assessment limit, someone who has owned a home for 13 years would pay 39 percent less in property taxes than the owner of a newly purchased home, even though both homes are worth $542,100.

ABOUT THE AUTHORS

The Minnesota Center for Fiscal Excellence was founded in 1926 to promote sound tax policy, efficient spending, and accountable government. As a nonprofit, nonpartisan group supported by membership dues, the center pursues its mission by educating and informing Minnesotans about sound fiscal policy; providing state and local policy makers with objective, nonpartisan research about the impacts of tax and spending policies; and advocating for the adoption of policies reflecting principles of fiscal excellence.

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