Application for Lincoln Institute of Land Policy Curriculum Innovation Awards 2018

Submitted by Phuong Nguyen-Hoang, Ph.D.

COURSE INFORMATION

Basic information

The course title is **Financing Local Government** *(*FLG*)*. This three-credit course is offered annually in the spring semester to graduate students in the PAB-accredited Masters in Urban and Regional Planning Program at the School of Urban and Regional Planning (SURP), University of Iowa. Both first- and second-year planning students are allowed to take this course. Students must take either FLG or *Economic Impact Assessment* to fulfil graduation requirements.

This course has long been in the curriculum in our program. When I came to the University of Iowa in spring 2011, I took over the course. Since then, I have continuously made improvements, many of which were guided by students' comments, in the course design and delivery. This course has received positive feedback from students who most recently gave an average rating of 5.2 (out of 6) for this course as an excellent course and of 5.6 for an excellent instructor. These average ratings were much improved compared to 4.3 on both questions the first time I taught it.

Course Rationale

The importance of public finance to planning cannot be overstated. A community's planning activities and public finance are closely intertwined. All areas of local planning that shape land use patterns ultimately affect municipal fiscal health defined by the Lincoln Institute as "the ability of local governments to plan, manage, and pay for critical public services and investments" (lincolninst.edu/key-issues/municipal-fiscal-health). A community's financing structure and fiscal policy in turn can affect a myriad of planning issues concerning land use, smart growth management, economic development, environment, and transportation. In fact, local government finance plays a key role in the successful implementation of the New Urban Agenda—an outcome of the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) (Preparatory Committee for Habitat III 2016). Despite the importance of public finance to planning, Edwards (2007) found from her survey that only 58 percent of planning departments offered a public finance course to planning students. The SURP at the University of Iowa is among the planning schools that offer a public finance course intended to provide the knowledge and skills set needed of future planning practitioners.

Learning Goals and Objectives

Edwards (2007) reported knowledge and skills that a majority of respondent practicing planners deemed necessary to be effective at their job. The knowledge and skills include local budgeting process, mechanics of the property tax and other revenue sources, impact fees, connection between land use and taxation, tax incentives, debt finance, and fiscal impact analysis.[1] I find this list of knowledge and skills incomplete. It is also necessary for well-informed planners to be able to appreciate the connection not only between taxation and land use, but also between taxation and other fields of planning, namely economic development, growth management, transportation, and environment. Finally, because public schools are an instrument for planning, serve as public infrastructure and have a strong connection with planning that scholars often ignore (Glaser 1959; Vincent 2006), well-informed planners also need to have an understanding of how public schools are funded.

The overall goal of this course is to help students possess all the above knowledge and skills necessary to be an effective practicing planner. Given this overall goal, this course has three major course objectives. At the end of this course, students will be able to

+ articulate the mechanics of major local revenue instruments and their potential contributions to municipal fiscal health,
+ analyze the effects of a local revenue policy on planning and the effects of planning activity, such as land use regulation, on municipal fiscal health, and
+ discuss issues related to the financing of transportation and education.

Structure and fit

The course is designed for a typical University of Iowa semester-long course of 30 75-minute classes. As you can see in the syllabus, the course consists of five parts, starting with the first two-class introductory part. Given property tax revenue has been the mainstay of local government finance, the course spends the second and third parts on the property tax and on land value capture fiscal instruments that are based primarily on this tax. The fourth part deals with other revenue sources, followed by the last part on the financing of transportation and education. This course design reflects two major the Lincoln Institute's thematic areas: value capture and the property tax (covered in the second and third parts) and municipal fiscal health, which is included in two of the three course objectives.

For a planning program of study, this course is best offered to students who already took a course on economic analyses in planning where they learn key concepts relevant for a tax analysis such as consumer surplus, producer surplus, and deadweight loss. At SURP, this

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[1] Another necessary skill found in Edwards's survey is cost-benefit analysis. However, this is already covered in a core course of Methods in Planning II of our planning program.

course is offered in the spring, so students have already taken a core course of *Economics for Urban Planners* in the first-year fall.

Materials

The required textbook for the course is Ronald Fisher's *State and Local Public Finance* (4th edition). Although this textbook is an excellent resource for a background on public finance, its focus is not on planning or planning implications. I therefore supplement the book with journal articles, working papers, and reports. I also indicate whether the materials are wholly or partially required, or optional. The reading materials are carefully selected so that they can help students achieve learning objectives.

Innovative approaches in course design, instruction, and assessment

My innovative approaches are reflected in the course design, instructional methods and assessments to motivate and sustain student engagement. First, the course has clear goals and objectives. Together with the three course objectives, the overarching goal draws a link between what is deemed as necessary by practicing planners and what is covered in the course, thereby motivating students from the start. The measurable and achievable learning objectives for each topic of the course serve several purposes. The achievement of these topic learning objectives will lead to that of the course objectives and overall goal. They help me stay focused, and serve as a guide for students in their readings and warm-up write-ups. The learning objectives also help sustain students' motivation and keep students engaged in class discussions.

Second, innovation also comes from my instructional methods. My classes are highly interactive. A typical class usually starts with students' reporting of news articles related to the topic of the day. A reporting student is expected to field related questions from other students and me. Each student has to do this activity twice during the course. Speaking and answering questions in front of the class helps students build up their self-confidence in public speaking—a necessary skill for an emerging planner.

This reporting also provides a context for the background-setting new-knowledge section of my class. This section is not a one-way interaction but rather, I ask students many intriguing questions (some of which are based on the news reporting) that may challenge their existing knowledge. This interactive conversation during this section is facilitated by my combined use of the board to take notes of both my and students' ideas/thoughts and of the overhead projector (just to show visuals, i.e., maps, graphs, tables, or videos). A typical class in this class usually ends with group discussions on a recent local policy proposal or enactment in the last 30 or 40 minutes. The discussions can also be in the form of a simulation (as in the case of tax increment financing). The discussions, or productive struggles, are for students to apply the new background information to real-world cases. Four exemplary cases for discussions are included in this application.

Third, assessments also contribute to the innovation of this course. Students need to think how news articles help them achieve learning objectives. Attached in this application is an example of a student's warm-up report in which he tries to relate the news with the learning objectives of the "Introduction to the property tax" topic. In addition to the warm-up reports, homework assignments also serve as productive struggles by pushing students to answer questions designed to achieve learning objectives. Homework assignments in a standard state and local public finance class offered in public policy/public administration/public affairs graduate programs tend to be calculation heavy. In contrast, homework assignments in this course are light on calculations and much heavier on challenging students to discuss public finance issues in relation to planning. Assignment 1 (included in this application) provides an illustrative example of how questions are designed to measure the achievement of learning objectives, and students' level of engagement. Only highly engaged students who do required and optional readings carefully can answer the assignment questions well.

Last but not least, the policy memo requirement is a chance for students to autonomously examine a local government revenue policy/proposal from a planner's perspective, thereby helping them reflect the interplay between public finance and planning. The assessment tool helps me gauge students' ability to analyze and understand the interplay between public finance and planning, and as with the homework assignments, their level of engagement.

Concluding thoughts

My course is competitive for this award for the following three reasons:

+ This course intensively covers the two thematic areas of the Lincoln Institute: value capture and the property tax and municipal fiscal health.

+ This course helps fulfil the Association of Collegiate Schools of Planning mission of "strengthen[ing] the role of planning education in colleges and universities" by focusing on the interplay between public financing and planning and by providing public finance knowledge and skills necessary for well-informed and effective planning practitioners.

+ This course is innovative in its design, instruction and assessment, which measurably motivates students, sustains their engagement, and promotes knowledge acquisition.

References:

Glazer, Nathan. 1959. “The School as an Instrument in Planning.” *Journal of the American Institute of Planners* 25 (4):191–96.

Mary M. Edwards. 2007. “Public Finance in Planning Education and Practice.” *Journal of Planning Education and Research* 27 (2):217–27.

Preparatory Committee for Habitat III. 2016. “Policy Paper 5: Municipal Finance and Local Fiscal Systems.” http://habitat3.org/wp-content/uploads/event_files/9NCA61ivAG5LxzPm1X.pdf

Vincent, Jeffrey M. 2006. “Public Schools as Public Infrastructure Roles for Planning Researchers.” *Journal of Planning Education and Research* 25 (4):433–37.

School of Urban and Regional Planning
The University of Iowa

FINANCING LOCAL GOVERNMENT
Spring 2018: 3 credit hours
T Th 3:30 p.m. - 4:45 p.m.

Instructor: Phuong Nguyen

Office Hours: T Th 10:00 a.m. – 11:00 a.m., or by appointment

Course Goal and Objectives
The importance of public finance to planning cannot be overstated. A community's planning activities and public finance are closely intertwined. All areas of local planning that shape land use patterns ultimately affect municipal fiscal health defined by the Lincoln Institute as "the ability of local governments to plan, manage, and pay for critical public services and investments." A community's financing structure and fiscal policy in turn can affect a myriad of planning issues concerning land use, smart growth management, economic development, environment, and transportation.

The overall goal of this course is to help students possess the public finance knowledge and skills that are deemed necessary to be effective at their job. Specifically, Edwards (2007) finds from her survey of practicing planners that these necessary knowledge and skills include local budgeting process, mechanics of the property tax and other revenue sources, impact fees, connection between land use and taxation, tax incentives, fiscal impact analysis, and debt finance.

Given this overall goal, this course has three major course objectives. At the end of this course, students will be able to
+ articulate the mechanics of major local revenue instruments and their potential contributions to municipal fiscal health,
+ analyze the effects of a local revenue policy on planning and the effects of planning activity, such as land use regulation, on municipal fiscal health, and
+ discuss issues related to the financing of transportation and education.

Each topic of the course is aimed at multiple learning objectives that all help achieve these four course objectives and the overarching course goal.

<u>Reference</u>:
Mary M. Edwards. 2007. "Public Finance in Planning Education and Practice." *Journal of Planning Education and Research* 27 (2):217–27.

Course Requirements
<u>Participation</u>. Class meetings will be a mixture of interactive lectures, discussions, and student presentations. Students are expected to read required materials *before* class and be prepared to engage in class discussions. Students are expected to be called upon to discuss the required readings. Credits for participation are based on your class attendance, ability to discuss required readings, and active involvement in class discussions in general. Also note that you need to bring laptops to a couple of classes.

Warm-ups. Students are required to bring current events that are related to the topic of the day discussed in class. Warm-ups are considered "complete" in three parts: (1) send the link of the current event by email to all class members by 10 p.m. the day before the class you are assigned; (2) post to the ICON drop box your one-page single-paced discussion how the current event is related to the topics and learning objectives for that day; and (3) report the current event in class. Two warm-ups are required of each student.

Students can find relevant current events in any popular news media. An appropriate event can be found in city/planning websites, such as planetizen.com, citylab.com, APA news, and governing.com.

Homework assignments. There will be four individual assignments.

Policy memo. A major class requirement is to draft a professional memorandum on a topic relevant to the content of the course. This assignment involves investigating the topic in state and local public finance and its circumstances facing a particular government. The topic could be an existing revenue instrument or policy, or a proposed one. The memo could also be to propose a new policy for a local government as well. As a policy memo, it must include a policy recommendation for the government to consider.

Students can work either individually or in a group of 2 (no more than 2). Either way, the memo should be three to four single-spaced pages per student in length. This length does not include supporting figures, tables, maps, and references.

The memo is graded based on four criteria:
+ presentation: The memo is professionally-presented with coherent and clean writing (free of grammatical or typographi*cla* errors).
+ persuasion: A persuasive analysis of the policy incorporates the *arguments* and *empirical findings* that are discussed in class and can be found in journal articles in the syllabus or elsewhere.
+ thoughtfulness: A thoughtful memo includes your own thoughts, innovative suggestions, and ideas.
+ data: The memo supports the analysis with relevant local government data. For example, if you propose a change in a city's property tax policy, you need to provide the property tax-related data of that city, such as tax base, tax revenue, median tax price, to name but a few. You will learn where to find local government data in the first two weeks of the course.

Students are *required* to submit a one-page outline of the policy memo by 3:30 p.m., March 8 for the instructor's approval. The final policy memo will be due on 3:30 pm, Monday May 7.

