Chapter 1

Section A.4

Valuing Commercial and Industrial Properties for Tax Purposes: A 50 State Survey

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The purpose of this paper is to identify and review methods used by the states to value agricultural, residential, commercial, and industrial property for purposes of property taxation. In addition, The George Washington Institute of Public Policy (GWIPP) has been asked to identify those states that require an income or productive earnings capacity approach as the primary method of valuing all, or a specifically identified subset of, commercial or industrial property, or both, for purposes of property taxation.

Background to Valuation Methods

Traditionally, state and local governments use three distinct methods for valuing property for tax purposes. The three methods, briefly explained below, are the cost, sales, and income approaches to valuation.

Cost approach

Historically, most assessment jurisdictions started out with a valuation methodology that required breaking real property value into its two main component parts – land and improvements. The earliest method of valuation was the *cost approach*, which estimates the market value of land and then adds the depreciated value of the replacement cost of the improvements. This inherently componentized approach has been deemphasized over time in favor of two other valuation approaches. These are the market value or *sales comparison approach*, which is used almost exclusively in valuing single-family residential property, and the *income approach*, which is used in valuing income-producing commercial or industrial property. As generally applied, neither of these

approaches requires or produces a separate land value; instead, each yields parcel values that combine land and improvements values.

The cost approach is used exclusively for improvements and typically when the sales or income approaches are unavailable. The premise of the cost approach is based upon the principal of substitution – the market value of an improved property can be estimated based on the sum of the land value and the depreciated value of improvements. [Eckert, 1990, Chapter 8] That is, the property is assumed to be worth no more than the cost to replace it plus the value of the land. The assessor first determines the replacement cost for the structure(s) on the subject property that is being appraised. The next step is to consider depreciation, or the loss in value of the improvements. There are generally three causes of depreciation – physical deterioration, functional obsolescence and economic obsolescence. Specifically, according to Eckert

- Physical deterioration is the loss in value of the improvements because of wear and tear and the forces of nature.

- Functional obsolescence is the loss in value of improvements because of the inability of the structure to perform adequately the functions for which it is used which typically results from changes in design and technology which reduce the utility of the structure.

- Economic obsolescence is the loss in value of improvements that result from factors outside the property's boundaries, e.g., changes in the highest and best use of a property due to market shifts or such things as inadequate public services, lack of parking facilities, narrow streets, or proximity to inharmonious industrial or commercial land uses. [pp. 220-21]

Two types of adjustment are necessary when using the depreciated cost approach. One is to adjust the cost approach for differences in the cost of materials from one area to another. For example, the cost of a 2x4 may be higher in one area than another. Using a standard cost table for all areas may miss this type of difference, so assessors may adjust

the cost coefficients to reflect the market for supplies in different neighborhoods or different jurisdictions.

A second type of adjustment is needed when the contribution value of various characteristics of a house vary because the houses, while identical in structure, are located in different market areas. The market value of two houses will be different, even though they are identical structures with identical replacement costs, if one house is in a neighborhood undergoing gentrification and the other is in a neighborhood in decline.

After a depreciated improvement value has been determined, the land value is added to give a total estimate of market value for the property being appraised. Determining land value separate from improvement value can be difficult. For vacant land, the most desirable approach is to value land based on sales comparison. This approach is grounded in the notion that land parcels of similar utility are substitutes for one another and will result in similar sales prices in a competitive marketplace. Market transactions for vacant land are used to value other land parcels with appropriate adjustments for size, shape, corner influence, location, and topography (Eckert 1990, 190–195).

In developed urban areas, however, the problem is that there may be insufficient vacant land sales to use the sales comparison approach to valuation. Bell and Bowman examine three alternative approaches to valuing land when there are insufficient vacant land sales; all depend on the principle of substitution, but apply it in a different manner. Specifically, they examine

- Abstraction, or extraction, method of valuing land, which is the most common approach to valuing land for tax purposes in urban areas with insufficient vacant land sales. This technique starts with the market

value of an entire property that actually sold and subtracts the depreciated cost of replacing the improvements, attributing the residual to land.

- Allocation method of valuing land when there is few land sales attributes, or allocates, a percentage of total improved parcel value to land. The land percentage is derived from market evidence and applied to individual parcels. This approach assumes that if land typically accounts for 25 percent of total value, for example, then 25 percent is the likely land share of total value for a particular property.
- Contribution method of valuation assumes that the market value of land can be estimated more accurately by considering how much each characteristic of site and improvements contribute to the market value of the particular parcel. The principle of contribution applies to the parts, or attributes, of a property to determine the contribution of each part to the total value. Total value may not equal total replacement cost of the individual parts. [Bell and Bowman, 2006 and 2007]

After reviewing experiences with all methods of valuing land for tax purposes, Bell and Bowman conclude that the contribution principle of value seems more consistent with the notion of market value than either the abstraction or allocation principles. There are adequate analytic tools available to estimate with reasonable accuracy independent land and improvements values. [Bell and Bowman, 2006 and 2007]

Sales Comparison Approach

Most states define market value as the standard for assessments. The sales comparison approach to valuation is generally regarded as the preferred approach for assessments when sales data are available. [Eckert, 1990, Chapter 6] The sales comparison approach values each parcel as a single entity – land and improvements are not typically valued separately under the sales comparison approach as they are under the cost approach.

The sales comparison approach bases valuation of the subject property on the sales of similarly situated properties. It is traditionally used for owner occupied

(residential) properties. Comparable sales data can be found through a variety of sources including the appraisal district, real estate appraisers, brokers and third party vendors. Appraisers will make adjustments for differences between the subject property and comparable properties. For example, if a comparable sale has four bedrooms and the subject home has three bedrooms, the appraiser will make a downward adjustment to the sales price to the comparable sale. Comparable sales data are given strong consideration in property tax hearings for houses, land and owner-occupied commercial buildings.

Often, assessors use computer assisted mass appraisal models to estimate the value of properties that have not sold. These CAMA models are generally calibrated with information from properties that have sold. Once the model is calibrated it is used to estimate the value of properties that have not sold based on their attributes. Specifically, there are several steps in developing and applying such models to the valuation of properties that have not sold including:

- Selecting property attributes that impact value – this is the model specification;
- Collecting data for properties that actually sold for all the relevant attributes included in the model;
- Calibrating the model using the data from actual sales; and
- Applying the model to unsold properties to estimate their selling price based on their attributes and the value of those attributes as determined by the model.

Income Approach

The income approach is typically used for income properties. The basic theory is that investors purchase income properties for the income stream they produce. This income stream can be converted to an indication of market value for the property. The

primary steps in the income approach are to estimate the potential gross income using rent comparables and information regarding actual income at the subject property. An allowance for vacancy is estimated based on the performance of the subject property and average vacancy in the area. Operating expenses are estimated using actual expenses at the subject property and market expenses for similar properties. The net operating income (NOI) is calculated by deducting vacancy and operating expenses from the potential gross income. Net operating income is converted to an indication of market value by dividing it by an appropriate capitalization rate.

Determining the appropriate capitalization rate, however, can be a challenge. For example, the capitalization rate reflects the quality of the stream of income for a particular property, i.e., the risk associated with the stream of income. Direct capitalization is based on estimates of an overall capitalization rate which is estimated by dividing net operating income of a property that actually sold by its sales price. [Eckert, 1990, Chapter 12] Estimating the capitalization rate is often the most controversial part of implementing an income approach to valuation.

Preferential Assessments

Assessments are typically done at the local level. Assessors at the local level generally have discretion over which valuation approach is applied to which type of property. Generally, the sales comparison approach is applied to residential properties and the income approach is applied to commercial and industrial properties.

Some properties, however, are not valued according to these traditional approaches because they are accorded preferential assessments. States use a variety of methodologies for valuing properties for tax purposes when those properties receive

preferential assessments. These methodologies can be grouped under the following general headings:

- *Income productivity of the land.* This is the most common type of valuation. The formula or guidelines devised by the state considers the productivity of the land. This is the case if a fixed dollar value is differentiated according to crop, soils present on the land, yields, or other site characteristics that influence the actual or potential productivity of the land. It may or may not refer to "income" productivity, but the valuation of the land is tied to how much of whatever resource it can produce, and the state must determine the capitalization method for the way income productivity will be measured. Income productivity is used to value land for preferential assessment programs in 35 states.[1]

- *Assessment ratio.* This method values agricultural land as a flat or fixed percentage of fair market value (or some other taxable value). Assessment ratios are used to value land for preferential assessment programs in 13 states.[2]

- *Fixed dollar value or percentage of default (or baseline) valuation*. This methodology entails assigning a specific dollar value per acre or unit, or a fixed percentage of market or other value in order to calculate preferential assessment. Fixed dollar value or baseline is used to value land for preferential assessment programs in 10 states.[3]

- *Exemptions/Easements*. These methods of determining relief include full or partial exemptions from property tax and permanent property tax relief for easements (contractually an agreement to retain the property for agricultural use). Exemptions or easements are used to value land for preferential assessment programs in 5 states.[4]

- *Other formula devised by the state*. The state establishes a formula to be applied to land in the target use that is to be applied to all such land in the state. This can include classifications established by the state, as for land growing certain types of wood or crops, or differentiation by geography - as long as the formula is set by the state. The alternative is for local property assessors to devise their own

1 Alabama, Arkansas, Arizona, California, Delaware, Florida, Iowa, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Maryland, Maine, Minnesota, Missouri, Mississippi, Montana, North Carolina, New Hampshire, New Jersey, New Mexico, Nevada, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Virginia, Washington, Wisconsin, and West Virginia
2 Alabama, Delaware, Georgia, Illinois, Louisiana, North Dakota, Nebraska, New York, Oregon, South Carolina, South Dakota, Texas, and Wisconsin
3 Idaho, Indiana, Maine, Minnesota, Missouri, Nevada, Oregon, Utah, Vermont, and Washington
4 Delaware, Idaho, Indiana, Minnesota, and New York

method.[5] Some other formula devised by the state is used for preferential assessment programs in 12 states.[6]

Valuing Commercial and Industrial Property for Tax Purposes

GWIPP undertook a comprehensive review of statutory and regulatory requirements regarding valuation of commercial and industrial properties for tax purposes in all fifty states and the District of Columbia to identify those states that mandate the use of the income approach to valuing commercial and/or industrial properties. In each state, GWIPP examined the laws and regulations in effect as of June 30, 2008. The GWIPP research team looked specifically at whether the states and District of Columbia required or otherwise legally mandated a specific valuation methodology for industrial or commercial property.

GWIPP has been unable to identify any states that ***mandate*** the use of the income or a productive earnings capacity approach for purposes of valuing commercial or industrial property. Indeed, GWIPP has been unable to identify any states that mandate any specific valuation methods for commercial or industrial property.

Some state statutes do require appraisers to "consider" one or more of the methodologies in valuing property. For example, Texas in Sec. 23.0101 of the Property Tax Code states:

> "In determining the market value of property, the chief appraiser shall consider the cost, income, and market data comparison methods of appraisal and use the most appropriate method."

But the notes and legislative history of the Texas statute reiterates that no one method is required.

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5 For a fuller discussion of preferential assessments see Connolly, Metcalf, Bell, Brunori and Collins.
6 Connecticut, Hawaii, Massachusetts, Minnesota, North Dakota, Nevada, New York, Oregon, Rhode Island, Tennessee, Washington, and Wyoming

The comparable sales, cost and income methods of valuation are not necessarily the exclusive methods of determining market value. The trial court did not err by blending the income and comparable sales approaches, so long as the appraisal method as a whole constituted relevant and reliable evidence of market value. [Houston R.E. Income Properties XV, Ltd. v. Waller County Appraisal District, 123 S.W.3d 859 (Tex. App.-Houston [1st Dist.] 2003, no pet. h.]

In Louisiana, the statutes mandate "In making appraisals of commercial, industrial, and residential land and improvements, the assessors shall use the three nationally recognized approaches to value, those being cost, income and market, where each is applicable." LA Code Ann, sec. 303.

While the states do not legally require specific valuation methods for industrial or commercial property, they often formally or informally encourage particular methods. For example, The Washington State Board of Tax Appeals notes that income capitalization or sales comparison approaches are usually given more weight than a cost approach for commercial properties. The board says that income capitalization approach should be based upon market conditions. Income and expenses of the property under appeal may also be used. Income, expenses, and capitalization rates must be verifiable and supported. At the same time, the board urges property owners, including commercial property owners, with new construction to use the cost approach to determine the value of the improvements and the sales comparison approach to determine the value of the land. The Washington Board of Tax Appeals approach is consistent with generally accepted practices throughout the United States.

GWIPP conducted a survey of assessors in 10 states to determine how they approach valuing commercial and industrial property. In every case, the assessors indicated they have used all three valuation methods for industrial and commercial property. Each indicated however, that for rental and retail property, the income approach produced the most accurate valuations, assuming that market rental and income information was available. Each also indicated a preference for the cost approach for new construction. But each also indicated that they used the sales approach where sales of comparable industrial and commercial property were discernable.

While there are no legislative requirements to use one specific approach to value commercial and industrial properties for tax purposes, there are patterns that emerge in actual practice, and these patterns vary across states. According to a seminal survey by the International Association of Assessing Officers (IAAO) in 1999, assessors typically used all three valuation techniques for commercial and industrial property, presumably based on the particular circumstances. Specifically, one of the questions in the survey asked respondents to indicate which of the three approaches to valuation is most commonly used in the valuation of the specific types of properties, including commercial and industrial properties. The survey reports information for 50 states and the District of Columbia. Of these 51 jurisdictions, 11 did not respond to this question. Of the 40 jurisdictions for which we have responses, 25 said they use all three approaches to value commercial property and 26 said they use all three approaches to value industrial properties. Three states said they rely on the sales approach to value commercial property; while one state used this approach to value industrial properties. Four states indicated they use the income approach to value commercial properties; while no states

said they use just the income approach to value industrial properties. Eleven states indicate that they relied primarily on the cost approach to value commercial properties and thirteen states said they rely on the cost approach to value industrial properties.