Presentations. The final three classes will be devoted for presentations based on the policy memos. All students are expected to come, discuss and learn from their peers' presentations in these final class days.

Grading

Each student's final grade will consist of

Participation	10%
Warm-ups	15%
Homework assignments	36%
Policy memo	34%

Presentations 5%

Readings
The *required* textbook for this course is State and Local Public Finance (4th edition) by Ronald Fisher. Students can buy either a hardback copy at Iowa Hawk Shop or an e-book option here. Other readings are either uploaded on ICON or accessible from the websites with provided links. For partially required journal articles, students are expected to always read their abstracts in addition to required sections. Also, although students are not required to read optional readings before class but you might need them to effectively answer homework assignments.

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Class Schedule
(*Note that suggested in-class activities are provided here but will not be included in the version distributed to students.)*

(Notes: C bring laptops to class; * entirely required, ~ partially required (which sections to read); other readings are optional)

PART I. INTRODUCTION
Jan 16: Introduction
Learning objectives:
+ learn about the course
+ describe the structure of local governments
+ provide an overview of fiscal tools available for state and especially local governments
+ recognize the key role of municipal fiscal health in implementing Habitat III's New Urban Agenda

Readings:
+ *Fisher. Chapter 1. Why study state and local government finance?
+ *Fisher. Chapter 6. Organization of subnational government
+ ~Preparatory Committee for Habitat III. 2016. "Policy Paper 5: Municipal Finance and Local Fiscal Systems." http://habitat3.org/wp-content/uploads/event_files/9NCA61ivAG5LxzPm1X.pdf (Executive summary)

Suggested in-class activities:
+ ask students discuss in small groups about what fiscal instruments local governments can use to finance their operations and provision of public services

Jan 18: Planning and budgeting[C]
Learning objectives:
+ describe common government capital budgeting practices
+ distinguish capital budgets and capital improvement plans (CIPs)
+ explain how planners contribute to CIPs
+ discuss how local governments can improve the consistency between comprehensive plans and CIPs

Readings:
+ ~Fisher. Chapter 7. Budgeting and fiscal outcomes (before Tax and expenditure limits)
+ *Mathur, Shishir. 2017. Linking Planning with Budgeting: Examining Linkages between General Plans and Capital Improvement Plans. *Journal of Planning Education and*

Research. DOI: 10.1177/0739456X17715307
+ *Torma, Carolyn. 2015. "The Planning Commission's Contribution to the Capital Improvement Plan." *Planning*, February 2015.

+ Chapman, Jeffrey I. 1988. "Land Use Planning and the Local Budget: A Model of Their Interrelationships." *Public Administration Review*, 800–806.
+ Elmer, Vicki, and Adam Leigland. 2013. "Chapter 9: Capital Improvement Plans and Capital Budgets." In *Infrastructure Planning and Finance: A Smart and Sustainable Guide*. Routledge.

Suggested in-class activities:
+ have students find online (and interpret) the capital budget of a local government of their choosing
+ have students see if the government has a CIP, and if yes, if there is a link between the CIP and the capital budget

Part II. THE PROPERTY TAX
Jan 23-25: Introduction to the property tax[C]
Learning objectives:
+ appreciate the role of the property tax as the mainstay of local government revenue
+ explain the basic workings of the property tax
+ describe the relationship between tax price and demand for public services, especially through Tiebout sorting, fiscal zoning, and the median voter framework
+ find needed local fiscal and demographic information
+ compute a household's effective property tax rate and tax price
+ develop preliminary arguments for or against the property tax

Readings:
+ ~Fisher. Chapter 13. The property tax: Institutions and structure. (until Evaluating assessment results)
+ *Fisher. Chapter 3. Demand for state and local government goods and services
+ ~Fisher. Chapter 4. Public choice without mobility (The median voter theorem)
+ *Fisher. Chapter 5. Public choice through mobility
+ ~Fisher. Chapter 14. Property tax: economic analysis (Property tax prices and Composition of the property tax base)
+ *Ihlanfeldt, Keith R. 2013. "The Property Tax Is a Bad Tax, but It Need Not Be." *Cityscape* 15 (1):255–59.

+ Alm, James, Robert D. Buschman, and David L. Sjoquist. 2011. "Rethinking Local Government Reliance on the Property Tax." *Regional Science and Urban Economics* 41 (4):320–31.

Suggested in-class activities:
+ Please see attached the lecture notes on this topic.

Jan 30: Property tax incidence and capitalization
Learning objectives:
+ distinguish between statutory and economic incidence
+ discuss the vertical equity of the property tax via its economic incidence under different views
+ explain how property taxes are capitalized into residential property value, which in turn

may affect municipal fiscal health
+ describe how the tax salience) may affect their perceived tax burden

Readings:

+ ~Fisher. Chapter 12. Principles of tax analysis. (until Incidence and efficiency of a subsidy)
+ ~Fisher. Chapter 14. Property tax: economic analysis. (until Land value taxation)
+ ~Yinger, John, Howard S. Bloom, Axel Boersch-Supan, and Helen F. Ladd. 1988. *Property Taxes and House Values: The Theory and Estimation of Intrajurisdictional Property Tax Capitalization*. Harcourt Brace Jovanovich Academic Press. (required: Chapters 1 and 7)
+ ~Cabral, Marika, and Caroline Hoxby. 2017. "The Hated Property Tax: Salience, Tax Rates, and Tax Revolts." Working Paper. www.marikacabral.com/Cabral_HoxbyTaxSalience.pdf (Introduction)

+ Doerner, William M., and Keith R. Ihlanfeldt. 2011. "House Prices and City Revenues." *Regional Science and Urban Economics* 41 (4):332–42.
+ Oates, Wallace E., and William A. Fischel. 2016. "Are Local Property Taxes Regressive, Progressive, or What?" *National Tax Journal* 69 (2):415–33.
+ Sirmans, Stacy, Dean Gatzlaff, and David Macpherson. 2008. "The History of Property Tax Capitalization in Real Estate." *Journal of Real Estate Literature* 16 (3):327–344.

Suggested in-class activities:

+ have students discuss if governments should make property taxes less salient (indirect, complex, or fragmented) for lower voter opposition

Feb 1: The effects of property tax rate structures

Learning objectives:

+ apply the evaluation criterion of economic efficiency to the land tax
+ discuss how the land value tax or split-rate property tax can help promote developments and curb urban sprawl through the improvement effect and dwelling size effect
+ discuss the reasons why the land tax is not widely adopted in the United States

Readings:

+ ~Fisher. Chapter 14. Property tax: Economic analysis and effects. (Land tax valuation)
+ ~Banzhaf, H. Spencer, and Nathan Lavery. 2010. "Can the Land Tax Help Curb Urban Sprawl? Evidence from Growth Patterns in Pennsylvania." *Journal of Urban Economics* 67 (2):169–79. (Introduction and Background)
+ ~Dye, Richard F., and Richard W. England. 2010. "Assessing the Theory and Practice of Land Value Taxation." Lincoln Institute of Land Policy. https://www.lincolninst.edu/sites/default/files/pubfiles/assessing-theory-practice-land-value-taxation-full_0.pdf (Chapters 5 and 6)
+ *Lawler, Joseph. 2017. "The Short Life of Pennsylvania's Radical Tax Reform." Washington Examiner. February 13, 2017. http://www.washingtonexaminer.com/the-short-life-of-pennsylvanias-radical-tax-reform/article/2614398

+ England, Richard W., and Min Qiang Zhao. 2005. "Assessing the Distributive Impact of a Revenue-Neutral Shift from a Uniform Property Tax to a Two-Rate Property Tax with a Uniform Credit." *National Tax Journal* 58 (2):247–60.
+ Wassmer, Robert W. 2016. "Further Empirical Evidence on Residential Property Taxation and the Occurrence of Urban Sprawl." *Regional Science and Urban Economics* 61:73–85.

Suggested in-class activities:

+ using Lawler's case of Altoona, have students discuss (in small groups) the benefits of the land tax, why the land tax failed Altoona, and what could have been done

Assignment 1 distributed at end of class

Feb 6: The effects of assessment practices

Learning objectives:

+ recognize variation in within-state and across-state assessment practices
+ analyze the horizontal inequity of the property tax caused by assessment practices
+ distinguish between the use-value assessment (UVA) and the market value assessment of rural land
+ explain the potential effect of the UVA on municipal fiscal health and its effectiveness in protecting rural land from urbanization

Readings:

+ ~Fisher. Chapter 13. The property tax: Institutions and structure. (Evaluating assessment results)
+ ~Anderson, John E., and Richard W. England. 2015. *Use-Value Assessment of Rural Land: Time for Reform?* Boston, MA: Lincoln Institute of Land Policy. http://www.lincolninst.edu/publications/policy-focus-reports/use-value-assessment-rural-land (Chapters 1, 4, and 5)

+ Maher, Craig S. 2016. "Policy Brief: Agriculture Assessment in Nebraska." https://www.unomaha.edu/college-of-public-affairs-and-community-service/center-for-public-affairs-research/documents/policy-briefs/pb2016-ag-assessment-in-nebraska.pdf

Suggested in-class activities:

+ As shown in Maher, Nebraska is considering switching to UVA for farmland. Divide the class into two groups: one in support of the switch and one against it, and have them debate whether Nebraska should adopt UVA for farmland

Feb 8-13: The effects of property tax limitations

Learning objectives:

+ classify state-imposed and municipally-imposed types of residential property tax limitations
+ articulate how assessment limitation (or rollback) law works in Iowa
+ evaluate the impact of property tax limitations on municipal fiscal health and economic development
+ discuss how residential property tax limitations may contribute to environmental pollution through a lock-in effect
+ argue the effectiveness of residential property tax limitations in protecting long-term homeowners in gentrifying neighborhoods
+ challenge the proposition that removing tax limitations would always help municipal fiscal health

Readings:

+ ~Fisher. Chapter 13. The property tax: Institutions and structure. (Property tax relief or reduction measures)
+ ~Brooks, Leah, Yosh Halberstam, and Justin Phillips. 2016. "Spending within Limits: Evidence from Municipal Fiscal Restraints." *National Tax Journal* 69 (2):315–352. (until Correlates of limit adoption)

+ ~Hodge, Timothy R., Gary Sands, and Mark Skidmore. 2015. "Assessment Growth Limits and Mobility: Evidence from Home Sale Data in Detroit, Michigan." *National Tax Journal* 68 (3):573. (Literature review)
+ ~Martin, Isaac William and Kevin Beck. 2018. "Gentrification, Property Tax Limitation, and Displacement." *Urban Affairs Review* 54 (1):33–73. (until Measuring displacement and gentrification)
+ ~Nguyen-Hoang, Phuong. 2013. "Tax Limit Repeal and School Spending." *National Tax Journal* 66 (1):117–48. (Potential responses)
+ *Panian, David. 2017. "Lenawee County to Seek Renewal of Millage Limits." The Daily Telegram. June 15, 2017. http://www.lenconnect.com/news/20170615/lenawee-county-to-seek-renewal-of-millage-limits

+ Davis, Matthew, Andrea Vedder, and Joe Stone. 2016. "Local Tax Limits, Student Achievement, and School-Finance Equalization." *Journal of Education Finance* 41 (3):289–301.
+ Dye, Richard F., Therese J. McGuire, and Daniel P. McMillen. 2005. "Are Property Tax Limitations More Binding over Time?" *National Tax Journal* 58 (2):215–25.
+ Ihlanfeldt, Keith R. 2011. "Do Caps on Increases in Assessed Values Create a Lock-in Effect? Evidence from Florida's Amendment One." *National Tax Journal* 64 (1):7.
+ Poterba, James M., and Kim S. Rueben. 1995. "The Effect of Property-Tax Limits on Wages and Employment in the Local Public Sector." *American Economic Review* 85:384–389.

Suggested in-class activities:

+ Please see attached the lecture notes on this topic.