Another question in the IAAO survey asked if the state provides depreciation schedules for various types of property, and, if they do, is the use of these state provided depreciation tables mandatory? The report includes responses from all 50 states and the District of Columbia. Of these 51 jurisdictions, 13 indicate that they do provide depreciation schedules for commercial properties to local assessors and 5 mandate their use when valuing commercial property for tax purposes. Eleven states provide such schedules to local assessors for industrial property and 4 mandate their use.

Finally, the IAAO survey asked whether or not a state determined capitalization rate was used to value any type of property. The study reports information for 50 states and the District of Columbia. Of these 51 jurisdictions, 10 did not provide a response to this question. Of the remaining 41 jurisdictions, 22 said that the state does provide such calculated capitalization rates to local assessors, and 19 said they do not.

Conclusion

Our research indicates that there are no legal requirements for using a particular type of valuation methodology for industrial or commercial property. Indeed, the industry standards indicate that all three methodologies can and are used depending on the circumstances.

As the Vermont Department of Taxation noted in its Handbook on Property Taxation, "There are no hard and fast rules regarding the three approaches." That seems to sum up the use of the cost, income, and sales approaches nationwide. All three are

used depending on the circumstances and the states do not require or prohibit their application.

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Chapter 2

Section A.6

Indirect Property Tax Relief: Trends and Successes

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Introduction

The purpose of this research note is to identify and review successful efforts by other states to lessen the local property tax burden through a mix of providing state support to local governments and authorizing user fees and other alternative sources of local revenue and evaluate possible utilization of such efforts in Iowa in light of its state and local fiscal capacity.

As we approach this task we emphasize two important points. First, any state action which reduces the pressure on the local property tax can, in the most general sense, be considered property tax relief. Second, a distinction must be made between direct relief and indirect relief.

Direct property tax relief is a broad concept encompassing any action which reduces individual property tax bills. Such action could include imposing assessment caps as some 20 states and the District of Columbia have done. Direct property relief also includes property tax rate limits (sometimes used in conjunction with assessment limit). Other direct relief measures include valuing farmland, and forest land, at use value rather than market value, or providing relief for historic preservation, or the more familiar circuit breaker or exemption programs available in many state. Many of these are discussed in a forthcoming book from the Lincoln Institute of Land Policy -- ***Erosion of the Local Property Tax Base: Trends, Causes, and Consequences***.

Indirect property tax relief does not work through the property tax system itself, hence the characterization as indirect relief. Indirect relief encompasses initiatives to reduce the reliance on local property taxes by substituting other revenues for local property taxes. The focus of this research note is on the role of indirect property tax relief efforts to take pressure off of the local property tax.

Indirect Property Tax Relief

There are many policies that can reduce pressure on the local property tax. One option is simply to eliminate the provision of certain goods and services provided by local government. An example might be the effort in Iowa to eliminate certain rural roads from the state's transportation network because they primarily served as driveways to individual farms (see Iowa State University, 1986). Other policies could involve the state performing certain functions that were previously the responsibility of local governments. In this research note we focus on efforts to reduce reliance on local property taxes by making other revenue sources available to local government, specifically, increased state aid and increased reliance on user charges.

The next two sections review arguments for increased reliance of local governments on state aid and current charges, and some limitations associated with each type of indirect property tax relief. Those sections are followed by a discussion of the trends in reliance on state aid and property taxes which is followed by a more detailed discussion of specific examples of indirect property tax relief through increased state aid. The next section discusses the trends in reliance on user charges and property taxes across states, which is followed by a discussion of some unintended consequences of indirect property tax relief. The last section discusses some implications of these trends for Iowa in light of state and local fiscal capacity in the state.

Policy Issues Presented by Intergovernmental Aid to Local Jurisdictions

Policy Justifications for Intergovernmental Aid

State aid to local governments serves several purposes. First, such aid ameliorates the burdens placed on local governments forced to deal with limitations on their ability to raise own

source revenue. Property tax limitations, along with inherent limitations on the ability to collect other types of taxes, put pressure on local governments to find revenue to fund basic services. State government aid has allowed local governments to keep operating despite the varied limitations on their taxing authority. Many, indeed most, of the tax limitations have been imposed by state law, and intergovernmental aid can be considered a method for compensating local governments for the lost revenue.

In this regard, state aid is recognition that local governments are incapable of funding government service through their own tax systems at least as they are now structured. The public's demands for services exceed the local governments' means of paying for such services. Local government inability to cover the costs of services is tied directly to the limitations placed on the property tax, particularly rate and assessment limitations. But such limitations are, at least in the foreseeable future, a legal and political reality.

Another justification for the use of intergovernmental aid is the fact that many services provided by local governments benefit residents beyond their borders. Large cities, for example, provide services that benefit commuters, tourists, and other non-residents. The residents of local governments are forced to pay for the services provided to non-residents. Some local governments have the means of collecting taxes from non-residents (through payroll, sales, and property taxes). But these tax sources, when available, are often inadequate to cover the marginal costs of providing the services to non-residents. In such instances, state aid compensates local governments for the costs of providing benefits to people and business outside their jurisdiction.

Problems with Intergovernmental Aid

a. Unreliability

Perhaps the single largest practical problem with the increased reliance on intergovernmental aid is that such aid is difficult to predict. State governments have been forced to increase aid to local governments during property tax revolts and as part of school funding equalization. But in virtually every state, there are no minimum funding requirements. And there are few guarantees that funding will even continue. Intergovernmental aid is appropriated at the discretion of the state legislature. The monies to be handed over to the local governments are not determined by or in the control of the people on whose behalf they will purportedly be spent.

The inability of local governments to predict state aid poses particular problems during times of economic downturn (Brunori 2007). When states face serious budget crisis, as they did in the early 1980s, early 1990s, and 2001-2002, one of the first expenditure reductions made is aid to local governments (Sokolow 1998). In fact, during the 2001-2002 state budget crises, 32 states reduced aid to local governments in an estimated, aggregate amount of $15 billion dollars. In 2002, for example, North Carolina reduced direct aid to its local governments by $330 million. The decision to reduce aid to North Carolina cities and counties was a direct result of the state's budget deficit which reached $1 billion dollars in that year. The budget cuts caused local governments to ask the North Carolina legislature for authority to impose a variety of new taxes and fees including an additional half-cent increase in the local option sales tax.

But the problem of relying on the legislature for funding is not limited to times of recession. When states are running large budget surpluses, as was the norm during the mid and late 1990s, legislators are more apt to cut taxes or increase state spending rather than increase intergovernmental aid. There are more political benefits to be gained from cutting taxes or financing state projects than for increasing local government aid. Mayors, city managers, county executives will incur the wrath of residents if public services are not adequately provided

because of a lack of funding. And those same political leaders will reap the benefits if the citizenry is satisfied with the mix of services and taxes. State legislators, however, have little to gain from insuring that local government aid is maintained at levels deemed acceptable to local residents. State legislators may and often do direct funds to other public services, despite the need of the local governments.

Ironically, one of the most significant problems with relying on state aid is that local government finance becomes dependent on the fortunes of the state budget. This is a particular problem when states face budget deficits. During times of recession, state tax revenue declines, often precipitously. State political leaders are faced with essentially three policy choices: raise additional tax revenue, cut public services, or a combination of tax increases and service reductions.

As a result, local governments are often forced to lobby for additional resources. State associations of municipalities and counties routinely take their case to the legislature arguing for more funding. The problem for the cities and counties, however, is that many other organizations and interests are lobbying for more support as well. As Sokolow (2000, 104) noted, "In a centralized fiscal environment, local governments are merely another set of competitors for scarce state budget dollars."

But intergovernmental aid that is distributed by the grace of effective lobbying efforts is not necessarily the most efficient way of financing government. Local governments will lobby for as much revenue as possible. And they will lobby for revenue despite their need (Berman 2000). They will lobby for aid to pay for non-essential projects rather than see state money spent in neighboring jurisdictions (Levine and Posner 1981). Moreover, once the local government begins receiving intergovernmental aid for specific programs, it is in their interest to protect

these programs, and their state aid, even at the expense of locally funded programs (Levine and Posner 1981).

More significantly, increased state aid must be paid for with additional state revenue. Increased state aid is accompanied by increased state tax burdens (Sokolow 1998). The connection between state aid and state tax burdens is little understood by the public or seemingly even political leaders. Residents certainly appreciate lower local tax burdens. But they may not realize that their state tax burdens have increased as a result of maintaining a satisfactory level of local public services.

State aid places local governments in a peculiar, at times difficult position. No local public leader will turn down funding from the state. This is especially true during times of economic downturn, when most local governments struggle to find revenue. Indeed there is evidence that after the tax revolts local politicians preferred to ask for more aid than to ask for increased taxing power (Sokolow 1998). At the same time, increased state aid has its drawbacks, a fact widely recognized by local political leaders.

b. Less Autonomy

When states grant funding to, or assume financing, of services traditionally performed by local governments, local governments lose a measure of autonomy. Funding from higher levels of government inevitably comes with "strings attached." State legislators appropriating revenue rationally take an interest in how the money will be spent. And there is an abundance of research showing that states routinely impose restrictions on how the money will be spent (see e.g., Nice and Fredericksen 1998, 156 and references therein). The state legislatures inevitably exert expanded influence over traditionally local matters. There is little doubt that intergovernmental aid results in a loss of political autonomy by the recipient of such aid.

c. Efficiency

Intergovernmental aid not only diminishes political autonomy, but there is a loss of economic efficiency as well. Centralization clearly reduces the economic benefits of intergovernmental competition (Holcombe 1998). As Oates (1979) noted intergovernmental aid leads to fiscal illusions. The recipients of local public services do not realize their true costs. As a result demand for such services increases which in turn produces a greater than optimal public sector (Oates 1979).

The level of funding and the conditions placed upon that funding may result in public services that do not match the preferences of the people who live in the locality. State funding may result in under provision of desired services and it may result in over provision of such services. In either case, the government would not be providing services as efficiently or effectively as possible.

As the National Conference of State Legislators (1997, 5) noted in an influential report:

> The primary disadvantage of centralization is loss of local control and accountability. Especially in geographically large states -- which can encompass politically diverse urban, suburban, and rural areas -- centralization increases the likelihood that some residents will be taxed for services they do not want or need. Proponents of decentralization argue that local residents are best suited to decide the service and tax levels that suit their needs.

Consequences for Local Tax Policy

The rise and dominance of state intergovernmental aid has had a serious effect on local tax autonomy. The very existence of state aid has placed a political constraint on local taxing power. If state aid is held out as a means of financing government services, it is difficult to muster public or political support for local taxes. Even if fundamental public services are in need of additional revenue, there will be a tendency on the part of local political leaders to look to the

state rather than own source revenue. The existence of state aid reinforces the logic for a politician to look for state aid to fund public services rather than take the politically risky option of advocating greater tax burdens on his or her constituents.

In the end, there is little doubt that intergovernmental aid further reduces that ability of local governments to raise tax revenue. The inability to raise sufficient tax revenue has the ironic effect of forcing local governments to rely even more heavily on intergovernmental aid.

Policy Issues Presented by User Fees and Charges

Policy Reasons for Imposing Charges

User fees and charges are, along with the property tax, widely regarded as an effective means of raising local revenue. User fees and charges do not present many of the same problems as taxes. They have limited effects on redistribution of wealth and distortion of the markets. For these reasons, leading economists and public finance experts have long sanctioned, indeed encouraged, their use (see e.g., Wassmer 1998, Downing 1999, Break 1993, Bird 1993; Oates 1993; McKinnon and Nechyba 1997, and Gramlich 1993).

a. Economic Efficiency

The primary justification for user fees and charges is that they are among the most efficient means of financing local government services (Wassmer 1998, Downing 1999, Bland 1997). Benefit taxes are an efficient and effective way of paying for local public services. User fees and charges are often considered the truest form of benefits tax. Indeed, from an economic efficiency standpoint, user fees and charges "take the benefits received theory of taxation to its logical conclusion" (Bierhanzl and Downing 1998, 75). Only those who use the public service pay the fee or charge. Those who prefer not to receive the particular service do not incur additional costs (Batt 1993).

User fees allow local governments to avoid oversupply of services and the unnecessary expansion of the public sector. Moreover, user fees and charges reduce the occurrence of tax exporting and fiscal illusion that causes over demand for public services (Bierhanzl and Downing 1998). Indeed, user fees are virtually impossible to export to non-beneficiaries of the services provided[1].

User fees and charges are also attractive because they may reduce the level of migration of firms and individuals. User fees should reflect the true marginal cost of public services. If individuals and firms are receiving the public services they desire for a cost they are willing to pay, there is less incentive for them to search for a more optimal service/tax mix. This is a clear advantage of using charges as opposed to virtually any type of general tax.

For this reason, a local finance system based on user fees has long been considered ideal from an efficiency standpoint. The economic efficiencies and their political alluring ability to control some portion of their tax burden, has translated into broad support for user fees and charges. The public generally favors user fees and charges. And public acceptance in turn insures the support of political leaders as well.

b. Diversification of Revenue Sources

With property taxes under intense pressure, user fees and charges allow local governments to diversify their revenue base. Sound tax systems are built on a diverse base, which provides a measure of stability.

State and local finance systems have traditionally relied upon income, sales, and property taxes to fund government, a mix thought to insure stability. In light of the limitations on other tax

[1] While difficult to export, many fees are often "hidden" from those who bear their economic burden. This is particularly true with respect to developers fees, which are passed on to homeowners in the form of higher housing costs.

sources, the user fee has come to play a major role in both the state and local public finance systems.

c. Local Control

User fees and charges allow local governments to retain a measure of control over their finances. User fees and charges are generally not subject to the legal limitations imposed on other taxes. Local governments generally do not require legislative approval to impose fees and charges. While there are political and market limitations, user fees and charges have helped local governments weather the property tax revolts with some semblance of autonomy.

Problems with Imposing Charges

Despite their widespread public acceptance and near universal scholarly support, user fees and charges pose distinct policy problems for local governments.

a. Limitations on Revenue Growth

User fee revenue can increase in one of three ways. First, local governments can raise the nominal rates charged for the particular service. For example, rather than charging $5 for access to the public pool, the city or county can charge $6 for admittance. Second, user fee revenue will grow if more citizens use and pay for the underlying public services -- assuming that the marginal costs of providing that service do not increase. An upsurge in people using the public pool would, all things being equal, bring in more net revenue. And finally, local governments can theoretically increase the number of public services for which fees can be charged. None of these options are easily available to most local governments.

Local governments cannot raise the price of public services at will. User fees and charges are efficient revenue sources because they reflect the benefit tax principle -- the citizen pays when receiving something of value in return. User fees that exceed the marginal cost of local

public services violate this principle. It will also cause fewer people to pay for the services being provided.

There is a limitation on the amount that governments can charge for a particular public service (Batt 1993). At some level, citizens will refrain from using the public service for which fees are charged. This is especially true, when there are viable alternatives to the desired government service. Because localities cannot impose charges at rates beyond what a person or business would pay, there is an inherent market limitation on the amount of revenue that can be raised.[2]

It is unlikely that local governments can count on increased usage of the public services subject to user fees and charges. There are practical limitations on the number of citizens who can access public services at any one time. Moreover, increased usage will likely increase the costs of providing the services.

Finally, the base upon which fees and charges can be levied generally cannot grow substantially. Local governments cannot realistically charge fees for services that are widely available, such as education, transportation infrastructure, and police and fire protection. This limitation is not unique to local government fees, but is inherent in fees charged by all entities. If access to the public service cannot be controlled, it is difficult if not impossible to charge for that service. The problem is that there are few public services left that can be subject to discrete fees. Over the preceding decades, local governments, especially those in states with significant property tax limitations, have imposed fees on just about everything that they can. There are simply few public services left on which a fee or charge can be imposed.

b. Fairness Concerns

[2] While local governments cannot charge prices beyond what the market will bear, there is evidence that some types of charges are set below fair market value (Bland 1997). Consistent with market theory, local governments can and should periodically reevaluate the prices charged for particular services.

Finally, there is a concern with respect to the fairness of using fees and charges to fund public services. Virtually everyone agrees that there are some services for which it would be patently unfair to charge fees (see e.g., Batt 1993). For example, fundamental services such as police, fire protection and other public safety services, are deemed to be necessities which should not be imposed on an ability to pay basis.

This, of course, is related to the regressivity of user fees and charges in general. Scholars and public finance practitioners have long asserted that -- despite their other attributes -- user fees and charges are decidedly regressive. That is, people with lower incomes pay a higher percentage of their income in fees and charges than people with higher incomes. The regressivity of this form of public finance has been emphasized more regularly in recent years (see e.g., Brunori 2007).

A final point of fairness has to do with the ability of low income people to purchase local goods and services financed by charges. Money is the way people "vote" in the market place for those goods and services they desire. However, if a family has limited income, they are restricted in the preferences they can reveal through market transactions. If a family is struggling to pay for health care, gasoline, food, and utilities, they may not have sufficient resources to pay the admissions fee to a park or swimming pool in the summer. The fact they do not purchase such services does not mean they do not want such services. Thus, to the extent there are low income families in a community funding local goods and services through charges may not send accurate signals to the local government regarding the goods and services demanded by citizens.

c. Conceptual Issues

As discussed above, user charges are generally thought to be consistent with the benefits-

received principle of taxation. However, at times there is a disconnect between the user charges implemented and the beneficiaries of a program. This situation results when beneficiaries include taxpayers who may not be actual users of a service. For example, the Bay Area Rapid Transit system in the San Francisco Bay Area is funded by fees paid by riders, who are clear beneficiaries and actual users of the service; and a half-cent sales tax applied in the transit district. The argument is that as transportation costs are reduced, businesses benefit from the mass transit system by having a larger market area and by having a larger area from which to recruit employees. Businesses benefit from the mass transit system, even though they may not use the services provided. Care must be taken to make sure that the charges put in place actually capture the benefits from a service – benefits that accrue to users as well as non-users.

Finally, charges are used for the funding of services where there is an identifiable user, whom you can charge a fee, and whom you can prevent from benefiting from the service if she does not pay the fee. But many goods and services provided by local governments do not have these exclusionary features, or the cost of exclusion is prohibitive. A network of local roads is one such example. When the good or service provided by local government exhibits "public good" characteristics of non-excludability, charges are not an efficient means of financing that service.

Outlook for User fees

Public finance experts are virtually unanimous in their belief that user fees are an efficient means of financing many local government services (see e.g., Wassmer 1998). While user fees and charges will remain an important part of local government finance, the significant

increases in user fees and charges is unlikely to continue.[3] Indeed, there are reasons to believe that the revenue from charges and fees will begin to decline as market forces and political pressures combine to limit fees and charges. Most significantly, however, is that there are only so many services for which fees can be charged. And most local governments have identified virtually all available services. Since the base cannot be expanded to a significant extent, revenue will grow only from increased use of services subject to fees or by increasing rates.

There is little likelihood that either will occur. For that reason many observers have concluded that local governments may have maximized revenues from user fee and charges (National Conference of State Legislatures 1997).

Trends in Reliance on State Aid and Property Taxes

In order to examine the extent to which local governments across the country rely on state aid or property taxes as a source of local general revenues we review data from the Census Bureau. We report information on general revenues because they pertain to the general government sector. General revenues include intergovernmental revenues and own-source revenues which are composed of taxes, current charges and miscellaneous general revenues. Not included in these numbers are utility revenues, liquor store revenues and social insurance trust revenues. Nationally, local general revenues account for nearly 90 percent of total local revenues. Of those local revenues not included in general revenue, two thirds are from utilities (primarily electrical and water) and one third is revenue from employee retirement insurance

[3] Dowing (1992) has argued that there is a great potential for further expansion of the role of user fees in local public finance. He argued that a doubling of user fee revenue could be expected if all local governments adopted charges at the same level of the most charging governments. But, since that study in 1992, local governments have already doubled their use of fees and charges.

trusts. We look at the relative reliance of local governments on state aid and property taxes in 1992 and 2006, and how that dependence changed over that period.

Table 1 reports the reliance of local governments on intergovernmental aid from state governments and property taxes in 1992 and 2006. For the nation as a whole, local governments received 34.2 percent of their general revenues from state governments in 1992. This share declined marginally to 33.9 percent in 2006. In 1992, ten states provided 40 percent or more of local general revenues through intergovernmental grants.[4] Only four states provided intergovernmental grants to local governments that accounted for less than 25 percent of general revenues – Hawaii, New Hampshire, Rhode Island, and South Dakota.

In 2006, ten states provided 40 percent or more of local general revenues, albeit the list of ten states is somewhat different then it was in 1992.[5] Again, four states provided less than 25 percent of local general revenues through intergovernmental assistance – Colorado, Florida, Hawaii, and Texas.

In 1992, Iowa local governments received 33.8 percent of their general revenues from state aid – slightly less than the average for the nation as a whole. In 2006, the share of general revenues from state aid declined in the state to 32.7 percent – still slightly below the national average.

To answer the question posed here (To what extent do states reduce pressure on the property tax by substituting state aid for property taxes?) we need to look at trends across all states in their reliance on state aid and property taxes. The last column in Table 1 reports the change in the property tax share of local general revenues between 1992 and 2006 by state.

[4] Arkansas, California, Delaware, Idaho, Kentucky, New Mexico, North Carolina, Washington, West Virginia and Wisconsin.
[5] Arkansas, California, Delaware, Michigan, Minnesota, Mississippi, New Mexico, Vermont, West Virginia and Wisconsin.

Nationally, property taxes fell modestly from 29.9 percent of local general revenues in 1992 to 27.9 percent in 2006. Twenty-one states saw local governments become more dependent on property taxes as a source of general revenues with the remainder seeing declines in the relative importance of the property tax. Local governments in Iowa relied on property taxes for 35.2 percent of local general revenues in 1992 (nearly 18 percent above the national average), but that share fell to 30.8 percent in 2006 (just over 10 percent above the national average). The relative importance of property taxes in local general revenues fell faster in Iowa than the nation as a whole from 1992 to 2006.

Local governments that relied more heavily on the property tax as a source of general revenues in 1992 tended to still rely heavily on the property tax as a source of general revenue in 2006 – the correlation coefficient between the share of local general revenues coming from the property tax in 1992 and the share in 2006 was .821. More interesting, perhaps, is the fact that those states where the relative reliance on the property tax as a source of local general revenues declined between 1992 and 2006, there was a tendency to increase reliance on state aid as a source of local general revenues. In fact, the correlation coefficient between the change in property tax shares of local general revenues from 1992 to 2006, and the corresponding increase in the relative share of local general revenues coming from state aid was -0.679.

While the overall trend seems to be strong across the country, there are a couple of states that stand out. For example, according to the data in Table 1, local governments in Michigan saw the relative importance of the property tax fall by more than 30 percent over this period while the relative importance of state aid increased 37 percent. Similarly, local governments in Oregon saw their reliance on property taxes decline by more than a third over this period while their reliance on state aid increased more than 31 percent.

Even more startling are the cases of New Hampshire and Vermont. In New Hampshire, local governments saw their dependence on property taxes fall by more than a quarter, while their reliance on state aid increased 136 percent. Even more pronounced, local governments in Vermont saw their reliance on local property taxes fall by nearly 72 percent over this period, while their reliance on state aid increased nearly 138 percent.

Some of these individual cases are discussed in more detail in the next section.

Specific Examples of Indirect Property Tax Relief

California

There are a couple of very visible and public efforts to reduce property taxes by shifting funding responsibility to the state government. The most talked about and researched is Proposition 13 in California which passed in 1978. The primary purpose of Proposition 13 was to reduce reliance on property taxes as a way of funding education and shift more responsibility for education funding to the state. It appears that Proposition 13 was successful in this effort.

In 1977, the property tax accounted for 65.9 percent of own-source local government revenues in California, and 85.2 percent of local tax revenues. Independent school districts were very important in raising property taxes because they accounted for 48.6 percent of local property tax collections in California in 1977.

By 1982, the property tax accounted for 40.5 percent of own-source local government revenues in California, and 71.4 percent of local tax revenues. By 1982 independent school districts collected just 38.3 percent of property taxes in California. The relative importance of property taxes as a share of own-source local revenues fell by more than 38 percent, and the

relative importance of property taxes as a share of local tax revenues fell by more than 16 percent in just five years.

This decline in the relative importance of property taxes in local finance in California between 1977 and 1982 was offset by an increase in state funding of local governments, especially education funding. Specifically, state aid to local governments in California increased from 35.2 percent of general revenues in 1977 to 44.7 percent in 1982.

Thus, it appears that Proposition 13 has been successful in shifting funding of local governments in California from local property taxes to state aid. In addition, this fundamental change in education funding generally succeeded in equalizing per-pupil spending between school districts in California [Downs, p. 409; Silva and Sonstelie, p. 201]. However, there is no evidence that such equalization resulted in or achieved equalization in educational outcomes as measured by test scores. Downs concluded

> "There is little evidence that outcomes, as measured by test scores, were less unequal after the school finance reforms of the late 1970's" [p. 414]

While there are some successes associated with Proposition 13, we have to ask what unintended consequences have resulted from the radical restructuring of local finance in California as a result of Proposition 13. For example, because the state plays a larger role in funding education, such funding must compete with other pressures on the state's budget, e.g., increasing importance of state Medicaid expenditures. At least in part as a result of such pressures, per-pupil spending in California went from 13 percent above the U.S. average in 1970 (ranking California 11th in education funding among states) to 10 percent below average in 1990 (ranking California 30th in education spending among states), which has direct impacts on the quality of education.

Another unintended consequence of Proposition 13 was what is referred to as the "fiscalization" of land use. [Chapman, 1998] Since development no longer generated property tax benefits for the local government, land uses that generated revenues in addition to property taxes became more important. For example, there might now be a bias toward large box stores that generate sales tax revenues rather than residential development. Thus, to the extent that land use decisions by local governments in California are driven by their fiscal consequences, fiscalization has occurred. [Chapman, 1998]

Potentially more troubling is the fact that as a result of Proposition 13, the property tax in California is no longer a local tax. Proposition 13 establishes the rate and base of the tax, thereby removing those decisions from the local government. AB 8, a state law, allocates property tax receipts among the different units of local government – city, county, school district, etc. [Chapman, 1998, p. 4] This is in contrast to the typical local property tax where the base is determined by the local assessor, the rate is determined by local decision-makers elected by residents and, presumably, reflecting voter preferences, and the revenues from the tax go directly to the jurisdiction levying the tax. [Chapman. 2003, p. 21]

Michigan

A similarly visible effort to reduce property taxes took place in Michigan in 1995. Again, the motivation was to reduce reliance on the property tax as a source of funding education by cutting property taxes and shifting the funding of education to the state. Again, it seems to have been very successful.