Feb 15: The effects of residential property tax relief programs

Learning objectives:

+ illustrate how residential popular tax relief programs, including circuit-breakers, property tax homestead exemptions, work
+ discuss the potential (unintended) consequences of residential property tax relief programs on local government finances, land use, mobility and public service quality

Readings:

+ ~Fisher. Chapter 13. The property tax: Institutions and structure. (Property tax relief or reduction measures)
+ ~Bowman, John H., Daphne A. Kenyon, Adam Langley, and Bethany Paquin. 2009. *Property Tax Circuit Breakers*. Lincoln Institute of Land Policy. http://www.lincolninst.edu/sites/default/files/pubfiles/property-tax-circuit-breakers-full_0.pdf (Chapters 1 and 5)
+ *Case study: New York's School Tax Relief (STAR) Program

+ Anderson, John E. 1993. "State Tax Credits and Land Use: Policy Analysis of Circuit-Breaker Effects." *Resource and Energy Economics* 15 (3):295–312.
+ Eom, Tae Ho, William D. Duncombe, Phuong Nguyen-Hoang, and John Yinger. 2014. "The Unintended Consequences of Property Tax Relief: New York's STAR Program." *Education Finance and Policy* 9 (4):446–80.
+ Shan, Hui. 2010. "Property Taxes and Elderly Mobility." *Journal of Urban Economics* 67 (2):194–205.

Suggested in-class activities:

+ using the STAR case (included in the application), have students analyze the potential unintended consequences of STAR in terms of households' location choices, student performance, and property tax rates as well as education spending

Feb 20: The effects of property tax incentives for business

Learning objectives:

+ articulate key features of state and local property tax abatement programs
+ recognize cross-state variation in property tax abatement programs
+ distinguish property tax abatement programs with firm-specific property tax incentives
+ discuss the potential pitfalls of property tax incentives and alternative policies

Readings:

+ *Fisher. Chapter 22. Economic development.
+ ~Kenyon, Daphne A., Adam H. Langley, and Bethany P Paquin. 2012. *Rethinking Property Tax Incentives for Business.* Boston, MA: Lincoln Institute of Land Policy. Available at http://www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf (Chapters 1, 6 and 7)
+ *Mark, Eric. 2018. "County Council to Consider Tax Abatement Request from Developer." Available at http://www.citizensvoice.com/news/county-council-to-consider-tax-abatement-request-from-developer-1.2288266

+ Dalehite, E. G, J. L Mikesell, and C. K Zorn. 2005. "Variation in Property Tax Abatement Programs among States." *Economic Development Quarterly* 19 (2):157–73.
+ Wassmer, Robert W. 2014. "Property Tax Abatement as Tax Expenditure?" *Public Finance & Management* 14 (2):194–220.

Suggested in-class activities:

+ have students discuss whether Luzerne County Council members should approve Northpoint Development's property tax abatement request (the case from Mark 2018)

Assignment 2 distributed at end of class

PART III. LAND USE REGULATION and VALUE CAPTURE STRATEGIES

Feb 22: Land use regulation as a fiscal tool

Learning objectives:

+ analyze the potential effects of land use mixes and regulations on municipal fiscal health
+ demonstrate how fiscal impact analyses are usually done
+ discuss issues related to fiscal impact analyses

Readings:

+ ~Clapp, Christopher M., James Freeland, Keith Ihlanfeldt, and Kevin Willardsen. Forthcoming. "The Fiscal Impacts of Alternative Land Uses: An Empirical Investigation of Cost of Community Services Studies." *Public Finance Review* (Appendix 2: Conceptual framework)
+ ~Paulsen, Kurt. 2014. "The Effects of Land Development on Municipal Finance." *Journal of Planning Literature* 29 (1):20–40. (Discussions and implications)
+ ~Edwards, Mary M., and Jack R. Huddleston. 2009. "Prospects and Perils of Fiscal Impact Analysis." *Journal of the American Planning Association* 76 (1):25–41. (from FIA and the evaluation of new development)

+ Carruthers, John I., and Gudmundur F. Úlfarsson. 2008. "Does 'Smart Growth' Matter to

Public Finance?" *Urban Studies* 45 (9):1791–1823.
+ Glaeser, Edward L., and Bryce A. Ward. 2009. "The Causes and Consequences of Land Use Regulation: Evidence from Greater Boston." *Journal of Urban Economics* 65 (3):265–78.

Feb 27, Mar 1: Tax increment financing
Learning objectives:
+ describe how tax increment financing (TIF) works
+ articulate the conditions in which a TIF district may produce positive and negative fiscal effects on overlapping jurisdictions (especially school districts) during the TIF duration and after the termination of the TIF district, including the "but for" condition
+ evaluate how TIF-related laws in Iowa affect the fiscal effects of TIF on overlapping entities
+ analyze how people in non-TIF areas in a state subsidizes a municipality's TIF-financed economic development incentives through the state's foundation education aid formula
+ discuss the potential effects of TIF on property values, economic development, and fiscal outcomes

Readings:
+ ~Nguyen-Hoang, Phuong. 2018. "Is Tax Increment Financing a Fiscal Bane or Boon?" Paper resubmitted to *Journal of Planning and Education Research* (Background and Theoretical framework, and Conclusions)
+ ~Greenbaum, Robert T., and Jim Landers. 2014. "The Tiff Over TIF: A Review of the Literature Examining the Effectiveness of the Tax Increment Financing." *National Tax Journal* 67 (3):655–74. (Literature review)
+ *Hennigan, Gregg. 2012. "Tax-Increment Financing Criticized, Defended at Coralville Forum." January 4, 2012. http://www.thegazette.com/2012/01/04/tax-increment-financing-criticized-defended-at-coralville-forum

+ Nguyen-Hoang, Phuong. 2014. "Tax Increment Financing and Education Expenditures: The Case of Iowa." *Education Finance and Policy* 9 (4):515–40.

Suggested in-class activities:
+ Please see attached the lecture notes on this topic.

Mar 6: Development impact fees
Learning objectives:
+ explain the rationale of development impact fees
+ design an impact fee that has a nexus and meets equity principles
+ discuss the connection between impact fees and planning
+ analyze the potential effects of impact fees on urban sprawl

Readings:
+ ~Mathur, Shishir. 2016. "Designing an Impact Fee Program to Meet Rational Nexus Principle and Reduce Vertical Inequity: Key Insights for Developing Countries." *Public Works Management & Policy* 21 (4):324–45. (Theoretical framework)
+ ~Nelson, Arthur. 2009. *Impact Fees: Principles and Practice of Proportionate-Share Development Fees*. 1 edition. Routledge. (Chapter 7: Impact fees and the planning connection, available https://goo.gl/PzxF89)
+ ~Burge, Gregory S., Trey L. Trosper, Arthur C. Nelson, Julian C. Juergensmeyer, and James C. Nicholas. 2013. "Can Development Impact Fees Help Mitigate Urban Sprawl?"

Journal of the American Planning Association 79 (3):235–48. (Background)

Suggested in-class activities:

+ distribute the mini-scenario for impact fees (attached in the application) in class and have students discuss in groups their answers

Mar 8: Special assessments

Learning objectives:

+ illustrate the workings of special assessments and their role in local government finance
+ describe how special assessments can be used to finance public transit
+ analyze the effects of business improvement districts (BIDs) on economic development and crime reduction
+ discuss how to plan for a successful BID formation

Readings:

+ ~Hendrick, Rebecca. 2016. "Use of Special Assessments by Municipal Governments in the Chicago Metropolitan Area: The Taming of Leviathan?" *Illinois Municipal Policy Journal* 1 (1):15–35. (until Data for study)
+ ~Zhao, Zhirong, and Kerstin Larson. 2011. "Special Assessments as a Value Capture Strategy for Public Transit Finance." *Public Works Management & Policy* 16 (4):320–40. (Mechanisms)
+ ~Kline, Aaron et al. 2014. *Self-Supported Municipal Improvement Districts: A Toolkit for Planning, Implementation, and Evaluation.* Available at https://www.urban.uiowa.edu/system/files/Cedar%20Rapids%20Czech%20Village%20Main%20Street%20final%20report.pdf (pages 11 and 18-32)
+ ~Han, Sehee, Göktuğ Morçöl, Don Hummer, and Steven A. Peterson. 2017. "The Effects of Business Improvement Districts in Reducing Nuisance Crimes: Evidence from Philadelphia." *Journal of Urban Affairs* 39 (5):658–74. (BIDs: Definition and background)

+ Misczynski, Dean J. 2012. "Special Assessments in California: 35 Years of Expansion and Restriction." In *Proceedings of the 2011 Land Plicy Conference: Value Capture and Land Policies*, edited by Gregory K. Ingram and Yu-Hung Hong, 97–115. Lincoln Institute of Land Policy.

Suggested in-class activities:

+ distribute the SSMID for Marshalltown case (attached in the application) in class and have students discuss in groups their answers to the case

Assignment 3 distributed at end of class

Spring Break

PART IV. OTHER REVENUE SOURCES

Mar 20 - Mar 22 (half day): Income taxes

Learning objectives:

+ indicate the share of income taxes in state and local government budgets
+ articulate how local income surtax works in Iowa
+ discuss the potential effects of differences in state personal income taxes, especially in multi-state metropolitan areas, on location choices of incoming households, outmigration of existing residents, and commuting to work

Readings:

+ *Fisher. Chapter 16. Income taxes.
+ ~Moretti, Enrico, and Daniel J. Wilson. 2017. "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists." *American Economic Review* 107 (7):1858–1903. (until Data and basic facts)
+ ~Coomes, Paul A., and William H. Hoyt. 2008. "Income Taxes and the Destination of Movers to Multistate MSAs." *Journal of Urban Economics* 63:920–37. (Introduction)

+ Agrawal, David R., and William H. Hoyt. Forthcoming. "Commuting and Taxes: Theory, Empirics and Welfare Implications." *The Economic Journal.*
+ Ross, Justin, and Phuong Nguyen-Hoang. 2013. "School District Income Taxes: New Revenue or a Property Tax Substitute." *Public Budgeting & Finance* 32 (2):19–40.

Suggested in-class activities:

+ distribute the case of New Jersey's millionaire tax (attached in the application) in class and have students discuss in groups

Mar 22 (half day) - Mar 27: Sales and excise taxes

Learning objectives:

+ describe how state and local option consumption taxes work and local governments' reliance on these taxes
+ analyze the municipal fiscalization of land use decisions induced by sales taxes
+ discuss the effects of local sales tax increases on lost employment relative to cross-border neighbors
+ realize the trend of local governments' sales taxes for transportation projects (LOST-Ts)

Readings:

+ *Fisher. Chapter 15. Sales and excise taxes.
+ ~Burnes, Daria, David Neumark, and Michelle J. White. 2014. "Fiscal Zoning and Sales Taxes: Do Higher Sales Taxes Lead to More Retailing and Less Manufacturing?" *National Tax Journal* 67 (1):7–50. (Introduction and Literature review)
+ ~Rohlin, Shawn, and Jeffrey J. Thompson. 2017. Local Sales Taxes, Employment, and Tax Competition. Available at https://spea.indiana.edu/doc/research/finance-conference/2017-papers/rohlin-thompson.pdf (Introduction)
+ ~Afonso, Whitney B. 2015. "Leviathan or Flypaper: Examining the Fungibility of Earmarked Local Sales Taxes for Transportation." *Public Budgeting & Finance* 35 (3):1–23. (California's LOST-Ts)

Suggested in-class activities:

+ distribute the case of Bibb County's proposed sales tax increase (attached in the application) in class and have students discuss in groups

Mar 29: Debt finance

Learning objectives:

+ explain the purpose of bond issuance and the trend of local debt
+ classify two major types of bonds (general obligation and revenue bonds)
+ identify issues related to the use of private activity bonds for economic development
+ discuss how municipal bonds can be misused

Readings:

+ *Fisher. Chapter 11. Borrowing, debt and capital investment

+ *Chicago Tribune. Broken bonds. http://apps.chicagotribune.com/bond-debt/

+ Walsh, Mary Williams, and Louise Story. 2013. “Qualified Private Activity Bonds Come Under New Scrutiny.” *The New York Times*, March 4, 2013. https://www.nytimes.com/2013/03/05/business/qualified-private-activity-bonds-come-under-new-scrutiny.html

Suggested in-class activities:
+ have students discuss what went wrong with bond use in Chicago

Apr 3 - Apr 5 (half-day): Intergovernmental transfers
Learning objectives:
+ explain the fiscal and equity roles of intergovernmental transfers to local governments
+ classify different types of intergovernmental grants (e.g., categorical v. general-purpose)
+ analyze local governments’ fiscal and demand responses to changes in state grants through different effects including substitution, income, and flypaper effects
+ compare the effectiveness of place-based v. people-based grants in addressing neighborhood ills (poverty, unemployment)

Readings:
+ *Fisher. Chapter 10. Intergovernmental grants
+ ~Brooks, Leah, and Maxim Sinitsyn. 2014. “Where Does the Bucket Leak? Sending Money to the Poor via the Community Development Block Grant Program.” *Housing Policy Debate* 24 (1):119–71. (until CDBG and analysis cities)
+ ~Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. 2016. “The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment.” *American Economic Review* 106 (4):855–902. (until I. The Moving to Opportunity Experiment)
+ ~Pooley, Karen Beck. 2014. “Using Community Development Block Grant Dollars to Revitalize Neighborhoods: The Impact of Program Spending in Philadelphia.” *Housing Policy Debate* 24 (1):172–91. (Abstract)

Suggested in-class activities:
+ given that HUD Housing Choice Vouchers Program has two components: tenant- or people-based and project- or place-based (hud.gov/sites/documents/DOC_9157.PDF), have students discuss in groups whether grants should be place-based or people-based to address neighborhood ills (using issues discussed, and findings reported, in studies by Brooks and Sinitsyn, Chetty et al., and Pooley)

Apr 5 (half-day) - Apr 10: User fees and charges
Learning objectives:
+ realize the fiscal role of user fees and charges for municipal fiscal health
+ compare the pros and cons of user fees/charges v. taxes
+ analyze the pricing mechanisms of government goods
+ describe how unit-based pricing works and their effects on solid waste and recycling
+ discuss issues related to parking, especially free curb parking in dense cities

Readings:
+ *Fisher. Chapter 9. Pricing of government goods: User charges.
+ ~Kinnaman, Thomas C. 2006. “Policy Watch: Examining the Justification for Residential Recycling.” *The Journal of Economic Perspectives* 20 (4):219–32. (The fall promise)

+ ~Pierce, Gregory, and Donald Shoup. 2013. “Getting the Prices Right.” *Journal of the American Planning Association* 79 (1):67–81. (except from *The data* on page 71 to *Have the occupancy moved on toward the goal*? on page 77)

+ Inci, Eren. 2015. “A Review of the Economics of Parking.” *Economics of Transportation* 4 (1):50–63.

Suggested in-class activities:

+ have students watch a short video on the new system of pricing curb parking in San Francisco (https://vimeo.com/13867453) and evaluate the effects of this system on, say, city’s revenues, business activities, and cruising

Assignment 4 distributed at end of class

PART V. FINANCING TRANSPORTATION AND EDUCATION

Apr 12 - 17: Financing transportation

Learning objectives:

+ recognize the need for, and the effects of, capital investments in transportation on road safety and economic development
+ identify major traditional v. newer revenue sources earmarked for transportation
+ evaluate gas taxes v. mileage-based user fees
+ explain the basic workings of public-private partnerships
+ discuss issues related to congestion pricing

Readings:

+ *Fisher. Chapter 20. Transportation.
+ ~Al-Deek, Haitham, and Massoud Moradi. 2015. “Mileage-Based User Fee: A Financial Evaluation Case Study for the State of Florida.” *International Journal of Sustainable Transportation* 9 (3):176–91. (Background and conclusions)
+ *Sabol and Puentes. 2014. Private capital, public good. Available at https://www.brookings.edu/wp-content/uploads/2016/07/BMPP_PrivateCapitalPublicGood.pdf
+ *Leonhardt, David. 2018. “How to Get New York Moving Again.” *The New York Times*, January 7, 2018, sec. Opinion. https://www.nytimes.com/2018/01/07/opinion/new-york-traffic-cuomo.html

+ Palma, André de, and Robin Lindsey. 2011. “Traffic Congestion Pricing Methodologies and Technologies.” *Transportation Research Part C: Emerging Technologies* 19 (6):1377–99.
+ Nguyen-Hoang, Phuong, and Ryan Yeung. 2014. “Dollars for Lives: The Effect of Highway Capital Investments on Traffic Fatalities.” *Journal of Safety Research* 51:109–15.
+ Nguyen-Hoang, Phuong, and Alexander Bogin. 2017. “Raising State Gas Tax Rates for Transportation Revenues: Navigating a Bumpy Road.” *Journal of Planning Education and Research* 37 (2):164–75.

Suggested in-class activities:

+ to show the need for transportation revenue and investments, play a segment (suggested 4:32-9:08) of John Oliver’s talk show on infrastructure (https://www.youtube.com/watch?v=Wpzvaqypav8) at the beginning of the class
+ have students discuss whether (and why) they agree with Leonhardt’s proposal

Apr 19-24: Financing education

Learning objectives:

+ emphasize the connection between public schools and planning and thus the need to fund them adequately and equitably
+ discuss the effects of good and well-funded schools on cities' fiscal capacity and smart growth strategies
+ articulate how public schools are funded and how state aid can help achieve the adequacy and equity goals in school funding

Readings:

+ *Fisher. Chapter 19. Education.
+ ~Vincent, Jeffrey. 2013. "Chapter 25: Public Schools as Public Infrastructure: Schools, Community, and Land Use Planning." In *Infrastructure Planning and Finance: A Smart and Sustainable Guide*, edited by Vicki Elmer and Adam Leigland. Northampton, MA: Edward Elgar. (Schools and land use planning)
+ ~Yinger, John. 2004. *Helping Children Left behind: State Aid and the Pursuit of Educational Equity*. MIT Press. (Chapter 1)

+ Baum, Howell S. 2004. "Smart Growth and School Reform What If We Talked about Race and Took Community Seriously?" *Journal of the American Planning Association* 70 (1):14–26.
+ Bogin, Alexander, and Phuong Nguyen-Hoang. 2014. "Property Left Behind: An Unintended Consequence of a No Child Left Behind 'Failing' School Designation." *Journal of Regional Science* 54 (5):788–805.
+ Nguyen-Hoang, Phuong, and John Yinger. 2011. "The Capitalization of School Quality into House Values: A Review." *Journal of Housing Economics* 20 (1):30–48.
+ Nguyen-Hoang, Phuong, and John Yinger. 2014. "Education Finance Reform, Local Behavior, and Student Performance in Massachusetts." *Journal of Education Finance* 39 (4):297–322.

Apr 26, May 1-3: Student presentations

May 7: Policy memo due at 3:30 p.m.

Course Title: Financing Local Government
Instructor: Phuong Nguyen-Hoang
Lecture Notes
Jan 23-25: Introduction to the property tax

(Before class, remind students of bring a laptop for in-class hands-on activities for these classes.)

Learning objective 1: Appreciate the role of property taxes as the mainstay of local government revenue

+ ask students why study property taxes. In answering this question, students may point to the key role of property taxes as the main revenue source of most local governments.

- show Table 13.2 in Fisher (2016).

Table 13.2 Property taxes as a percentage of taxes, by level of government, various years

Year	States	Local governments					
		All local	Counties	Municipalities	Townships	School districts	Special districts
1962	3.1%	87.7%	93.5%	93.5%	93.3%	98.6%	100.0%
1967	2.7	88.6	92.1	70.0	92.8	98.4	100.0
1972	2.1	83.7	85.6	64.3	93.5	98.1	94.9
1977	2.2	80.5	81.2	60.0	91.7	97.5	91.2
1982	1.9	76.1	77.2	52.6	93.7	96.8	79.6
1987	1.9	73.6	73.5	49.1	92.3	97.5	70.3
1992	2.2	75.6	74.4	52.9	93.0	97.4	66.8
1997	2.3	73.3	69.4	48.7	92.4	96.9	76.5
2002	1.8	72.9	69.1	48.6	91.6	96.2	69.8
2007	1.7	72.1	68.9	48.0	90.5	95.9	66.2
2010	2.1	75.1					
2011	1.9	74.2					

+ *Hands-on activity*: have each student find the budget or certified financial report of a local government, say, a city, and compute the share of property taxes in the financial document.

- ask students to first find an individual city's financial document from its official website.

- ask them to find the financial documents for all cities and towns in a state via the website of a state agency. This is the website for cities for Iowa: https://auditor.iowa.gov/city-annual-financial-reports.

- emphasize that in-class activities regarding finding fiscal data or information will help students in their writing the final policy memo

Learning objective 2: Explain the basic workings of the property tax

+ Give a brief introduction on key elements of the property tax: nominal or statutory property tax rate (*r*), tax base (land, improvements, residential, commercial and industrial), assessed value (*AV*), taxable value (*TV*), market value (*MV*), and a household's property tax liability (T), where *T = r*TV*.

- emphasize that local governments can have either a single tax rate for both land and improvement value or a split-rate system in which land and improvements are taxed at different rates → lay a foundation for the class on the effects of property tax rate structures.

+ *Hands-on activity*: Have students find the tax base or total taxable value of their earlier selected city from a state agency's website. This information for all cities in Iowa is available here: https://dom.iowa.gov/city-valuations.

+ Distinguish *r* and effective tax rate (*t*), where *t* = *T*/*MV*.

Now substitute *T* = *r*TV* into *t*, then we have *t* as in equation (1)

$$t = r\frac{TV}{MV} \tag{1}$$

+ Note: *AV* tends to equal *MV* in places where property value is assessed frequently (two years or less), where property does not have high annual appreciation rates, and where assessors are expected to assess property at the full market value. This is the case for Iowa.

+ *Hands-on activity*: Show a typical household's property tax bill from Iowa City below, and ask students to identify the nominal tax rate on the bill and if appropriate, to calculate this household's effective tax rate.

	Description	Current Year	Previous Year
VALUATIONS	ASSESSED VALUES		
	Land	24,570	24,570
	Building	0	0
	Dwelling	92,030	92,030
	TOTAL	116,600	116,600
	ROLLBACK FACTOR (Assessed * Rollback = Taxable)	0.485300172	0.469099485
	TAXABLE VALUES		
	Land	11,924	11,526
	Building	0	0
	Dwelling	44,662	43,171
	GROSS TAXABLE VALUE		
	LESS CREDITS TO VALUE		
	Military	1,852	1,852
	NET TAXABLE VALUE	54,734	52,845
	Total Combined LEVY RATE	40.7536900	40.9151900
TAXES & FEES	GROSS TAXES (Net Taxable Value x Levy Rate / 1000)	2,230.61	2,162.16
	LESS CREDITS TO TAXES		
	Homestead	-124.53	-127.00
	AG Land	0.00	0.00
	Family Farm	0.00	0.00
	Prepaid Taxes	0.00	n/a
	Low Income/Elderly	0.00	0.00
	TOTAL ANNUAL TAXES & FEES	2,106.00	2,036.00

+ In many states where *AV* is *TV* (or, *T* = *r*AV*), equation (1) becomes equation (2)

$$t = r\frac{AV}{MV} \tag{2}$$

where (*AV*/*MV*) is assessment ratio (*AR*). Stress the importance of *AR* in evaluating a community's property assessment practices. Bring to students' attention that *AR* can be = 1, > 1 and < 1.

- When *AR* = 1, assessed value is up to date and in line with market value. This suggests an ideal assessment practice.

- When *AR* > 1, property value is over-assessed and property owners may appeal.

- When *AR* < 1, property value is under-assessed. The under-assessment may occur as a result of an amendment to state constitution (e.g., Proposition 13 in California) or poor assessment practices, such as inaccurate valuation approaches or long lags between comprehensive assessments.