In March 1995 Michigan adopted what many consider to be a radical change in the financing of education in the state in an effort to provide more equalization in per pupil spending across school districts. Specifically, the state's general sales tax rate was increased from 4 to 6

percent, the new sales tax revenues were earmarked for education, and property assessments increases were limited to the lesser of inflation or 5 percent, with properties reassessed at market value when they sold. In addition, a state property tax was instituted with its revenue earmarked for education, a portion of the state income tax was earmarked for education and additional revenues were earmarked for education from the real estate transfer tax, the tobacco tax, lottery revenues and other excise taxes. [Fisher and Wassmer]

As a result of these changes the state now generates about 75 percent of revenues for schools which has reduced reliance on property taxes significantly. [Fisher and Wassmer, p. 422] For example, in 1992, the property tax accounted for 62.4 percent of local own source revenues in Michigan, but declined to just 47.3 percent by 1997. Property taxes accounted for 93.2 percent of local taxes in 1992, but declined slightly to 89.1 percent of local taxes in 1997. This decline in the relative importance of the property tax was offset by increased reliance on state aid, primarily for education. Specifically, in 1992 state aid to local governments accounted for 31.2 percent of general revenues, but increased to 49.2 percent of general revenues by 1997.

Again, there may be unintended consequences from shifting education funding from local to state government. For example, because the School Aid Fund in Michigan depends on sales and excise taxes and personal income taxes for funds to support schools, the fund is more sensitive to cyclical fluctuations than the property tax. As the state experiences economic slowdowns, or state funds are reallocated from education spending to other state services (e.g, health services), or voters resist efforts to increase taxes for other services, Fisher and Wassmer conclude that spending for education, and the resulting level and quality of service provided, may decline if revenue is insufficient to fund planned spending. [p.425]

Vermont

As noted above, local government reliance on the property tax in Vermont fell dramatically (72 percent) between 1992 and 2006. At the same time, local government reliance on state aid increased nearly 138 percent. These significant changes in the fiscal environment have their genesis in the school equalization controversy. In 1997, the Vermont Supreme Court declared the states education finance system unconstitutional and ordered the state to establish a system in which "children who live in property-poor districts and children who live in property-rich districts should be afforded a substantially equal opportunity to have access to similar educational revenues." The ruling called for the establishment of an education finance system that was equitable and that no longer tied local education spending to local property wealth (that is, a system that would be wealth-neutral).

The state legislature responded by enacting Act 60, a controversial measure that implemented a state property tax, revenue from which was earmarked for K-12 education. The act also created a system that redistributed local property taxes from wealthier to poorer communities for education finance. These combined measures greatly reduced the amount of local property taxes collected by towns and cities in the state (Hollins Saas 2007).

In 1997, local governments in Vermont received 61.5 percent of total local general revenues from property taxes; this figure declined to just 28.7 percent in 2002. Alternatively, local governments in Vermont received just 24.2 percent of total local general revenues from state aid in 1997; this figure increased to 55.4 percent by 2002.

The impetus for Act 60 was not property tax relief, but rather the school equalization litigation. The consequences of Act 60 were bitter political debates over the use of property taxes to redistribute wealth. The property tax has never been viewed by public finance experts as a

particularly efficient or effective means of redistribution. Efforts to modify Act 60 have had varying degrees of success in the ten years since enactment.

New Hampshire

New Hampshire like Vermont experienced significant declines in local government reliance on property taxes between 1992 and 2006. And like Vermont, the reason for this decline in directly related to school equalization litigations. In 1997, the New Hampshire Supreme Court declared the state's public school system unconstitutional and ordered the state to devise a plan to finance education without local property tax revenue.

In response the legislature enacted a "Statewide Property Tax" in 1999, the revenue from which was completely earmarked for elementary and secondary education. The tax was levied at .66 of equalized value. The statewide property tax only raised 54 percent of the revenue needed to replace the local property tax. The legislature also increased the rates on the Business Profits Tax and the Business Enterprise Tax; the revenue from the increases was also earmarked for education. (England 2008).

In 1997, local governments in New Hampshire received 71.5 percent of total local general revenues from property taxes; this figure declined to 48.5 percent by 2002. Alternatively, local governments in New Hampshire received 13.1 percent of total local general revenues from state aid in 1997; this figure increased to 35.6 percent by 2002.

Oregon

Unlike New Hampshire and Vermont, Oregon's decline in local property tax reliance (33 percent) is a direct result of public unhappiness with the tax. As an outgrowth of Proposition 13, Oregon voters approved Measure 5 in 1990 which capped property tax rates at 1 percent for non-school taxes and 1.5 percent for school property taxes. In 1997, Oregon voters approved

Measure 50 which imposed a three percent limit on property assessments. But the Oregon limitation was far more complicated than that passed in California. The assessed value on all property was reduced to its 1995 value less 10 percent. The measure created a new "maximum assessed value" which is the greater of either 103 percent of the assessed value from the previous year or the property's maximum assessed value from the previous year. Exceptions were made if a property had a change such as a new addition. Property taxes could still be increased through local options elections. Approval requires that a majority of voters participate and a majority of those vote "yes." This double majority requirement does not apply during general elections in November of even numbered years. Bond elections for things such as new schools, fire trucks, or land purchase also fall under this requirement. Schools cannot utilize local option elections for operating costs.

As a result of the initiatives, state and local taxes paid by Oregon households declined from 7.4 percent of income in 1989 to 6.8 percent in 2003; and local governments now rely on user fees to an unprecedented degree. [Thompson and Green, 2004]

Trends in Reliance on User Charges and Property Taxes

In addition to increased reliance on state aid, another trend of interest is the increasing reliance of local governments on user charges as another effort to provide indirect property tax relief.

Table 2 reports the reliance of local governments on current charges and property taxes in 1992 and 2006. For the nation as a whole, local governments received 14.7 percent of their general revenues from current charges in 1992. This share increased modestly to 15.9 percent in 2006. In 1992, ten states provided 20 percent or more of local general revenues through current

charges.[6] Local governments in only 6 states, and the District of Columbia, relied on current charges for less than 10 percent of their general revenues – Connecticut, Maine, New Hampshire, New Jersey, Rhode Island and Vermont.

In 2006, local governments in ten states depended on current charges for 20 percent or more of local general revenues; albeit the list of ten states is somewhat different then it was in 1992.[7] By 2006, five states, and the District of Columbia, relied on current charges for less than 10 percent of local general revenues – Connecticut, New Hampshire, New Jersey, Rhode Island and Vermont.

In 1992, Iowa local governments received 18.7 percent of their general revenues from current charges – slightly more than the average for the nation as a whole – and the share of general revenues from current charges increased in Iowa to 20.1 percent by 2006 – still above the national average.

To answer the question posed here (To what extent do local governments reduce pressure on the property tax by relying on current charges?) we need to look at trends across all states in their reliance on current charges and property taxes. The last column in Table 2 reports the change in the property tax share of local general revenues between 1992 and 2006 by state.

Unlike the case for state aid discussed above, there does not appear to be a tendency between 1992 and 2006 for local governments to increase reliance on current charges in an effort to reduce reliance on property taxes. Specifically, the correlation coefficient between the change in property taxes as a share of local general revenues from 1992 to 2006, and the corresponding increase in the relative share of local general revenues coming from current charges was -0.152.

[6] Alabama, Florida, Georgia, Idaho, Mississippi, Nevada, Oklahoma, South Carolina, Tennessee and Wyoming.
[7] Alabama, Florida, Idaho, Iowa, Mississippi, North Carolina, South Carolina, Tennessee, Washington and Wyoming.

A couple of states, however, do stand out in terms of increasing reliance of local governments on current charges as a source of general revenues. For example, local governments in Utah increased their reliance on current charges as a source of general revenue by 37 percent between 1992 and 2006. Similarly, local governments increased reliance on current charges by more than 30 percent in Montana (36 percent); Wyoming (35.6 percent); Illinois (34.5 percent) and Colorado (31.1 percent). However, there is no significant decline in the relative importance of property taxes as a source of local general revenues in any of these states. On average, local governments in these states reduced their reliance on property taxes by 8 percent over this period, compared to an average reduction nationally of 6.5 percent.

With the exception of Wyoming, all of these states have local public sectors smaller than local governments nationally with local general revenues accounting for between $96.75 per $1,000 personal income in Montana to $109.48 in Illinois. This is compared with $114.52 for the nation as a whole in 2006.

Unintended Consequences of Indirect Property Tax Relief

As we proceed with this analysis, we also need to think broadly about what we mean by "successful efforts" to alleviate the property tax burden through indirect relief mechanisms. We can point to much publicized states like California and Michigan, or more recently New Hampshire and Vermont, which have "successfully" substituted state financing of local services (particularly education) for reductions in local property taxes. But what has been the impact on the level and quality of those services after financing was centralized? If the level and quality of service deteriorates significantly after financing has been centralized at the state level, as it did in California, was that a successful initiative? We also need to consider what other costs might be

associated with the centralization of financing or delivery of what might initially be considered local public goods and services.

There is evidence that state and local governments have been successful in providing indirect property tax relief to local governments, primarily through increased reliance on state aid. But such substitution results in unintended consequences which may be undesirable. For example, as mentioned above centralization of funding of education has resulted in reduced per pupil funding in California, compared to other states. Similar concerns have been expressed in Michigan about declines in education funding as it competes with other state priorities in an environment of limited tax increases and the threat of limited economic growth.

More importantly, we believe one of the major threats of such centralization of funding is a loss of autonomy for local governments generally. For example, greater reliance on state aid reduces local government reliance on revenue sources they control, which undermines our federal system of government. Local governments are more responsive to local needs because they have greater access to local residents and more flexibility in providing the services demanded by those residents. Local government is more efficient in providing local services because local government officials know the costs and benefits of those services. Relying on state political leaders to pay for local police, fire, ambulance service and school services puts the funding of such local services at risk as they compete for funds with other state priorities like healthcare.

In addition, state funding can jeopardize local control. Virtually all state aid comes with rules and regulations about how the funds are to be spent. Governors and lawmakers will have greater control over how funds sent to cities, towns and counties should be used. The historical record suggests that such strings accompany all forms of financial centralization. Funding that

comes with restrictions can affect such aspects of local life as the books shelved in the local library, the bias of school curricula, and the artwork adorning local public buildings

Increased state funding also creates long-term uncertainties for local government finance. State political leaders will be forced to decide among competing interests. The problem is that increased dependence on state funding, and financial control, could compromise local interests and undermine the localism that has historically been the bedrock of our federal system of government.

Implications for Iowa

The previous sections suggest that there has been a tendency across the county over the last 15 years to substitute state aid for local property taxes, albeit the most visible of those efforts have been mostly, but not entirely, a result of education finance reform efforts, often in response to court actions. There has not been a similar trend in substituting charges for local property taxes for many of the reasons discussed above. This section briefly considers the implications of such indirect property tax relief measures for Iowa in light of its state and local fiscal capacity.

As documented in Tables 1 and 2, in 2006 local governments in Iowa rely on state aid as a source of local general revenues somewhat less than local governments nationally, 32.7 and 33.9 percent respectively. Alternatively, local governments in Iowa rely somewhat more heavily on the property tax as a source of general revenue than local governments nationally (30.8 and 27.9 percent respectively) and much more heavily on current charges as a source of revenue than local governments nationally (20.1 and 15.9 percent respectively).

In terms of the size of local government, Iowa is exactly at the national average; own-source local revenues in Iowa account for 7.1 percent of state personal income, exactly equal to

the national average. But it is not as easy for Iowa to accomplish this as other state. For example, according to a recent study by the Federal Reserve Bank of Boston which analyzes the revenue, expenditure and overall fiscal capacity of state and local governments nationally, the revenue capacity of state and local governments in Iowa is 94 percent of the national average; while the actual effort to raise own-source revenues from available sources is 104 percent of the national average.