+ Related to *AR* are concepts such as

- property valuation approaches (namely market (comparable sales), cost and income),
- assessment cycles (annual, bi-annual, and arbitrary),
- assessment coverage (comprehensive (entire jurisdiction) v. segmental), and
- assessing units (city, town, and county).
    - Examples from New York: New York has 1,116 assessing units, each of which determines its own level of assessment and reassessment cycle. The size of the assessing units ranges from 189 parcels to more than 1 million, with more than 80% having fewer than 5,000 parcels. The frequency of reassessments varies widely, ranging from some municipalities that reassess annually to others that haven't reassessed in more than 75 years.
    - Examples from Iowa City: 99 county and 8 city assessors: Iowa City, Dubuque, Davenport, Ames, Sioux, Cedar Rapids, Mason, Clinton

+ Emphasize that all of these discussions on assessment will lay a foundation for a subsequent class the effects of assessment practices.

Learning objective 3: Describe the relationship between tax price and demand for public services, especially through Tiebout sorting, fiscal zoning, and the median voter framework

+ Ask students whether public services (including amenities and disamenities) have a price like private goods. If not, why not? If yes, what is the price? Is there a market for public services like private goods?

+ Define the tax price (as a household's taxable property value to a jurisdiction's total taxable value per household),

- draw an analogy between market prices for private goods and the tax price for public services, and explain why the name (refer back to the major role of property taxes in financing local governments discussed earlier).

+ Ask students how people express their willingness to pay for public services.

- Tiebout sorting (or people vote with their feet).
    - A follow-up question: what cities would address the free-rider problem, that is, people almost always want to live in neighborhoods with quality public services and amenities at the lowest tax price → the role of zoning and land use regulations in addressing this free-rider problem.
- Voting: how are public service outputs in a city of thousands of people are determined?
    - the median voter theorem as a popular public choice framework
        - how this framework works, and
        - how the median voter is identified.
            - relate the earlier discussed concept of the tax price to the median voter framework, that is, changes in the median voter's tax price can be a predictor of changes in demand for public service (through the law of demand).
            - a couple of examples how the tax price of the median voter the model is used to estimate demand for public services, such as fire protection (Duncombe 1991), and public education (Nguyen-Hoang and Yinger 2014).

+ *Hands-on activity*: The instructor can ask students to do the following three activities:

- To find the median voter's tax price for the city they chose in the first hands-on activity
    - instruct students how to find information on their city's total households and median housing value from American Community Survey through factfinder.census.gov.
- To compute the median household's tax price using total tax base the students found in an earlier hands-on activity, and the information on total households and median housing value they just obtained.
    - note down on the board the median tax prices for three cities
- Ask students to comment on the potential differences in the demand for public services in these three cities given their median tax prices
    - give them a hint: the law of demand for the relationship between tax prices and demand discussed earlier

Learning objective 6: Develop preliminary arguments for or against the property tax

+ Engage students in class discussions.

- divide the class into small groups of 2-3 students, have half of the groups discuss why the property tax is a good tax, and have the remaining groups discuss why it is a bad tax.
    - remind students of using the earlier discussions and the readings by Youngman and Ihlanfeldt in the syllabus to inform their arguments
- after 10-15 minutes of group discussions, call upon each group for their discussion ideas, put the ideas into appropriate columns (good tax v. bad tax) on the board, and expand the discussions wherever appropriate.

+ note that the last two learning objectives are achieved by performing hands-on activities for learning objectives 4-5.

References

Duncombe, William D. 1991. "Demand for Local Public Services Revisited: The Case of Fire Protection." Public Finance Review 19 (4):412–36.

Nguyen-Hoang, Phuong and John Yinger. 2014. "Education Finance Reform, Local Behavior, and Student Performance in Massachusetts." *Journal of Education Finance*, 39(4): 297–322.

Course Title: Financing Local Government
Instructor: Phuong Nguyen-Hoang
Lecture Notes
Feb 8-13: The effect of property tax limitations

Learning objective 1: classify state-imposed and municipally-imposed types of residential property tax limitations

+ Ask the class to explain the distinction between state-level, state-imposed and municipally-imposed tax and expenditure limitations

+ Major types of TELs:

  - on revenue or expenditures: Colorado's TABOR

  - on property tax rates: California's Prop 13 (no more than 1%)

  - on property tax levies: New York's small city school district

  - on assessment: Iowa, California's Prop 13 (no more than 2%), and Michigan

    + ask students how the assessment limitation in Michigan works (based on the Hodge et al. reading)

Learning objective 2: Articulate how assessment limitation (or rollback) law works in Iowa

+ Talk about the brief history of the assessment limitation law adopted in 1978

  - purpose: to reduce tax burden on residential property owners

+ distinguish the difference between rollback factor v. rollback value

  - this leads to the distinction between property assessed value v. property taxable value for residential property

+ explain how residential and agricultural property growth limits are tied

+ go over major changes in tax reduction initiative enacted in 2013

Learning objective 3: Evaluate the impact of property tax limitations on municipal fiscal health, equity, and economic development

+ Ask students to discuss the negative effects of municipally imposed limits on municipal revenue growth reported by Brooks et al. (2016). Expand the discussions to include the findings from Dye et al. (2005).

+ Discuss the effect of property-tax limits on wages and employment in Poterba and Rueben (1995)

+ Equity:

  - Limitations on residential property shift tax burden on commercial and industrial

  - homeowners with property that appreciates at a rate less than the cap will experience higher effective tax rates to make up for those who are protected

Learning objective 4: Discuss how residential property tax limitations may contribute to environmental pollution through a lock-in effect

+ Ask students how residential property tax limitations may limit mobility, as in the case of California, Michigan, and Florida.

- California:
    + with a uniform 1% fixed rate, based on prices at the time of purchase
    + valuations of property may not grow by more than 2% annually, and
    + market value reassessment may only occur with a change of ownership
    + applies to commercial property as well
        → shift the tax burden on residential property owners
- Michigan: Proposal 5 starting 1994
    + taxable value cap, which limited the growth in property value for tax purposes to the rate of inflation or 5 percent, whichever is lower

+ Ask students why reduced mobility can lead to environmental pollution

→ reduced mobility leads longer commute and thus increases pollution as a result of more traffic congestion

Learning objective 5: Argue the effectiveness of residential property tax limitations in protecting long-term homeowners in gentrifying neighborhoods

+ Ask students to discuss how gentrification may displace homeowners and how property tax levy limits may reduce displacement

+ another discussion question: are property tax levy limits effective at reducing displacement? Why and why not? Given the evidence from Martin and Beck, explain the "why not" question

Learning objective 6: Challenge the proposition that removing tax limitations would always help municipal fiscal health

+ Relying on Nguyen-Hoang (2013), ask students the difference between at-limit v. below-limit jurisdictions and whether at-limit jurisdictions are necessarily fiscally constrained (issues to discuss including strategies to get around fiscal constraints)

+ then follow this question with why removing tax limitations would not always help municipal fiscal health

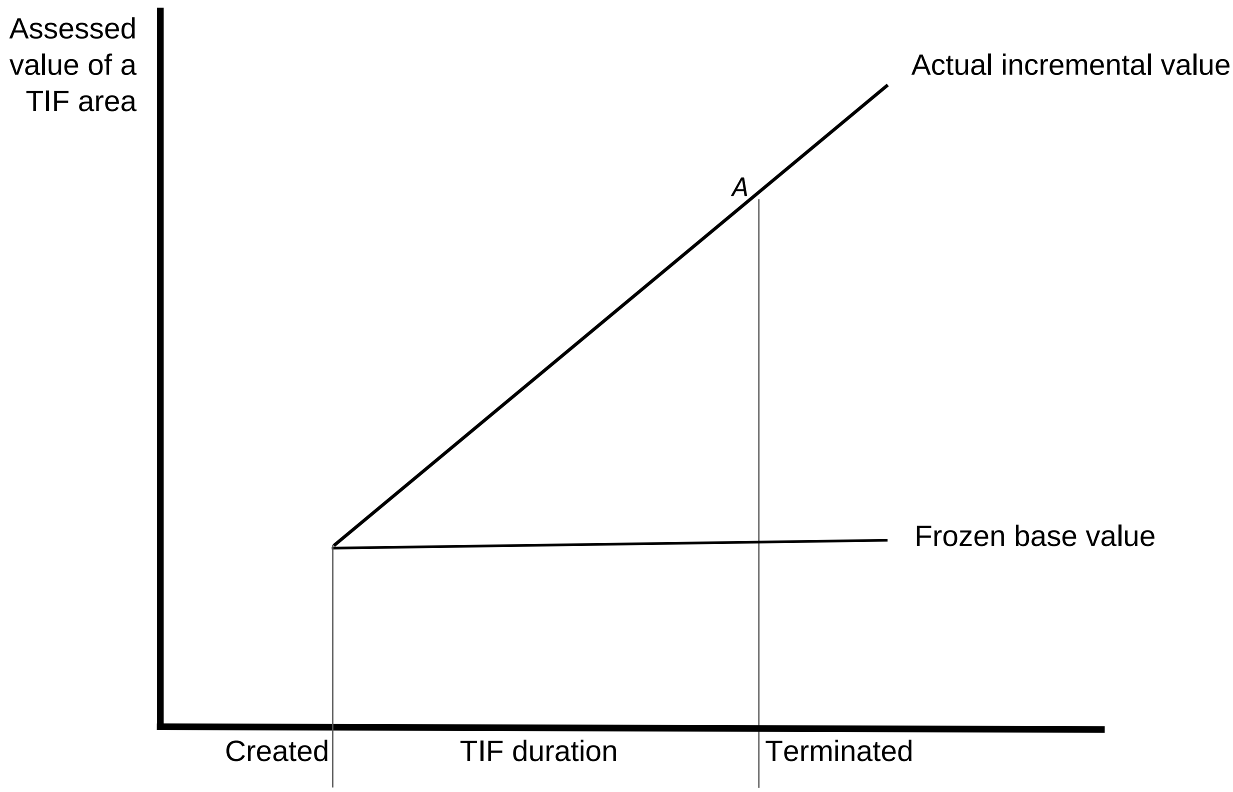
Class discussion

+ have students discuss whether and why voters in Lenawee County, MI, should pass the proposal to renew millage limits

Course Title: Financing Local Government
Instructor: Phuong Nguyen-Hoang
Lecture Notes
Feb 27 - Mar 1: Tax increment financing

Learning objective 1: Describe how tax increment financing (TIF) works

- Start the class by a quote from Chicago Tribune (1997) that TIF has become "one of the last remaining fiscal devices for repairing areas of the city afflicted by urban decay."
- Ask the class what TIF is and roughly how it works.
- Draw a typical graph of TIF on the board (something similar to the one on the next page). Explain key concepts with a special focus on Iowa:
  + TIF formation authority
  + TIF formation process:
    - starting with urban renewal area with one or more TIF districts
    - URA can be financed in multiple ways and may have no TIF district
  + base year: two ways
    - Before TIF establishment with approval from affected entities
    - Before TIF debt certification which may happen years after establishment
  + frozen base value
  + incremental value
  + incremental revenue (related concept: consolidated property tax rate)
  + urban renewal types
    - slum
    - blight
    - econ dev
      o commercial/industrial
      o LMI housing area
      o infrastructure for non-LMI housing
    - mixed
  + TIF duration and termination: depends on TIF types:
    - before 1994, no limits for all
    - after 1994, no limits for slum and blight but 20 years tops for econ dev
  + Overlapping jurisdictions:
    - ask students to list what they are in Iowa
    - note the non-congruent boundaries of the Iowa jurisdictions with the example of Iowa City, Coralville, North Liberty, Iowa City Community School District, and Johnson County
    - ask students which of the jurisdictions should deserve most focus and why (answer: school districts)
      o no TIF formation authority
      o highest contributions to TIF funds
      o non-residents partly finance a TIF municipality's economic development initiatives
    - how school districts can be protected from TIF process
      o Florida, Kentucky and New York: complete exclusion
      o Examples of opt-out: Georgia, Ohio, Pennsylvania, and Texas
  + how do developers get TIF money?
    - cash up front
    - TIF rebates



+ Other issues include a TIF area spanning multiple jurisdictions, say, school districts. Issues:

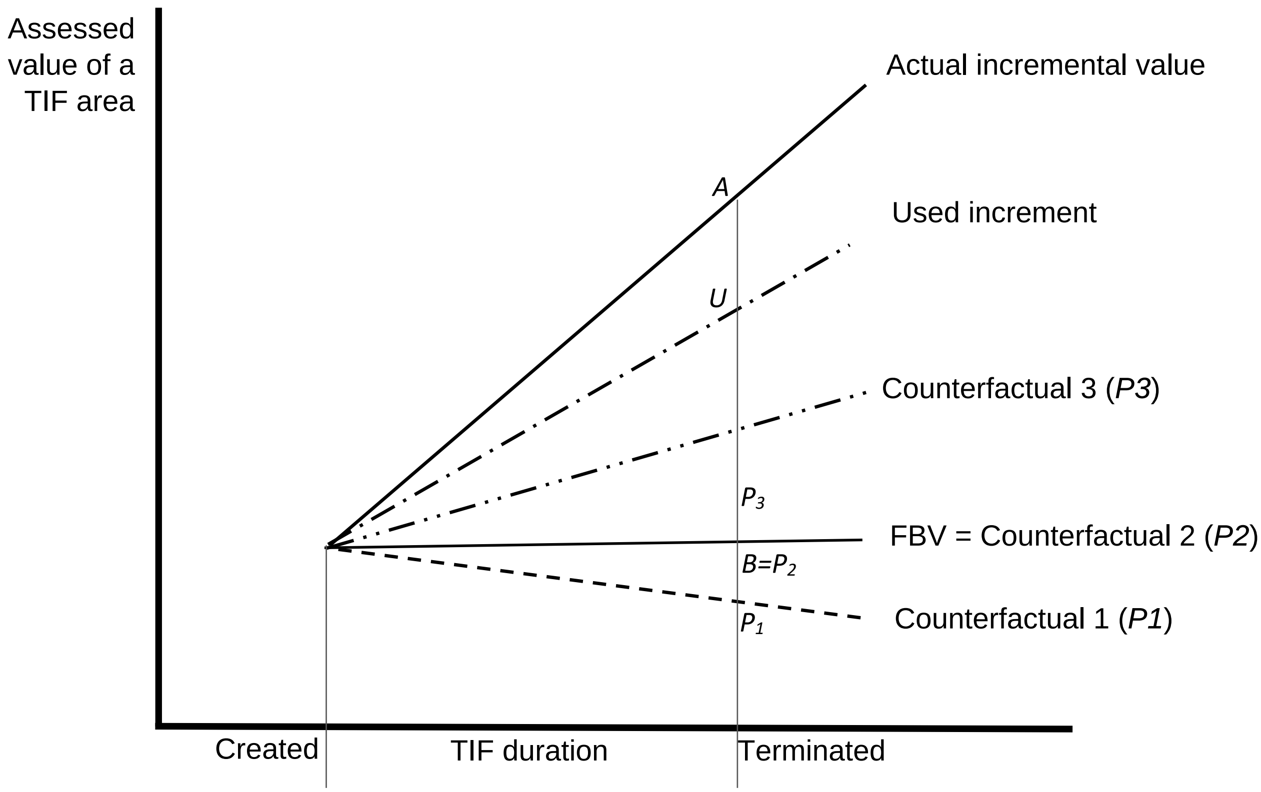
- First, during the time TIF projects are carried out solely in one school district, the other school district can only access the base value of the TIF area within its boundary.

- Second, the incremental revenue of a TIF project in one school district may be used to defray development costs for another TIF project located in the other school district.

- Third, when the taxable value of a TIF area in one school district falls below the base value while the TIF area in the other school district generates incremental value.

Learning objective 2: Articulate the conditions in which a TIF district may produce positive and negative fiscal effects on overlapping jurisdictions (especially school districts) during the TIF duration and after the termination of the TIF district, including the "but for" condition

- Ask students why TIF is so controversial → TIF can bring fiscal benefits or losses
- After the termination of a TIF:
  + a successful TIF with increments brings benefits → not controversial
- More controversial during the TIF life → need to compare the factual and counterfactual outcomes: what actually happens to the property value of a TIF area versus what would have happened to that value without TIF.
  + discuss the "but for" condition and blight determination
    - how state laws vary on this issue: 19 states have requirements and this "but for" hurdle is often very low and not uniformly or rigorously applied
  + add different counterfactual scenarios to the first graph (as below)



+ emphasize the key role of returned excess increments
  - excess increments: definition, mandated v. allowed
+ derive the benefits and losses under different counterfactual scenarios as in the graph
+ discuss potential spillover effects from TIF
+ show a student's information on a TIF district from the website of the Iowa Department of Management (https://www.legis.iowa.gov/tif/public) and ask students to identify a TIF district's basic information on urban renewal area (to which a TIF district belongs), base year, frozen base value, increment value, increment revenue, and returned excess increment.

Learning objectives 3: Evaluate how TIF-related laws in Iowa affect the fiscal effects of TIF on overlapping entities

- remind students of the rollback law that leads to potential differences between taxable and assessed values
- analyze how Iowa Code section 403.20 may lead to annual base value that is lower than frozen base value or even 0 → refer students to (or show it on the projector) Table 1 in the required reading of Nguyen-Hoang's (2018) (included below) and talk about three takeaways from the table
  + base value = FBV for no-rollback TIF districts
  + base value goes down with TIF rollbacked districts' value growth
  + analyze the potential positive fiscal effects of returned excess increments

Table 1. Calculation examples of base value and increments in year *t* during the TIF duration (millions $)

TIF districts	FBV	AV_t	TV_t	RV_t	BV_t	IN_t	REI_t	CAV_t
	(1)	(2)	(3)=(2)*RF_t	(4)=(2)–(3)	(5)=(1)–(4)	(6)=(3)–(5)	(7)	(8)=(5)+(7)
1. All commercial (100% RF_t)	1	1.4	1.4	0	1	0.4	0	1
2. All residential (50% RF_t)	1	1	0.5	0.5	0.5	0	0	0.5
3. All residential (50% RF_t)	1	1.4	0.7	0.7	0.3	0.4	0	0.3
4. All residential (50% RF_t)	1	3	1.5	1.5	0	1.5	0	0
5. All residential (50% RF_t)	1	3	1.5	1.5	0	1.5	1.1	1.1

Notes: FBV stands for frozen base value in the base year, AV assessed values, TV taxable value, RF rollback factor, RV rollback value, BV base value for overlapping jurisdictions, IN increment available for TIF funds, REI returned excess increment, and CAV combined accessible value for overlapping jurisdictions. The FBV is based on a TIF district's total assessed value (not taxable value) in the base year. When AV_t < FBV, BV_t = TV_t and IN = 0.

- additional protections for overlapping jurisdictions
  - access to full increment for debt service
  - access to full increment for school PPEL and ISL

Learning objective 4: analyze how people in non-TIF areas in a state subsidizes a municipality's TIF-financed economic development incentives through the state's foundation education aid formula

- 41 states use foundation aid formula: education aid is to compensate for the difference between a state-determined foundation spending level and minimum required contributions for each school district
  + for minimum required contributions, states may be different on what is included in tax base to calculate the contributions: include value in TIF districts as in Texas and South Dakota, or exclude it as in Illinois, Iowa, and Wisconsin.
  + briefly describe Iowa's state aid foundation formula

Learning objective 5: discuss the potential effects of TIF on property values, economic development and fiscal outcomes

+ ask students to report main findings from the review of Greenbaum and Nguyen-Hoang (2018), and expand the discussions on related issues that might arise

Simulation

This simulation is used mostly in the second day of this topic. The simulation is on a controversial use of TIF in IA. Below is the information distributed to students. I usually divide the class into five groups of 3-4 students. Each group is assigned a role to play. They need to come up with the arguments for their position. Below is the background information distributed in class to each student. Students discuss within their group the arguments to use in support of their chosen position for 15-20 minutes. I will assign a student volunteer to act as a chairman of the forum. As the chairman, (s)he will appoint each group representative to speak before opening up for general discussion. I will save the 5-10 minutes for students to reflect on their experience.

Coralville's use of TIF to attract Von Maur

In January 2012, State Sen. Joe Bolkcom, D-Iowa City, and Rep. Tom Sands, R-Wapello hosted the public hearing forum on how to reform the state TIF law. This forum was organized following the controversial use of TIF in IA: the within-region attraction of Von Maur away from Sycamore Mall, Iowa City to the neighboring city of Coralville.

In late 2011, Coralville reached a deal with Von Maur headquartered in Davenport, IA, to move from Sycamore Mall, Iowa City, to Iowa River Landing, Coralville—a city-owned 180-acre area off Interstate 80 with the Iowa River at its eastern border. Since the mid-1900s, this area had housed a major truck stop, an industrial dump, heavy industry, cheap motels, and even the town's only strip club. City officials have long sought to revitalize the area, including its "brownfields," i.e., parcels known or suspected to have environmental contamination. The city's revitalization efforts led to the opening of the Coralville Marriott Hotel and Convention Center in August 2006. This hotel served as an anchor for further developments in the area. Following the hotel, Von Maur was aimed to serve as an anchor store for the area. In fact, according to a city official, once the Von Maur deal was announced, other businesses that wouldn't talk to the city before, started talking.

This deal was financed by $16 million from TIF funds as indicated in Hennigan (2012). Coralville will use TIF to fund a large portion of the amount. In fact, according to Peter Fisher from the nonpartisan Iowa Policy Project, the $16 million deal consisted of $4.5 million in the form of 15-year tax abatements and the remaining TIF-financed $11.5 million to pay for construction costs, purchase of land, and other infrastructure costs the city said it would do. Anchor stores in a mall traditionally get a discount on their assessments because they help attract other stores. But this Von Maur will not be part of a mall and may be more like the Coralville Walmart, which is near other retailers but doesn't get the big-box discount.

The Iowa River Landing area is part of the Coralville Mall/Highway 6 Merged Urban Renewal Area (Mall/6 URA). This Mall/6 URA includes Coral Ridge Mall, which belongs to Clear Creek Amana Community School District (CCACSD), and the Iowa River Landing area, which is located entirely within the Iowa City Community School District (ICCSD). Property tax revenues from the Mall have been diverted for the development of the Iowa River Landing.

As a participant in this forum, you play a role of:

1/ Kelly Hayworth-Coralville City Administrator

2/ Tom Markus-the then Iowa City Manger

3/ Resident of Coralville

4/ Resident who lives in Tiffin and within the boundary of CCACSD

5/ Resident who lives in Hills—a small city with no TIF and within the boundary of ICCSD

Your group needs to come up with arguments to support a position on the deal that you think the person would take. This position can be an absolute opposition to the deal, a full support for the deal, or a support for the deal but with reservations.

New York's School Tax Relief Program[i]

Local property taxes in New York state are among the highest in the nation. This heavy reliance on the property tax combined with a wide range in wealth per pupil across districts is a major source of existing disparities in educational funding. It is not surprising, therefore, that many policy makers in New York have focused on property tax relief as a way not only to gain political favor for cutting taxes but also to reform educational finance in the state. Indeed, the most significant change in educational finance in the state in recent years is the School Tax Relief program, STAR. STAR was passed in 1997 and fully effective in 2002.

A lively debate is now taking place concerning the long-run effects of STAR on educational spending in the state. The then Governor, George Pataki, the main supporter of STAR, argued that it was simply tax relief and had nothing to do with educational spending. Moreover, he added, STAR contained several provisions designed to make certain that spending would not rise. In contrast, several scholars have argued that STAR fundamentally alters local voter's incentives to spend money for education and will, in fact, result in a dramatic increase in educational spending -- and in property tax rates -- in all districts except the big cities where the need for more revenue is greatest.

Description of STAR

A homeowner's local school property tax payment equals the tax rate selected by her school district multiplied by the assessed value of her home, which is required to be set as near as possible to its market value. The main feature of STAR is a property tax exemption that will be subtracted from assessed value, so that the tax payment becomes the rate multiplied by the excess of assessed value above the exemption. In symbols, the property tax payment, T, now equals the tax rate, t, multiplied by the assessed value, V, or $T = tV$. Once the STAR exemption, X, is in place, this equation becomes $T = t\,(V - X)$. The STAR exemption equals a base amount of $30,000 for the owners of owner-occupied one- to three-family houses, mobile homes, condominiums, and cooperative apartments. School districts must provide this exemption and the State will reimburse them for its cost.