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Table 1

State Aid and Property Taxes as a Share of Local General Revenues, 1992 and 2006

State	State Aid as a Share of Local General Revenues			Property Taxes as a Share of Local General Revenues		
	1992	2006	Change in Share 1992 to 2006	1992	2006	Change in Share 1992 to 2006
United States	34.2%	33.9%	-0.8%	29.9%	27.9%	-6.5%
Alabama	34.6%	34.1%	-1.5%	10.1%	11.2%	11.0%
Alaska	38.0%	32.4%	-14.8%	24.2%	29.4%	21.4%
Arizona	36.9%	36.9%	-0.2%	27.8%	23.4%	-15.7%
Arkansas	43.2%	51.8%	20.0%	19.9%	10.2%	-48.7%
California	44.4%	43.1%	-2.8%	20.2%	18.1%	-10.5%
Colorado	27.1%	24.4%	-9.9%	28.5%	26.2%	-8.1%
Connecticut	30.7%	30.1%	-1.9%	55.0%	55.7%	1.1%
Delaware	45.3%	47.0%	3.7%	21.6%	21.6%	-0.3%
District of Columbia	0.0%	0.0%	0.0%	19.2%	13.2%	-31.0%
Florida	28.3%	24.5%	-13.4%	30.1%	30.1%	-0.1%
Georgia	27.1%	29.3%	8.0%	26.7%	26.4%	-1.1%
Hawaii	11.1%	10.9%	-1.0%	44.9%	45.7%	1.6%
Idaho	42.0%	35.7%	-14.9%	26.7%	27.5%	3.3%
Illinois	27.8%	27.8%	0.3%	38.8%	36.3%	-6.3%
Indiana	36.4%	33.0%	-9.5%	32.1%	34.2%	6.6%
Iowa	33.8%	32.7%	-3.3%	35.2%	30.8%	-12.4%
Kansas	27.0%	33.3%	23.4%	37.0%	30.7%	-17.1%
Kentucky	42.7%	39.3%	-8.1%	14.7%	18.5%	26.5%
Louisiana	32.2%	34.2%	6.3%	14.6%	14.9%	2.2%
Maine	37.7%	29.9%	-20.9%	45.4%	51.2%	12.8%
Maryland	26.1%	27.2%	4.3%	31.4%	24.8%	-20.9%
Massachusetts	33.1%	37.1%	12.1%	44.8%	42.3%	-5.5%
Michigan	31.2%	42.8%	37.0%	41.3%	28.8%	-30.4%
Minnesota	38.3%	45.7%	19.4%	28.2%	21.5%	-23.8%
Mississippi	38.9%	41.5%	6.8%	21.0%	20.7%	-1.5%
Missouri	30.9%	28.9%	-6.4%	24.8%	26.5%	7.1%
Montana	28.5%	35.8%	25.7%	33.8%	30.8%	-8.9%
Nebraska	27.3%	26.0%	-4.7%	37.6%	33.5%	-11.0%
Nevada	39.4%	36.4%	-7.7%	18.4%	20.5%	11.8%
New Hampshire	12.6%	29.7%	136.3%	73.1%	54.3%	-25.7%
New Jersey	34.2%	29.4%	-14.0%	49.2%	52.8%	7.4%
New Mexico	51.4%	49.9%	-2.8%	11.1%	13.4%	20.6%
New York	32.8%	31.4%	-4.1%	30.2%	27.0%	-10.6%
North Carolina	41.2%	37.9%	-8.0%	21.4%	22.8%	6.3%
North Dakota	35.5%	33.9%	-4.6%	31.8%	32.2%	1.1%
Ohio	33.3%	36.4%	9.4%	28.4%	26.5%	-6.6%
Oklahoma	38.0%	36.6%	-3.7%	15.5%	18.2%	17.4%
Oregon	26.8%	35.1%	31.1%	39.3%	26.1%	-33.7%
Pennsylvania	32.7%	35.1%	7.2%	30.1%	28.4%	-5.5%
Rhode Island	24.2%	30.4%	26.0%	59.9%	53.3%	-11.1%

South Carolina	35.0%	29.5%	-15.5%	29.3%	28.3%	-3.7%
South Dakota	22.7%	25.8%	13.7%	40.8%	34.9%	-14.5%
Tennessee	28.2%	29.4%	4.3%	22.0%	23.1%	5.0%
Texas	29.3%	24.7%	-15.7%	36.0%	39.2%	9.0%
Utah	36.2%	32.7%	-9.6%	27.3%	24.9%	-9.1%
Vermont	28.1%	66.7%	137.9%	58.5%	16.5%	-71.8%
Virginia	28.3%	33.2%	17.2%	35.1%	32.2%	-8.3%
Washington	40.0%	33.7%	-15.7%	18.2%	20.6%	12.9%
West Virginia	44.3%	43.3%	-2.2%	19.7%	24.1%	22.8%
Wisconsin	43.1%	42.5%	-1.3%	34.8%	35.5%	2.1%
Wyoming	39.1%	34.1%	-12.9%	25.1%	23.2%	-7.8%

Table 2
Current Charges and Property Taxes as a Share of Local General Revenues, 1992 and 2006

State	Current Charges as a Share of Local General Revenues			Property Taxes as a Share of Local General Revenues		
	1992	2006	Change in Share 1992 to 2006	1992	2006	Change in Share 1992 to 2006
United States	14.7%	15.9%	7.7%	29.9%	27.9%	-6.5%
Alabama	26.4%	26.0%	-1.6%	10.1%	11.2%	11.0%
Alaska	13.0%	14.3%	9.6%	24.2%	29.4%	21.4%
Arizona	11.7%	13.7%	16.7%	27.8%	23.4%	-15.7%
Arkansas	16.7%	13.4%	-19.4%	19.9%	10.2%	-48.7%
California	14.8%	17.8%	19.8%	20.2%	18.1%	-10.5%
Colorado	14.8%	19.4%	31.1%	28.5%	26.2%	-8.1%
Connecticut	6.7%	6.4%	-4.1%	55.0%	55.7%	1.1%
Delaware	16.3%	14.1%	-13.6%	21.6%	21.6%	-0.3%
District of Columbia	5.6%	6.3%	11.8%	19.2%	13.2%	-31.0%
Florida	20.1%	21.3%	6.1%	30.1%	30.1%	-0.1%
Georgia	23.4%	18.5%	-20.9%	26.7%	26.4%	-1.1%
Hawaii	15.8%	16.5%	4.2%	44.9%	45.7%	1.6%
Idaho	21.2%	26.6%	25.7%	26.7%	27.5%	3.3%
Illinois	11.4%	15.4%	34.5%	38.8%	36.3%	-6.3%
Indiana	17.4%	17.9%	2.8%	32.1%	34.2%	6.6%
Iowa	18.7%	20.1%	7.8%	35.2%	30.8%	-12.4%
Kansas	14.2%	16.0%	12.9%	37.0%	30.7%	-17.1%
Kentucky	13.8%	13.1%	-5.0%	14.7%	18.5%	26.5%
Louisiana	17.7%	15.0%	-15.4%	14.6%	14.9%	2.2%
Maine	9.7%	11.0%	13.5%	45.4%	51.2%	12.8%
Maryland	11.3%	11.4%	1.3%	31.4%	24.8%	-20.9%
Massachusetts	12.1%	10.0%	-17.7%	44.8%	42.3%	-5.5%
Michigan	14.1%	15.7%	11.7%	41.3%	28.8%	-30.4%
Minnesota	16.1%	18.2%	13.1%	28.2%	21.5%	-23.8%
Mississippi	27.1%	25.1%	-7.3%	21.0%	20.7%	-1.5%
Missouri	16.5%	17.2%	4.7%	24.8%	26.5%	7.1%
Montana	12.1%	16.4%	36.0%	33.8%	30.8%	-8.9%
Nebraska	17.5%	17.0%	-2.8%	37.6%	33.5%	-11.0%
Nevada	20.3%	17.2%	-15.4%	18.4%	20.5%	11.8%
New Hampshire	8.4%	8.4%	-0.1%	73.1%	54.3%	-25.7%
New Jersey	9.5%	9.6%	1.4%	49.2%	52.8%	7.4%
New Mexico	13.9%	11.2%	-19.2%	11.1%	13.4%	20.6%
New York	11.8%	10.8%	-8.9%	30.2%	27.0%	-10.6%
North Carolina	18.9%	22.3%	17.9%	21.4%	22.8%	6.3%
North Dakota	10.5%	12.0%	13.6%	31.8%	32.2%	1.1%
Ohio	12.4%	13.3%	7.0%	28.4%	26.5%	-6.6%
Oklahoma	20.0%	19.0%	-5.0%	15.5%	18.2%	17.4%
Oregon	15.4%	17.6%	14.6%	39.3%	26.1%	-33.7%

Pennsylvania	11.5%	11.9%	4.0%	30.1%	28.4%	-5.5%
Rhode Island	6.5%	7.1%	9.1%	59.9%	53.3%	-11.1%
South Carolina	22.6%	27.7%	23.0%	29.3%	28.3%	-3.7%
South Dakota	11.8%	14.3%	21.3%	40.8%	34.9%	-14.5%
Tennessee	24.3%	22.9%	-5.7%	22.0%	23.1%	5.0%
Texas	15.1%	16.2%	7.3%	36.0%	39.2%	9.0%
Utah	12.2%	16.8%	37.0%	27.3%	24.9%	-9.1%
Vermont	7.7%	7.6%	-1.4%	58.5%	16.5%	-71.8%
Virginia	13.7%	13.1%	-4.3%	35.1%	32.2%	-8.3%
Washington	18.6%	20.8%	11.5%	18.2%	20.6%	12.9%
West Virginia	16.9%	13.3%	-21.3%	19.7%	24.1%	22.8%
Wisconsin	12.7%	12.4%	-2.0%	34.8%	35.5%	2.1%
Wyoming	20.4%	27.7%	35.6%	25.1%	23.2%	-7.8%

Chapter 3

Section A.8

Local Revenue Raising and Spending Patterns Across 50 States

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The purpose of this research note is to identify the major areas or categories of local government expenditure in other states and the composition of local government revenue sources in those states. The first section describes the composition of local government revenues across states. That is followed by an exploration of the composition of local government expenditures across states. The final section identifies the portion of local government expenditures made in Iowa and in other states that is used or devoted to providing services to real property within the local government's jurisdiction.

Local Revenues

To compare the composition of local revenues across states we use data from the US Census Bureau. These data come from the Census Bureau's government finance series. For purposes of this research note, we report data on total local general revenues. According to the Census Bureau, general revenues include intergovernmental revenues from other governments, taxes, current charges and miscellaneous general revenues. The definition of general revenues does not include revenues from liquor stores, utilities, and social insurance trust funds, in large part, because these revenues are not available to the local government to cover general expenditures.

Size of the Local Public Sector

Before looking at the distribution of local general revenues by source across states, it is important to get a picture of how the size of the local public sector varies across states. Table 1 presents data on the size of the local government measured as total local general revenues expressed as a share of state personal income. On average nationally, total local government general revenues account for 11.5 percent of total personal income, albeit there is wide variation

across states. For example, local governments in New York impose a greater demand on state personal income (16.5 percent) than any other state. New York is followed by Wyoming (15.8 percent), California (13.6 percent), Mississippi (12.7 percent) and Alaska (12.5 percent).

At the other extreme, local general revenues in Hawaii account for just 4.6 percent of personal income. This reflects that fact that Hawaii is the only state where education is provided by the state government, not local governments. Local general revenues in Connecticut and Delaware account for 7.8 and 7.4 percent of state personal income, respectively; while local general revenues in South Dakota and Kentucky account for 8.3 and 8.4 percent of state personal income, respectively. Iowa is almost identical to the national average with total local general revenues accounting for 11.1 percent of state personal income.

Since general revenues include intergovernmental revenues from both the state and federal governments, it may be more relevant to look at the claim local own-source revenues make on personal income. According to the data in Table 1, local own-source revenues account, on average, for 7.1 percent of personal income. New York (10.7 percent) and Wyoming (10.0 percent) are the only two states where local own-source revenues account for 10 percent of personal income, or more. Three states have local own-source revenues accounting for less than 4 percent of state personal income – Vermont (2.7 percent), Delaware (3.7 percent) and Hawaii (3.7 percent). The next section explores this in more detail.

Financing Local Government: Intergovernmental and Own-Source Revenues

While the size of the local public sector varies across states, how those local governments are financed also varies across state. At the most basic level, Table 2 presents data on the extent to which local governments in each state rely on intergovernmental and own-source revenue. According to the data in Table 2, nationally, local governments receive 38.3 percent of their

general revenues from intergovernmental assistance with the vast majority of that coming from state governments. Own-source revenues account for 61.7 percent of local general revenues nationally.

The relative importance of intergovernmental, and own-source, revenues as a share of local general revenues varies substantially across states. For example, local governments in Vermont depend on intergovernmental revenues for 70.2 percent of their general revenues. This is in contrast to Hawaii where local governments depend on intergovernmental revenues for just 19.2 percent of their general revenues. Local governments in Iowa are somewhat less dependent on intergovernmental revenue (36.5 percent) than local governments nationally; and somewhat more reliant on own-source revenues than local governments nationally.

Table 3 lists the states where local governments are most dependent on intergovernmental revenues as a share of their total general revenues. Local governments in three of the states listed depend on intergovernmental grants for more than 50 percent of their total general revenues. There does not seem to be regional pattern, or any other sort of pattern to explain the relative importance of intergovernmental revenues as a source of local general revenues. Three of the ten states listed in Table 3 (Vermont, California, and Michigan) have received national recognition for their radical efforts to shift school financing from the local property tax to state sources of financing.

Table 4 lists the states where local governments are least dependent on intergovernmental revenues as a share of total local general revenues. Only one state, Hawaii, has local governments that receive less than 25 percent of their general revenues in the form of intergovernmental revenues. Local governments in the other nine states receive between a quarter and a third of total local general revenues in the form of intergovernmental revenues.

Again, there does not seem to be a regional, or other, pattern to explain the relatively high reliance of local governments in these states on own-source revenues.

Local Reliance on Own-Source Revenues: Taxes

As mentioned above, local general revenues from own-sources account for 61.7 percent of total local general revenues in 2006. Own-source revenues are broken down into three categories – taxes, current charges and miscellaneous general revenues. Table 5 reports data on the relative importance of each of these sources of revenue. Nationally, local taxes accounted for 63.1 percent of local own-source revenues while current charges accounted for 25.7 percent and miscellaneous general revenues accounted for 11.2 percent. Local governments in Connecticut depend on local taxes for 85.4 of there own-source revenue. Local governments in seven other states, mostly concentrated in the Northeast part of the country, depend on local taxes for at least 75 percent of own-source revenues – Maine (77.3 percent), Maryland (76.2 percent), Massachusetts (76 percent), New Hampshire (82 percent), New Jersey (79.2 percent), New York (75.3 percent) and Rhode Island (83.8 percent). Local governments in Iowa receive 59.2 percent of their own revenues from taxes, which is 6 percent below the share nationally.