Another key feature of the STAR exemptions is that the base amount is multiplied by a "Sales Price Differential Factor," which is the ratio of the three-year average sales price of residential property in a district's county relative to the three-year average in the state as a whole. This factor cannot fall below 1.0. Thus, this provision greatly increases the amount of the exemption in counties with high property values.

How STAR Affects Voters' Tax-Prices and School District Spending

STAR raises many issues of concern to voters and public officials. For example, a property tax exemption promotes equity across taxpayers by lowering the burden of the property tax the most on taxpayers with the smallest property values, and therefore with the least ability to pay. However, STAR's "Sales Price Differential Factor," offsets this equity improvement by giving a larger tax break to taxpayers in higher-wealth counties. The basic exemption in the richest county, Westchester County, will be about $72,000, for example, compared to $30,000 in most of the state.

For the purposes of this discussion, however, another feature of STAR must be emphasized, namely the fact that it alters the "tax price" faced by voters. The tax price is the voters' share of any increase in property taxes to pay for schools. This tax price varies widely across school districts. The tax price is lower in a district with a great deal of commercial and industrial property because much of the burden of any school tax increase falls on commercial and industrial taxpayers, not on homeowners and other voters. In effect, the tax price operates like any other price; the higher the price, the more consumers substitute away from a product toward other products. Just as consumers buy less coffee if the price of coffee is higher, they will vote for less spending on schools if the tax price is higher.

This tax-price effect is not just hypothetical. Dozens, if not hundreds, of academic studies have shown that spending (for schools and for other local public services) is higher if the tax price is lower. These results are usually expressed as an elasticity, which indicates the percentage change in spending for a one percent change in tax price. A recent study of school spending in New York found that the price elasticity of demand for school spending is -0.45. In other words, a one percent decrease in the tax price results in a 0.45 percent increase in school spending.

Consider a district in which every house has an assessed value of $100,000 and is the home to a single student. Then without STAR, the tax price is 100,000/100,000 = 1 for every voter; when all houses are alike, each voter must pay $1 to raise spending by $1 per pupil. Adding STAR, with its $30,000 exemption, cuts the tax price in this district to (100,000-30,000)/100,000 = 0.7, which is equivalent to a 30 percent price cut.

In a less homogeneous district, voters who have a relatively expensive house will have a relatively high tax price. If the average house in a district is worth $100,000 then the owner of a house worth $200,000 faces a tax price of 200,000/100,000 = 2.0 (again assuming, for the purposes of illustration only, one pupil per household). Intuitively, any increase in the tax rate to increase spending per pupil will have twice the impact on the owner of a $200,000 house than on the owner of a $100,000 house. Moreover, STAR will have a *bigger effect* on the tax price of a voter with a *lower-valued* house (ignoring the "Sales Price Differential Factor"). When STAR is implemented, the owner of the $200,000 house will see her tax price drop from 2.0 to (200,000 - 30,000)/100,000 = 1.7, which is only a 15 percent drop.

Because not all voters have the same tax price (or the same change in tax price from STAR), one cannot predict the amount of spending selected by a school district (or the change in its spending in response to STAR) without selecting a "decisive voter," defined as the voter whose demand for spending coincides with the spending level selected by the majority of voters. The most common approach, which works well in many circumstances, is to say that the decisive voter is the one with the median house value in the community. The change in tax price as a result of STAR will also be influenced by the amount of commercial and industrial property in the district and the number of pupils per household.

For two main reasons, many commentators and public officials have rejected the argument that STAR will increase local spending on education. First, some people argue that estimated price elasticities are simply irrelevant for STAR, which is, they say, nothing more than tax relief. Voters may spend more on education, they concede, when there is a lot of commercial and industrial property in a district to share the tax burden, but they will never make the connection between their exemptions and the "price" of education.

Second, even if voters are tempted to increase spending due to lower tax prices, STAR supporters say, the new property tax cap passed in New York in 2011 limits spending increases for municipalities and school districts to 2 percent per year or the rate of inflation (as measured by the CPI), whichever is less. To prevent disincentives for local growth, this limitation does not apply to taxes on new construction or additions to existing property in the year that this construction takes place. Jurisdictions can override this limit if 60 percent of the voters agree, but this super-majority requirement is proving to be a severe hurdle.

In fact, STAR may affect not only education spending. Based on Eom et al. (2014), analyze how STAR may induce unintended consequences in terms of households' location choices, student performance, and property tax rates as well as education spending.

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[i] The case is slightly adapted from Yinger's teaching case available here: faculty.maxwell.syr.edu/jyinger/classes/PAI735/cases/case1.htm

SSMID in Marshalltown, IA[1]

Citing significant opposition, President Fauna Nord of the Central Business District (CBD) told the Marshalltown City Council at its Monday night meeting on Sept 25, 2017 that the organization has stopped efforts to implement a Self-Supporting Municipal Improvement District (SSMID). This happened after 103 property owners (surpassing a required 40% threshold) voiced their opposition to SSMID.

David Thompson, owner-operator of Thompson's True Value, and Vice-Chairman of the Marshall County Board of Supervisors, said that both sides have been meeting "behind the scenes." Thompson's business is in the SSMID district, and he would be levied an assessment if the measure passes. He spoke out against SSMID at the Sept. 7, 2017 Planning & Zoning meeting.

"There are a number of us who have been working behind the scenes at different levels to come up with a resolution to get everyone on the same page," Thompson said. "We all want the best for downtown … we are working to find common ground."

The CBD/Main Street program staff and volunteers have been working most of this year prompting SSMID benefits to property owners in the district. Earlier this year, supporters submitted their own list to the city which showed 63 downtown property owners in favor — five above the minimum required by state law.

Debate

Supporters claim the estimated $60,000 to $80,000 generated from SSMID levies is needed to advance the mission of the CBD. Supporters also claim an annual allotment from the city, fundraising and other revenue is not enough to make needed downtown improvements which would benefit downtown businesses. The SSMID funds, they add, are restricted solely to improving the business and cultural environment of the district. The improvements would range from marketing strategies to sidewalk snow removal to support of popular events such as the Holiday Stroll.

Conversely, SSMID opponents have said the levy on their individual properties would be a financial burden. Some have suggested the CBD engage in more creative and efficient fundraising among other ideas, to improve revenue.

Nord read briefly from a statement, and said CBD would be working with SSMID opponents and supporters to develop a *"new (downtown) plan"* where *"everyone can get along."*

However, Nord was still struggling with how to win support from opponents. What would you advise her doing? Should she continue with this SSMID effort? If yes, what would she do to get the SSMID formed as regards boundary planning, level of SSMID-funded services, budget, levy rate, duration, outreach, and justification? If not, what would be alternative revenue sources to fund needed downtown improvements?

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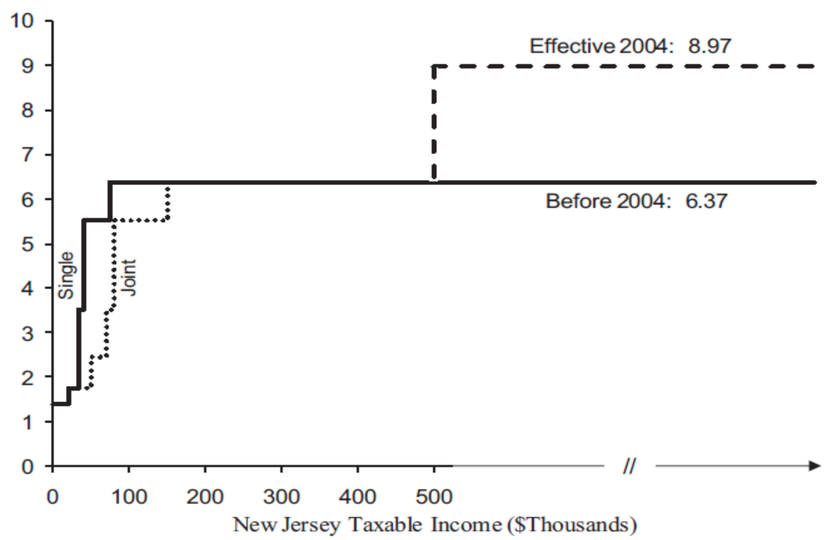
[1] This mini-case is adapted from http://www.timesrepublican.com/news/todays-news/2017/09/local-cbd-halts-ssmid/ and http://www.timesrepublican.com/news/todays-news/2017/09/documents-filed-to-stop-ssmid/.

"Millionaire" Tax – The case of New Jersey[1]

In early 2004, New Jersey Democratic Governor, Jim McGreevey, proposed a plan that would raise a tax rate on income of more than $500,000 to 8.97 percent from 6.37 percent—an increase of 2.6 percentage points. He said that this increase would apply only to 28,000 New Jersey households, or fewer than 1 percent. Mr. McGreevey framed the income tax increase as a "recapture" of the money that high-income taxpayers had saved as a result of President Bush's tax cuts. There are important notes:

1/ The income threshold of 500,000 is the same for single tax filers or married couples filing jointly. The income bracket below 500,000 is subject to 6.37%, as shown in the figure below.

Schedule of New Jersey Marginal Income Tax Rates (Percent)



2/ The marginal tax difference is the difference between tax liability under the old rate of 6.37% and the proposed rate of 8.97%. A couple whose income is 600,000 would have to pay $2,600 more (=600,000-500,000)*2.6%) in state income taxes with the new tax rate. Similarly, a household with an annual income of $1 million would pay $13,000 more.

As a planning consultant with expertise in the interplay between tax policy and planning issues (e.g., economic development, transportation), you were asked to speak in a hearing held by the Budget Committee of the New Jersey General Assembly in April 2004. Specifically, you were asked to provide your thoughts on

1/ the revenue-raising capacity of this proposed rate,

2/ the equity dimensions (benefits and ability-to-pay principles),

3/ locational choices of new residents who are moving to the New York Metropolitan Statistical Area (NYMSA), supposedly given that NJ income tax rates for other lower income brackets are

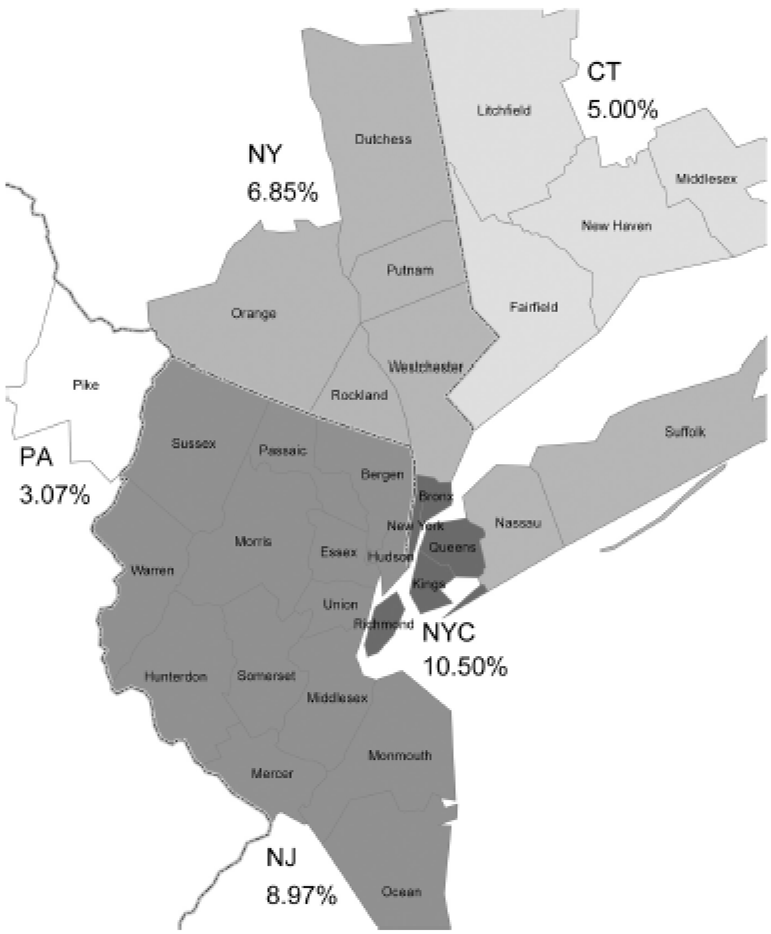
[1] This basic information and graphs are taken and adapted from Young and Varner's *Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment* published in *National Tax Journal* (2011, volume 64, issue 2).

also higher than other neighboring states. The concern is that new residents might choose to locate in other states than NJ.