In contrast, local governments in Mississippi receive only 42.1 percent of their own-source revenues from local taxes. Local governments in five other states receive less than 50 percent of their own-source revenues from taxes – Alabama (46.2 percent), Idaho (49.4 percent), Minnesota (46.3 percent), South Carolina (49.1 percent) and Wyoming (48.4 percent). Three of these states are in the South and three are in the Plains region of the US.

Table 6 presents information on the relative importance of various sources of tax revenue. Nationally, 71.7 percent of local tax revenues come from property taxes, followed by general sales taxes (11.5 percent), selective sales taxes (4.9 percent), individual income taxes (4.7

percent) and other taxes (6.1 percent).[1] The District of Columbia (4.8 percent of tax revenues) and local governments in 6 other states generate revenues from the corporate income tax – Alabama (1.1 percent of tax revenues), Kentucky (3.1 percent), Missouri (0.3 percent), New York (7.6 percent), Ohio (0.2 percent, and Oregon (1.1 percent).

The District of Columbia and local governments in twelve other states generate revenue from the personal income tax. Local governments in Maryland generate 33.1 percent of their tax revenues from the personal income tax while local governments in Iowa generate 1.7 percent of their tax revenues from the personal income tax.[2]

While local governments in 16 states do not receive any revenue from a general sales tax, local governments in only two states (Connecticut and New Hampshire) do not receive any revenue from the plethora of selective sales taxes. Local governments in five states receive more than one-third of their tax revenues from the general sales tax – Alabama (38.3 percent), Arkansas (47.7 percent), Louisiana (52.2 percent), New Mexico (39 percent) and Oklahoma (40 percent). Of those states that do allow local governments access to a general sales tax, local governments in eleven states generate less than 10 percent of their tax revenues from the general sales tax.[3] Local governments in Iowa generate 11.4 percent of their tax revenues from the general sales tax, which is almost identical to the national average of 11.5 percent.

The most important source of local tax revenue is the local property tax. Local governments in Maine and New Hampshire rely on the property tax for 98.3 percent of local tax

[1] According to the US Census Bureau's definition, Other Taxes include death and gift taxes, documentary and stock transfer taxes, and severance taxes.
[2] In between these two extremes are local governments in ten other states – Alabama (2.6 percent), Delaware (7.6 percent), Indiana (6.6 percent), Kentucky (27.8 percent), Michigan (3.8 percent), Missouri (4.1 percent), New York (11.8 percent), Ohio (20.9 percent), Oregon (2.5 percent) and Pennsylvania (16.5 percent).
[3] Florida (4 percent), Illinois (5.4 percent), Kentucky (0.3 percent), Minnesota (1.3 percent), Nebraska (8.2 percent), Nevada (4.3 percent), Ohio (7.8 percent), South Carolina (2.0 percent), Vermont (1.1 percent), Virginia (7.9 percent) and Wisconsin (3.1 percent).

revenues. Local governments in twelve other states rely on property taxes for more than 90 percent of their tax revenues.[4] Conversely, in addition to the District of Columbia, local governments in five states depend on local property taxes for less than 50 percent of their tax revenues – Alabama (39.6 percent), Arkansas (43 percent), Louisiana (39.9 percent), Maryland (48.2 percent) and New Mexico (48.2 percent). Local governments in Iowa depend on the local property tax for 82 percent of their tax revenues – about 14 percent above the share for local governments nationally.

Local Reliance on Own-Source Revenues: Current Charges

Nationally, according to data in Table 5, local governments generate 25.7 percent of their own source revenues from current charges. Current charges include revenues from a number of different activities carried out by local government. The Census Bureau defines current charges as "amounts received from the public for performance of specific services which benefit the person charged and from the sale of commodities or services other than utilities and liquor stores." Current charges are reported on a gross basis without deducting the cost of providing related services. The various elements of current charges include the following categories of revenue:

- Education which includes revenues from school lunch programs, school tuition from pupils and parents for tuition and transportation, and other revenues from athletic contests, sale or rental of textbooks, student activity funds, and the like. Education generates 11.4 percent of local revenues from current charges nationally.

- Public Hospitals which includes charges from patients, private insurance companies, and public insurance programs (such as Medicare) of public hospitals and of institutions for care and treatment of the handicapped; and

[4] Connecticut (97.8 percent), Idaho (91.1 percent), Indiana (90.1 percent), Massachusetts (96.3 percent), Michigan (91.7 percent), Minnesota (91.2 percent), Mississippi (92.7 percent), Montana (96.8 percent), New Jersey (97.6 percent), Rhode Island (*97.3 percent), Vermont (93.5 percent) and Wisconsin (93 percent).

receipts of hospital canteens, cafeterias, gift shops, etc. Public hospitals generate 26.3 percent of local revenues from current charges nationally.

- Highways which includes reimbursements for street construction and repairs; fees for street cuts and special traffic signs; and maintenance assessments for street lighting, snow plowing, and other highway or street services unrelated to toll facilities. Also may include fees from turnpikes, toll roads, bridges, ferries, and tunnels; rents and other revenue from concessions (service stations, restaurants, etc.); and other charges for use of toll facilities. Highways generate 3.0 percent of local revenues from current charges nationally.

- Air Transportation which includes hangar rentals, landing fees, terminal and concession rents, sale of aircraft fuel and oil, parking fees at airport lots, and other charges for use of airport facilities or for services associated with their use. Air transportation activities generate 7.3 percent of local revenues from current charges nationally.

- Parking Facilities which includes revenue from on-street and off-street parking meters and charges and rentals from government-owned parking lots or public garages. Parking facilities generate 0.8 percent of local revenues from current charges nationally.

- Sea and Inland Port Facilities which includes canal tolls, rents from leases, concession rents, and other charges for use of commercial or industrial water transport and port terminal facilities and related services. Ports facilities generate 1.3 percent of local revenues from current charges nationally.

- Natural Resources which includes revenues from the sale of minerals and other natural products from public lands. Natural resources generate 0.6 percent of local revenues from current charges nationally.

- Parks and Recreation which includes gross revenues of facilities operated by a government (swimming pools, recreational marinas and piers, golf courses, skating rinks, museums, zoos, etc.); auxiliary facilities in public recreation areas (camping areas, refreshment stands, gift shops, etc.); lease or use fees from stadiums, auditoriums, and community and convention centers; and rentals from concessions at such facilities. Parks generate 3.6 percent of local revenues from current charges nationally.

- Housing and Community Development Charges which includes gross rentals, tenant charges, and other revenue from operation of public housing projects; and fees for housing mortgage insurance (e.g., FHA-insured loans). Housing and community development charges generate 2.3 percent of local revenues from current charges nationally.

- Sewerage which includes charges for sewage collection and disposal, including sewer connection fees. Sewerage fees generate 17.1 percent of local revenues from current charges nationally.

- Solid Waste Management which includes fees for garbage collection and disposal; operation of landfills; sale of recyclable materials; cleanup of hazardous wastes; and sale of electricity, gas, steam, or other by-products of waste resource recovery or cogeneration facilities. Solid waste management fees generate 6.7 percent of local revenues from current charges nationally.

- All Other General Current Charges which include charges not covered by any of the above categories, such as those derived from court and recording fees, police, fire, correction, defense, public welfare, public nursing homes, public libraries, and health activities. Other current charges generate 19.6 percent of local revenues from current charges nationally.

While there is some variation in some of the categories which account for relatively small shares of local revenue from current charges, five categories account for the vast majority of local revenues from current charges – education (11.4 percent), hospitals (26.3 percent), sewerage (17.1 percent), solid waste management (6.7 percent), and other current charges (19.6 percent).

Local governments in Mississippi, which had the lowest dependence on local taxes, depend on current charges for 47.2 percent of their own revenues – the highest in the country. Four other states depend on current charges for more than 40 percent of their own source revenues – Alabama (42.5 percent), Idaho (43.5 percent), South Carolina (40.6 percent) and Wyoming (43.8 percent). Local governments in all five of these states are among those with the least reliance on taxes as a source of own revenues. Local governments in Iowa generated 31.7 percent of their own revenues from current charges – a share that is 23 percent higher than the share for local governments nationally.

Local Reliance on Own-Source Revenues: Miscellaneous General Revenue

The final component of own source revenues is miscellaneous general revenue. According to the Census definition, miscellaneous general revenue is comprised of general revenue that does not fall into one of the other categories of general revenue – taxes, intergovernmental revenue, or current charges. Specifically, miscellaneous general revenues include revenues from:

- Special Assessments -- compulsory contributions and reimbursements from owners of property who benefit from specific public improvements; and impact fees to fund extension of water, sewer, roads, and other infrastructure facilities in new developments.

- Sale of Property -- amounts received from sale of real property, buildings, improvements to them, land easements, rights-of-way, and other capital assets (buses, automobiles, etc.), including proceeds from sale of operating and non-operating property of utilities.

- Interest Earnings -- amounts from interest on all interest-bearing deposits and accounts; accrued interest on investment securities sold; interest on funds held for construction; and interest related to public debt for private purposes.

- Fines and Forfeits -- revenue from penalties imposed for violations of law; civil penalties (e.g., for violating court orders); court fees if levied upon conviction of a crime or violation; court-ordered restitutions to crime victims where government actually collects the monies; and forfeits of deposits held for performance guarantees or against loss or damage (such as forfeited bail and collateral).

- Rents -- revenue from allowing temporary possession of government-owned buildings, land, or other fixed properties, such as from grazing fees, timberland leases, rental of unused land or property (including non-operating property of a government utility), and revenue from leases (or lease bonus payments) of land relating to natural resource exploration and production.

- Royalties -- compensation or portion of proceeds received by a state or local government for granting the privilege of using or developing property or operating under a right, primarily those related to natural resources, such as oil, gas, and mineral rights.

- Net Lottery Revenue -- proceeds from the operation of government-sponsored lotteries after deducting the cost of prizes.

Nationally, local governments generate 11.2 percent of their own revenues from miscellaneous general revenues. The range is from 18 percent in Minnesota to 5 percent in Connecticut. Local governments in Iowa generate 9.1 percent of their own revenues from miscellaneous revenues – a share that is nearly 20 percent below the share for local governments nationally.

Summary of Local Revenues

There are 50 state/local systems of government in the US. Each system creates governmental organizations and institutions in a manner reflecting their history, culture and political environment. The only generalization that one can make about this system of subnational government is that things vary significantly across states so that one cannot make meaningful generalizations about local government finance in the US.

In that context, we can contrast the system of local government finance in Iowa with the average across all states nationally. For example, local own-source revenues in Iowa claim 7.1 percent of personal income in the state, exactly the same as local governments nationally. Local governments in Iowa are a bit more dependent on own-source revenues (63.5 percent of local general revenues) than local governments nationally (61.7 percent). In terms of own-source revenues, local governments in Iowa are somewhat less reliant on the local taxes as a source of general revenues (59.2 percent of own-source revenues) than local governments nationally (63.1 percent); while they are more dependent on current charges (31.7 percent of own-source revenues) than local governments nationally (25.7 percent). In terms of tax revenues, local governments in Iowa are more dependent on local property taxes (82 percent of local tax revenues) than local governments nationally (71.7 percent).

Local Expenditures

Again, to compare expenditure patterns across local governments in the 50 states we rely on data from the US Census Bureau. The Census Bureau reports expenditure data in two ways. First, data are presented by character which relates to the nature of the expenditure. Character categories include:

- Total Expenditure
  - Direct Expenditure
    - Current operations
    - Capital Outlays
      - Construction
      - Other Capital Outlays
    - Assistance and Subsidies
    - Interest on Debt
    - Insurance Benefits and Repayments
  - Intergovernmental Expenditures

Second, expenditure data are presented by function. The expenditure function refers to the purpose for which a government spends money and, by extension, the service being provided by government. The Census Bureau has more than 5 dozen functional categories in their classification system. These are broken down into four sections of government – general government, utilities, liquor stores, and social insurance trust funds. Since our interest is in the expenditure patterns of local governments which reflect the discretion of local policy makers, we focus on direct general expenditures.

The Census Bureau reports over a dozen categories of local direct general government expenditures. While there is significant variation within each category, six of these categories

account for approximately three-fourths of local general expenditure nationally. The categories reported by Census, with their national share of local direct general expenditures, are as follows:

- Education (primary, secondary and higher) – 43.7 percent of total local direct general expenditures nationally;
- Libraries – 0.8 percent nationally;
- Public Welfare – 3.8 percent nationally;
- Hospitals – 3.2 percent nationally;
- Transportation – 6.0 percent nationally;
- Public Safety – 10.8 percent nationally;
- Natural Resources – 0.6 percent nationally;
- Parks and Recreation – 2.5 percent nationally;
- Housing and Community Development – 3.1 percent nationally;
- Sewerage – 3.2 percent nationally;
- Solid Waste – 1.6 percent nationally;
- General Administration – 5.4 percent nationally;
- Interest on Debt – 4.0 percent nationally; and
- General Expenditures N.E.C. – 6.0 percent nationally.

Six of these categories account for three-fourths of total local direct general expenditures nationally – education (43.7 percent), public welfare (3.8 percent), hospitals (5.5 percent), transportation (6.0 percent), public safety (10.8 percent), and general administration (5.4 percent). The relative importance of local direct expenditures on hospitals, however, is influenced heavily by whether or not the local government runs a public hospital. Local governments in nine states allocate more than 10 percent of their total local direct general expenditures to hospitals,[5] while local governments in eight states do not allocate any local direct general expenditure to hospitals – Connecticut, Delaware, Hawaii, Maryland, New Hampshire, North Dakota, Rhode Island and Vermont.

Table 7 presents information on the relative importance of the other five major categories of local direct general expenditures. Nationally, local spending on education accounts for 43.7 percent of total local direct general expenditures, but there is a wide range in relative importance across states. For example, local governments in three states allocate more than 60 percent of their total direct general expenditures to education – Delaware (61.4 percent), Vermont (65.8 percent) and West Virginia (60.4 percent). Alternatively, local governments in seven states allocate less than 40 percent of their direct general expenditures to education – California (38.0 percent), Colorado (38.6 percent), Florida (38.4 percent), Louisiana (39.5 percent), Nevada (35.9 percent), New York (38.3 percent), and Washington (39.9 percent).[6] Local governments in Iowa spend 48.1 percent of total local direct general expenditures on education.

Public safety is the next most important spending category accounting for 10.8 percent of total direct general expenditures of local governments nationally. Again, there is significant

[5] Alabama (16.9 percent), Idaho (13.9 percent), Indiana (12.1 percent), Louisiana (10.4 percent), Mississippi (16.4 percent), North Carolina (10.3 percent), South Carolina (18.0 percent), Tennessee (12.6 percent), and Wyoming (21.2 percent).

[6] Local governments in Hawaii spend no funds on education since it is the only state where education is a state responsibility.

variation across states. For example, local governments in five states allocate less than 7.5 percent of their direct general expenditures to public safety – Iowa (7.4 percent), North Dakota (7.3 percent), Vermont (5.5 percent), West Virginia (7.2 percent) and Wyoming (7.4 percent). Alternatively, local governments in seven states allocate more than 12.5 percent of their direct general expenditures to public safety – Arizona (14.2 percent), California (12.6 percent), Florida (13.9 percent), Hawaii (21.5 percent), Louisiana (13.4 percent), Nevada (14.7 percent), and Rhode Island (15.0 percent).

Transportation is the next important expenditure category accounting for 6.0 percent of total local direct general expenditures nationally in 2006. While local governments in a couple of states represent extreme outliers – Nevada (12.0 percent) and Rhode Island (2.8 percent), local governments in most states spend a relatively consistent portion of their total local direct expenditures on transportation. Specifically, of the remaining 48 states, nearly 80 percent of them spend between 5 and 10 percent of their total local direct general expenditures on transportation.

Expenditures on general administration and public welfare round out the six categories of spending that account for three-fourths of total local direct general government spending. While public welfare accounts for 3.8 percent of total local direct general expenditures nationally, that number is driven by a small number of states that have a relatively high share of expenditures going to welfare. Specifically, other than Washington D.C. (23.0 percent), there are only six states where local governments allocate more than 5 percent of direct general expenditures to public welfare – California (7.7 percent), Minnesota (7.0 percent), New York (7.9 percent), Ohio (5.6 percent), Pennsylvania (7.0 percent), and Wisconsin (6.9 percent). At the other extreme, there are 26 states in which local governments allocate less than one percent of their total direct

general expenditures for public welfare. Generally, public welfare is considered to be a state and federal responsibility. Local governments in Iowa allocate less than one percent of their direct general expenditures for public welfare.

Local spending for general government administration accounts for 5.4 percent of direct general expenditures for local governments nationally and is generally pretty uniform across states. There are four states where general administration accounts for less than 4 percent of total direct general expenditures – Connecticut (3.8 percent), Iowa (3.7 percent), Massachusetts (3.5 percent) and New York (3.3 percent). Local governments in one state – Hawaii (11.1 percent) – allocate more than 10 percent of their direct general expenditures on general administration.

Spending patterns of local governments vary across states for a variety of institutional, social, demographic, cultural, historical and political reasons. The next section focuses on those local expenditures thought to be most directly linked to providing benefits for individual properties in the spending jurisdiction.

Local Expenditures Directly Benefiting Individual Real Properties

Generally, the local property tax is considered to be consistent with both the ability-to-pay and the benefits-received principles of taxation. The benefits rational for the local property tax rests on the argument that locally provided goods and services increase the value of real property and should therefore be paid for by property owners. Such services are generally services that benefit the entire community. These are contrasted to services which benefit the individual consuming those services. In the former case, the property tax is a preferred means of financing community services while user charges are generally thought to be preferable in financing services where the benefits accrue only to the individual consuming the good or

service. The focus of this section is on locally provided goods and services which tend to benefit property owners and are generally funded by the property tax.

One of the most fundamental responsibilities of government is to protect property and property rights. Property owners should pay these expenses of government. Other locally provided services also benefit individual properties. One example might be a road network that provides access not only to the property, but to employment and shopping opportunities in the local community. This would be true for most types of infrastructure. In fact, according to the National Council on Public Works Improvement,

> "Reliable transportation, clean water and safe disposal of wastes are basic elements of civilized society and a productive economy." [National Council on Public Works Improvement, 1988, p. 1]

The Council acknowledged that the provision of these community goods and services fall disproportionately on local governments. In this context, locally provided services which are generally thought to benefit directly real property include fire protection, libraries, parks and recreation, police and other public safety services, streets, and water and sewer services. These spending categories are explored in more detail below.

A final, and somewhat more ambiguous service, is locally provided education. Education expenditures may not impact individual properties as directly as police or fire services may because not all households will have school aged children. But these expenditures are expenditures that benefit individual properties. Most directly, if a property is located in a jurisdiction that provides a higher level of education services to its residents, it will be an attractive jurisdiction in which to live and property values will be higher there, everything else equal, than they would be in a jurisdiction providing a lower level of educational services. Thus,

a high quality education benefits own-occupants even if they do not have school aged children. Thus, we include education expenditures among those that benefit individual properties.

Given this framework, and the expenditure categories defined by the US Census Bureau, we believe the following expenditure categories have a direct impact on real property in a local jurisdiction – education, libraries, hospitals, health, transportation, public safety, parks and recreation, sewerage, solid waste and general government administration.

Local expenditures on libraries account for 0.8 percent of local direct general expenditures nationally. Most states cluster around this percentage. For example, there are only five states where local governments spend more than one percent of their total direct general expenditures on libraries – Illinois (1.2 percent), Indiana (1.8 percent), Missouri (1.7 percent), Utah (1.2 percent) and Washington (1.3 percent). Also, as discussed above, local expenditures on hospitals are heavily influenced by whether or not the local government owns and operates a hospital. For example, local governments in 13 states spend less than one percent of their direct general expenditures on hospitals, while local governments in 9 states allocate more than 10 percent of their direct general expenditures to hospitals. Similarly, local governments in most states do not commit significant expenditures to solid waste because that service is often provided by private vendors. Nationally, local governments allocate 1.6 percent of their direct general expenditures to providing solid waste management services; the District of Columbia (3.3 percent) and (Hawaii 9.6 percent) are the only places that allocate more than 3 percent of their direct general expenditures to this function. Local governments in six states spend less than one percent of their direct general expenditures on this function – Colorado (0.4 percent), Delaware (0.6 percent), Illinois (0.9 percent), Missouri (0.5 percent), Nevada (0.2 percent) and Oregon (0.8 percent). Parks and recreation is a final category where local governments commit

limited resources. Nationally, local governments allocate 2.5 percent of their direct general expenditures to parks and recreation. While there is variation across states in the relative importance of local spending on parks and recreation, local governments in only 3 states allocate more than 5 percent of their direct general expenditures to this activity – Hawaii (8.2 percent), Illinois (5.2 percent) and Nevada (5.8 percent).

Table 8 presents information on the other 6 categories of expenditures we believe impact real property within the spending jurisdiction. The "Other" column in Table 8 presents information on the share of local direct general expenditures in libraries, hospitals, parks and recreation and solid waste management. The final column in Table 8 reflects the share of total local direct general expenditures allocated to the 10 expenditure categories we believe directly impact real property within the spending jurisdiction.

Nationally, local spending that directly impacts real property within the spending jurisdiction accounts for 82.6 percent of total local direct general expenditures. Local governments in most states are clustered around this average share. The highest share is 92.5 percent in Wyoming and the lowest share is 72.4 percent in Hawaii. In Iowa local governments spend approximately 87.7 percent of their total direct general expenditures on these functions.

Education expenditures account for 43.7 percent of total local direct general expenditures and are the largest local expenditure category that impacts real property. Most of the spending on education by local governments is for primary and secondary education – local governments in 20 states spend 100 percent of their educational expenditures on primary and secondary education. Nationally, education expenditures account for 52.9 percent of the expenditures that impact real property, albeit the range is from 41.5 percent in Nevada to 72.0 percent in Vermont.

Expenditures by local governments in Iowa on primary and secondary education account for 88 percent of their education expenditures.

Nationally, health expenditures account for 3.2 percent of total local direct general expenditures. Health expenditures include the follow types of expenditures:

- General health activities – public health administration, laboratories, public education, vital statistics, research, alcohol and drug abuse prevention/rehabilitation and other general health activities.
- Categorical health activities – control of cancer, TB, socially transmitted diseases, mental illness, etc. and maternal, activities funded by Federal W.I.C. funds – Women, Infants, and Children, and child health care.
- Health related inspections – inspection of restaurants, water supplies, food handlers, nursing homes, agricultural standards or protection of agricultural products from disease.
- Community health care programs – community and visiting nurses; immunization programs; out-patient health clinics.
- Regulation of air and water quality – sanitary engineering and other environmental activities.
- Animal control – general animal control plus rabies control, abatement of mosquitoes, rodents, and other vermin.

Local governments in Michigan spend 9.0 percent of their total local direct general expenditures on health related programs. Local governments in 8 states allocate less than one percent of their total local direct general expenditures to health related programs –Arkansas (0.5 percent), Maine (0.6 percent), Massachusetts (0.5 percent), New Hampshire (0.6 percent), New Mexico (0.6 percent),Rhode Island (0.3 percent), South Carolina (0.9 percent) and Vermont (0.5 percent). Local government spending on health in Iowa is about the national average at 3.1 percent of total direct general expenditures.

The transportation function is composed of spending by local governments on highways, airports, parking facilities and ports. Not all, in fact not many, local governments own and operate airports and/or ports. Thus, the vast majority of spending on this category falls into the highway function. Nationally,

local governments spend 70.6 percent of their transportation spending on highways. The range in share allocated to highway expenditures depends on whether or not local governments operate airports or ports. There are 10 states where local spending on highways accounts for 90 percent or more of their total transportation expenditures. Local governments in four states spend less than 60 percent of their transportation expenditures on highways – Florida (55.1 percent), North Carolina (57.8 percent), Virginia (39.7 percent) and Washington (49.9 percent). Local spending on highways in Iowa accounts for 89.3 percent of total transportation spending.

The public safety function includes expenditures on police and fire protection, corrections and protective inspections and regulations. Nationally, police and fire protection account for 79 percent of total local spending on public safety. The share of public safety expenditures allocated to police and fire protection ranges from 63.9 percent in Pennsylvania to 99.3 percent in Vermont. In Iowa local governments allocate 82.3 percent of their total public safety expenditures to police and fire protection. Nationally, local governments allocate 17.9 percent of their spending on public safety for corrections, albeit the range is from a high of 33.2 percent in Pennsylvania to a low of zero percent in Connecticut, Delaware, Hawaii and Vermont. Local governments in Iowa spend 15 percent of their total public safety dollars on corrections.

Nationally, local governments allocate 3.2 percent of their total direct general expenditures to sewerage. The range is from 10.5 percent in Hawaii to 1.7 percent in North Dakota. Both of these outliers are influenced by special circumstances and may not be regarded as representative of states generally. In fact, local governments in the remaining 47 states spend between 2.0 and 4.7 percent of their total direct general expenditures on this function. [7]

Finally, local governments nationally spend 5.4 percent of their total direct general expenditures on general government administration. This function is composed of spending on financial administration, judicial and legal activities, government buildings and other general

[7] Local governments in Delaware spend 6.7 percent of their total direct general expenditures on the sewerage function.

administrative expenditures. Given the discussion above, we assume that the most important activity for owners of real property in a jurisdiction is spending on judicial and legal activities. Nationally, local governments allocate 29.5 percent of their total spending on government administration to judicial and legal activities. There is significant variation across states in the share of general government administrative expenses that local governments allocate to judicial and legal activities. Local governments in five states allocate more than 40 percent of their spending on general government administration on judicial and legal activities – Arizona (42.3 percent), Michigan (45.7 percent), Nevada (42.6 percent), Ohio (42.1 percent) and Washington (43.5 percent). Alternatively, local governments in 9 states allocate less than 10 percent of their spending on general government administration to judicial and legal activities – Alaska (6.4 percent), Connecticut (9.1 percent), Kentucky (5.4 percent), Maine (6.5 percent), Massachusetts (8.0 percent), New Hampshire (9.5 percent), New Mexico (7.3 percent), North Carolina (4.2 percent), and Vermont (8.4 percent). Local governments in Iowa spend 18.5 percent of their expenditures on general government administration on judicial and legal activities.

Conclusion

This research note has identified the major areas and categories of local government expenditures on a state by state basis across the country. The research note has also identified the composition of local government revenue sources across the fifty states and the District of Columbia. As explained above and illustrated in the accompanying tables, there is wide variation across states in terms of the size of the public sector, what local governments spend money on, and how they raise revenue.