4/ potentially longer commute times for people who live in low-tax states and work in high-tax states. Longer commute times mean higher negative externalities (identify these externalities).

5/ the potential outmigration of high-income earners from New Jersey. Top earners may move to neighboring areas in PA, NY or CT due to differences in top income taxes (as shown the map below).

Top Marginal State and Local Income Tax Rates in the NY-NJ-CT-PA Consolidated Metropolitan Statistical Area, 2007



Bibb County looks at two new sales taxes

Mary Grace Shaw, WMAZ *7:01 PM. EST December 11, 2017*

(http://www.13wmaz.com/news/local/bibb-county-looks-at-two-new-sales-taxes-1/498668765)

Bibb commissioners are discussing raising county sales tax 2 cents by adding two new Special Local Option Sales Taxes - one for transportation, T-SPLOST, and one for other county projects.

If both of those new sales taxes take effect, people would pay 9 cents on every dollar for most retail items, meals and other items. Right now, people pay 7 cents.

Rosemary Billins Sanders says she has lived in Bibb County for more than 40 years.

“Kind of putting a burden on me because I’m on a fixed income,” says Sanders.

Between property taxes going up and an annual garbage bill, she says the county is making a lot of changes that are hurting her pocketbook.

“That's too much for one person to handle. It’s very difficult. You have to squeeze your money real tight in order to make it,” says Sanders.

She says she started thinking of ways to make sure she could pay her bills when she heard the county may raise sales taxes 2 cents.

“It doesn't seem like much, but it adds up,” says Sanders.

Commissioner Larry Schlesinger says in order to make a lot of improvements in the county, they need these other taxes to generate funding.

“T-SPLOST gives us a bucket of funding that we can use as a region in order to make projects go that we can’t just afford from our general budget,” says Schlesinger.

Laura Mathis from the Middle Georgia Regional Commission says a 1-cent transportation sales tax would generate about $500,000 for transportation projects in 11 counties over 10 years.

Mathis says it would also generate an additional $33 million for transportation projects just in Bibb County over those 10 years. She says it would be up to Bibb County to decide how to spend that funding.

Mathis says there will be meeting on Wednesday where representatives from the region are scheduled to vote on adding the transportation sales tax to the May 2018 ballot and approve the list of projects. She says they are just presenting the project ideas to the commission Tuesday.

Sanders says if it means changes can be made to the roads in her community, she supports the T-SPLOST, but she says she hopes they do not approve the other sales tax. Sanders says that on top of the T-SPLOST is just too much.

Would you be for or against this tax increase proposal and why? Your analysis should focus on the adequacy and equity of this proposed tax increase, and other potential effects discussed in Burnes et al. (2014) and Rohlin and Thompson (2017).

[redacted]
URP: 6233 Financing Local Government
Warm-Up 1 of 2
January 23rd, 2018

Today's lecture topic is *Introduction to the Property Tax.* The current event article to be discussed concerns California's Proposition 13, a state law enacted by voters in 1978 to protect homeowners from sharply increasing property taxes. Last month, the California Association of Realtors proposed a ballot initiative to expand Proposition 13, as reported in Panetizen.[1]

In order to understand this proposal, it is imperative to first understand Prop 13. This bill was passed under Governor Jerry Brown (who is currently serving as Governor again) when property values were rapidly increasing and there was no limit to how much tax local jurisdictions could demand from property owners.[2] Prop 13 was championed by a Los Angeles apartment building owner, Howard Jarvis, whose message resonated with California homeowners who were panicking over swiftly rising property taxes.[3] Advocates of the proposition argued that tax increases were forcing elderly and low-income families to sell their homes; the vote was widely interpreted as a "tax revolt" against the government.[4]

At the same time, Prop 13 also significantly reduced the amount of revenue for schools and public services.[5] A shortage of revenue caused the state to provide more funding from state income taxes. With that money came all sorts of rules from the state capitol and has "put the legislature way into the local process," per Governor Jerry Brown.[6]

Now, the real estate industry in California aims to extend the property tax limits provided by Prop 13 to qualified recipients by allowing their property tax benefits to travel with them if they move to a new home within California. However, it is not an issue to be taken lightly as Chris Hoene, executive director of the California Budget & Policy Center, says "anyone who touches it meets a speedy political death."[7]

Learning Objective: appreciate the role of the property tax as the mainstay of local government revenue.

Property taxes are a foundation of public finance in California, like many states. The property tax raised $55 billion in 2014-15, which was the second source of government revenue next to the personal income tax. For many state residents, the property tax is the largest tax payment they make each year and for many local governments, the property tax is the foundation of their budgets.[8]

Learning Objective: explain the basic workings of the property tax.

Each homeowner's property tax bill is based on multiplying the assessed value by the property tax rate. Prior to Prop 13, the rate was determined by each local government and averaged 2.67%.[9] After Prop

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[1] (Brasuell, 2017)
[2] (Ferreria, 2010)
[3] (Myers, 2018)
[4] (Ferreria, 2010)
[5] (Murphy, 2017)
[6] (Myers, 2018)
[7] (Greenhut, 2017)
[8] (Legislative Analyst's Office, 2016)
[9] (Legislative Analyst's Office, 2016)

13, the overall tax rate for all government entities serving the property is limited to 1% and property tax value was rolled back and frozen at the 1976 assessed value level.[10]

Prop 13 also changed the taxable base value from the market value of property to the most recent purchase price. The property's taxable value increases by the lower of 2% or the rate of inflation. This process continues until the property is sold and subsequently taxed at its new purchase price.

Learning Objective: describe the relationship between tax price and demand for public services, especially through Tiebout sorting, fiscal zoning, and the median voter framework.

Due to Prop 13, people are more likely to remain in their homes for several years because of the tax benefits, despite the inefficiencies of living there, such as location relative to public goods or size of home. According to the Tiebout model, people can vote with their feet by choosing the locality that best fits their needs and provides the best public goods given the tax. However, some homeowners do not have the mobility to move from one town to another because they cannot afford the resulting increased property taxes. Thus, the Tiebout model's assumptions do not hold fully true under Prop 13.

Learning Objective: develop preliminary arguments for or against the property tax.

The California Association of Realtors would expand Prop 13 to allow eligible homeowners to keep their lower tax obligations for life "regardless of how many times they move" within California.[11] There were amendments passed in the 1980s which allow older homeowners to keep their Prop 13 benefits if they moved to similarly priced or cheaper homes within the county, or to another county that opted to accept property tax transfers.[12] Of course, Realtors make money based on the volume of real estate transactions, and this is a direct move to increase the number of transactions. Thus, it is only natural the real estate industry would like to provide a property tax incentive to get longtime homeowners to move from their homes.[13]

According to the California Legislative Analyst's Office, the share of properties sold each year in California has been on the decline since the passage of Proposition 13. In fact, in 1977-1978 (before Prop 13) 16 percent of properties were sold and in 2014-2015 only 5 percent of properties sold.[14] Some proponents believe this proposal could help solve the housing shortage California is facing by allowing empty nesters to downsize and young families to purchase large homes.[15]

Prop 13 is widely blamed for the challenges California faces to deliver services at every level of government as well as increased economic segregation and tax inequality. For homeowners at all income levels, current tax relief from Prop 13 generally is proportionate to the market value of their homes. However, the tax relief provided to homeowners through Prop 13 is not distributed fairly. Owners of properties that are similar but purchased at different times often pay vastly different amounts of property tax.[16] Because higher–income households own more, higher–value homes and

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[10] (California Tax Data, 2018)
[11] (Brasuell, 2017)
[12] (Murphy, 2017)
[13] (Brasuell, 2017)
[14] (Legislative Analyst's Office, 2016)
[15] (Murphy, 2017)
[16] (Legislative Analyst's Office, 2016)

Prop 13 tax relief is proportionate to home wealth, the majority of Proposition 13 tax relief (in dollar terms) goes to higher–income households.[17]

There are additional shortfalls. In Los Angeles County in 2015, a typical new commercial property owner paid $2.69 per square foot in property taxes, compared to $1.18 for commercial property owned ten years or longer and $0.87 for commercial properties owned for 20 years or longer.[18] Further, by restricting tax increases until properties change hands, it forces local governments to rely on development fees, which discourages home building and may have an effect on supply shortages.

While it is acknowledged Prop 13 is not perfect, there is no indication that the changes proposed by CAR will provide a net benefit to state and local governments. The California Legislative Analyst's Office estimates the annual loss in tax revenue from providing this break would be $1 billion for schools and more than $1 billion for counties and cities.[19] This is even after considering the increased revenue from property taxes on the inventory assessed at updated values.

At the same time, those calling for general reforms to Prop 13 do not believe this idea is a formidable solution because it is another tax giveaway to people who are wealthy.[20] A professor from UC San Diego, Thad Kousser, said "This is not about keeping Grandma in her house. It's about people trying to move up."[21] Others point out the older folks already receive a big benefit from the real estate value gains of their homes. Assemblyman David Chiu points out it does not add housing supply and will make it harder for cities and counties to pay for schools, infrastructure and public safety. He states this initiative does nothing to solve the state's housing crisis.[22]

While this change to Proposition 13 will benefit the real estate industry, it does not help solve the challenges California faces. Advocates of more funding for public schools and other local services have long contended the split roll is the best way to make up what those causes lost under Proposition 13. In a split-roll, commercial and residential properties are taxed at different rates. There are advocates for focusing the tax on commercial properties because they are taking advantage of a loophole by splitting ownership of property among several different companies to avoid official transfer of ownership per Prop 13.

[17] (Legislative Analyst's Office, 2016)
[18] (Legislative Analyst's Office, 2016)
[19] (Brasuell, 2017)
[20] (Murphy, 2017)
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Spring 2018
Financing Local Government
Instructor: Phuong Nguyen

Homework Assignment 1

Due 3:30 p.m., Feb. 15

Your answers will be graded on clean and coherent writing, and the quality of your discussions that show your knowledge of assigned readings

Question 1:

The Smiths is currently living in Iowa City in a house assessed at $180,000.

a/ Compute this household's tax price for Iowa City's public services in FY2018. (You can ignore the rollback and other credits.) To complete this task, you need to find the city's total taxable non-TIF valuation (without gas and electric utilities) for FY2018 (available here: dom.iowa.gov/city-valuations) and its total number of households from ACS 2016 (available here: factfinder.census.gov). What does this Smiths' tax price mean?

b/ Given this tax price, discuss briefly the Smiths' demand for public services in comparison to the demand of the average household, i.e., the household with the average-value house.

Question 2:

Please evaluate the consistency in the comprehensive plan and CIP of the city of Coralville. Its comprehensive or community plan is available here coralville.org/619/Community-Plans and here is its CIP: http://coralville.org/DocumentCenter/View/4447. You can focus only on the third criterion in Mathur's Table 2 for this evaluation.

Question 3:

As Mike Farley reported in class the other day, Pennsylvania could eliminate local property taxes this year. One argument to support this elimination is that property taxes are regressive. Do you agree with this argument? Why and why not? (about two paragraphs)

Question 4:

A peer planner of yours who has not taken this course suggests a solution to the potential problems with the assessed value growth cap under Prop 13 in California: eliminate it and allow properties to be assessed at the full market value. This solution itself would bring several consequences. Discuss the consequences on equity from the perspective of property tax capitalization and your suggested policy solution to these consequences.

Question 5:

The Council of the City of Paradise is considering adopting either a split-rate (a lower tax rate on improvements) property tax or even a land tax (with a zero tax rate on improvements). As the city's planner, you are invited to provide an expert testimony on the pros and cons of the split-rate property tax or the land tax, including their potential effects on the city's fiscal health and urban sprawl. Please prepare this testimony which should be no more than one single-spaced page in length—appropriate for the speaking time allotted. For the testimony to be well-informed and thoughtful, you need to consult at least the Feb 1 articles, required and optional, for their main ideas/arguments and key empirical findings.