For example, local government own source revenue as a share of personal income is only 3.7 percent in Hawaii but over 10 percent in New York. Local governments in some states rely

very heavily on state aid -- Arkansas just over 50 percent of all general revenue -- while others such as Texas (24.7 percent) to a much lesser degree. Tax revenue in local governments in some states, particularly in New England, comprise almost all own source revenue. But many states, spread all over the country geographically, really on tax revenue for only about half their own source revenue. Most states still rely heavily on the property tax to fund local government; 41 states rely on the property for over 60 percent of their own source revenue.

On the expenditure side of the budget, we see the same kind of variances. Direct expenditures on education go from zero in Hawaii to 61 percent in Delaware. There are also large variances in public welfare, transportation spending, and public safety although these areas individually make up much smaller parts of local government budgets.

Variances across states on revenue collection and expenditures are themselves attributable to many different factors. Some areas of the country have traditionally had strong local government autonomy, and those areas still see heavy reliance on property taxes as well as spending on education. In some states, local governments operate under significant property tax limitations and as a consequence property tax reliance is lower than the rest of the country. In some states the public sector is more centralized at the state level leaving fewer responsibilities for local governments. In addition, many other factors like historical, cultural and political differences contribute to differences across states in local taxation and spending policies.

Table 1 Size of Local Public Sector by State, 2006		
	General Revenue as a Share of Personal Income	Own-Source Revenues as a Share of Personal Income
United States Total	11.5%	7.1%
Alabama	10.4%	6.4%
Alaska	12.5%	7.4%
Arizona	11.3%	6.5%
Arkansas	9.3%	4.2%
California	13.6%	7.2%
Colorado	10.8%	7.8%
Connecticut	7.8%	5.2%
Delaware	7.4%	3.7%
District of Columbia	28.3%	18.8%
Florida	11.7%	8.2%
Georgia	11.2%	7.6%
Hawaii	4.6%	3.7%
Idaho	10.2%	6.3%
Illinois	10.9%	7.3%
Indiana	11.9%	7.8%
Iowa	11.1%	7.1%
Kansas	10.9%	7.0%
Kentucky	8.4%	4.8%
Louisiana	12.2%	7.3%
Maine	9.9%	6.7%
Maryland	8.8%	5.9%
Massachusetts	8.7%	5.0%
Michigan	11.5%	6.1%
Minnesota	10.9%	5.6%
Mississippi	12.7%	6.7%
Missouri	9.8%	6.5%
Montana	9.7%	5.5%
Nebraska	11.0%	7.8%
Nevada	12.3%	7.2%
New Hampshire	8.5%	5.7%
New Jersey	9.6%	6.6%
New Mexico	11.6%	5.2%
New York	16.5%	10.7%
North Carolina	10.7%	6.3%
North Dakota	9.5%	5.7%
Ohio	12.4%	7.4%

Oklahoma	8.6%	5.1%
Oregon	11.3%	6.7%
Pennsylvania	10.9%	6.4%
Rhode Island	8.9%	5.8%
South Carolina	11.0%	7.5%
South Dakota	8.3%	5.6%
Tennessee	9.1%	6.1%
Texas	10.3%	7.3%
Utah	10.2%	6.4%
Vermont	9.2%	2.7%
Virginia	9.6%	6.1%
Washington	10.7%	6.6%
West Virginia	8.6%	4.4%
Wisconsin	11.5%	6.3%
Wyoming	15.8%	10.0%

Table 2
Local General Revenues – Intergovernmental and Own-Source
By State
2006

State	Intergovernmental Revenues			Own Source Revenues
	Total	From Federal Govt.	From State Govt	Total
United States	38.3%	4.4%	33.9%	61.7%
Alabama	38.8%	4.8%	34.1%	61.2%
Alaska	40.5%	8.2%	32.4%	59.5%
Arizona	42.4%	5.5%	36.9%	57.6%
Arkansas	55.4%	3.6%	51.8%	44.6%
California	47.3%	4.2%	43.1%	52.7%
Colorado	27.8%	3.4%	24.4%	72.2%
Connecticut	33.3%	3.2%	30.1%	66.7%
Delaware	49.6%	2.6%	47.0%	50.4%
District of Columbia	33.4%	33.4%	0.0%	66.6%
Florida	29.8%	5.2%	24.5%	70.2%
Georgia	32.5%	3.2%	29.3%	67.5%
Hawaii	19.2%	8.2%	10.9%	80.8%
Idaho	38.8%	3.1%	35.7%	61.2%
Illinois	33.6%	5.8%	27.8%	66.4%
Indiana	34.7%	1.8%	33.0%	65.3%
Iowa	36.5%	3.8%	32.7%	63.5%
Kansas	35.7%	2.4%	33.3%	64.3%
Kentucky	43.1%	3.8%	39.3%	56.9%
Louisiana	40.5%	6.2%	34.2%	59.5%
Maine	32.7%	2.8%	29.9%	67.3%
Maryland	32.4%	5.3%	27.2%	67.6%
Massachusetts	42.2%	5.1%	37.1%	57.8%
Michigan	46.9%	4.2%	42.8%	53.1%
Minnesota	49.1%	3.3%	45.7%	50.9%
Mississippi	46.8%	5.3%	41.5%	53.2%
Missouri	33.4%	4.5%	28.9%	66.6%
Montana	43.4%	7.6%	35.8%	56.6%
Nebraska	29.1%	3.0%	26.0%	70.9%
Nevada	41.3%	4.9%	36.4%	58.7%
New Hampshire	32.6%	2.9%	29.7%	67.4%
New Jersey	31.7%	2.4%	29.4%	68.3%
New Mexico	55.0%	5.1%	49.9%	45.0%
New York	34.9%	3.5%	31.4%	65.1%
North Carolina	41.4%	3.4%	37.9%	58.6%
North Dakota	39.5%	5.6%	33.9%	60.5%
Ohio	40.5%	4.1%	36.4%	59.5%
Oklahoma	40.3%	3.7%	36.6%	59.7%

Oregon	40.8%	5.7%	35.1%	59.2%
Pennsylvania	41.1%	6.1%	35.1%	58.9%
Rhode Island	34.7%	4.3%	30.4%	65.3%
South Carolina	31.7%	2.2%	29.5%	68.3%
South Dakota	32.5%	6.7%	25.8%	67.5%
Tennessee	33.0%	3.6%	29.4%	67.0%
Texas	28.7%	3.9%	24.7%	71.3%
Utah	37.4%	4.8%	32.7%	62.6%
Vermont	70.2%	3.4%	66.7%	29.8%
Virginia	36.4%	3.3%	33.2%	63.6%
Washington	38.9%	5.2%	33.7%	61.1%
West Virginia	48.7%	5.3%	43.3%	51.3%
Wisconsin	45.4%	2.9%	42.5%	54.6%
Wyoming	36.7%	2.6%	34.1%	63.3%

Table 3
States With Local Governments With Greatest Reliance on
Intergovernmental Revenues, 2006

States	Total Intergovernmental Revenues	From Federal Government	From State Government	Total Own-Source Revenues
Vermont	70.2%	3.4%	66.7%	29.8%
Arkansas	55.4%	3.6%	51.8%	44.6%
New Mexico	55.0%	5.1%	49.9%	45.0%
Delaware	49.6%	2.6%	47.0%	50.4%
Minnesota	49.1%	3.3%	45.7%	50.9%
West Virginia	48.7%	5.3%	43.3%	51.3%
California	47.3%	4.2%	43.1%	52.7%
Michigan	46.9%	4.2%	42.8%	53.1%
Mississippi	46.8%	5.3%	41.5%	53.2%
Wisconsin	45.4%	2.9%	42.5%	54.6%

Table 4
States With Local Governments With Least Reliance on
Intergovernmental Revenues, 2006

States	Total Intergovernmental Revenues	From Federal Government	From State Government	Total Own-Source Revenues
South Dakota	32.5%	6.7%	25.8%	67.5%
Georgia	32.5%	3.2%	29.3%	67.5%
Maryland	32.4%	5.3%	27.2%	67.6%
South Carolina	31.7%	2.2%	29.5%	68.3%
New Jersey	31.7%	2.4%	29.4%	68.3%
Florida	29.8%	5.2%	24.5%	70.2%
Nebraska	29.1%	3.0%	26.0%	70.9%
Texas	28.7%	3.9%	24.7%	71.3%
Colorado	27.8%	3.4%	24.4%	72.2%
Hawaii	19.2%	8.2%	10.9%	80.8%

Table 5

Composition of Local Own-Source Revenues by State, 2006

State	Tax revenues	Current charges	Miscellaneous General Rev
United States	63.1%	25.7%	11.2%
Alabama	46.2%	42.5%	11.3%
Alaska	63.7%	24.0%	12.3%
Arizona	63.9%	23.8%	12.3%
Arkansas	53.1%	30.1%	16.8%
California	51.4%	33.8%	14.8%
Colorado	59.9%	26.9%	13.3%
Connecticut	85.4%	9.6%	5.0%
Delaware	61.1%	27.9%	11.0%
District of Columbia	74.4%	9.4%	16.2%
Florida	55.2%	30.3%	14.4%
Georgia	61.7%	27.4%	10.9%
Hawaii	73.6%	20.4%	6.0%
Idaho	49.4%	43.5%	7.0%
Illinois	67.4%	23.2%	9.4%
Indiana	58.2%	27.5%	14.3%
Iowa	59.2%	31.7%	9.1%
Kansas	62.2%	24.9%	12.9%
Kentucky	61.3%	23.0%	15.7%
Louisiana	62.9%	25.2%	11.9%
Maine	77.3%	16.4%	6.3%
Maryland	76.2%	16.9%	6.8%
Massachusetts	76.0%	17.2%	6.8%
Michigan	59.1%	29.6%	11.3%
Minnesota	46.3%	35.7%	18.0%
Mississippi	42.1%	47.2%	10.7%
Missouri	65.3%	25.9%	8.8%
Montana	56.2%	28.9%	14.8%
Nebraska	61.6%	24.0%	14.4%
Nevada	53.9%	29.3%	16.9%
New Hampshire	82.0%	12.5%	5.5%
New Jersey	79.2%	14.1%	6.8%
New Mexico	61.7%	24.9%	13.4%
New York	75.3%	16.6%	8.1%
North Carolina	52.3%	38.1%	9.6%
North Dakota	62.7%	19.8%	17.6%
Ohio	66.3%	22.3%	11.4%
Oklahoma	58.1%	31.8%	10.2%
Oregon	57.9%	29.8%	12.3%
Pennsylvania	68.3%	20.3%	11.4%
Rhode Island	83.8%	10.8%	5.4%
South Carolina	49.1%	40.6%	10.3%
South Dakota	70.8%	21.3%	7.9%
Tennessee	55.2%	34.1%	10.7%
Texas	66.3%	22.8%	10.9%

Utah	59.8%	26.8%	13.4%
Vermont	59.1%	25.6%	15.3%
Virginia	70.7%	20.6%	8.7%
Washington	55.8%	34.0%	10.1%
West Virginia	59.0%	25.8%	15.2%
Wisconsin	69.9%	22.7%	7.4%
Wyoming	48.4%	43.8%	7.8%

Table 6

Local Tax Revenues by Source and State, 2006

State	Property	General Sales	Selective Sales	Individual Income	Corporate Income	Other Taxes
United States	71.7%	11.5%	4.9%	4.7%	1.1%	6.1%
Alabama	39.6%	38.3%	6.5%	2.6%	0.0%	13.1%
Alaska	77.5%	14.5%	4.7%	0.0%	0.0%	3.3%
Arizona	63.7%	26.0%	3.9%	0.0%	0.0%	6.4%
Arkansas	43.0%	47.7%	7.3%	0.0%	0.0%	2.0%
California	66.7%	15.5%	7.5%	0.0%	0.0%	10.2%
Colorado	60.6%	31.0%	3.1%	0.0%	0.0%	5.4%
Connecticut	97.8%	0.0%	0.0%	0.0%	0.0%	2.2%
Delaware	70.1%	0.0%	1.2%	7.6%	0.0%	21.1%
District of Columbia	26.7%	18.0%	9.7%	27.1%	4.8%	13.7%
Florida	77.5%	4.0%	12.1%	0.0%	0.0%	6.4%
Georgia	63.4%	26.4%	6.4%	0.0%	0.0%	3.8%
Hawaii	76.7%	0.0%	12.2%	0.0%	0.0%	11.1%
Idaho	91.1%	0.0%	2.5%	0.0%	0.0%	6.4%
Illinois	81.2%	5.4%	10.1%	0.0%	0.0%	3.4%
Indiana	90.1%	0.0%	0.9%	6.6%	0.0%	2.4%
Iowa	82.0%	11.4%	3.3%	1.7%	0.0%	1.6%
Kansas	76.8%	16.8%	4.4%	0.0%	0.0%	2.0%
Kentucky	53.1%	0.3%	11.5%	27.8%	3.1%	4.2%
Louisiana	39.9%	52.2%	4.6%	0.0%	0.0%	3.3%
Maine	98.3%	0.0%	0.1%	0.0%	0.0%	1.6%
Maryland	48.2%	0.0%	4.5%	33.1%	0.0%	14.2%
Massachusetts	96.3%	0.0%	1.4%	0.0%	0.0%	2.3%
Michigan	91.7%	0.0%	2.1%	3.8%	0.0%	2.3%
Minnesota	91.2%	1.3%	2.8%	0.0%	0.0%	4.7%
Mississippi	92.7%	0.0%	3.1%	0.0%	0.0%	4.2%
Missouri	61.0%	22.5%	7.0%	4.1%	0.3%	5.1%
Montana	96.8%	0.0%	0.4%	0.0%	0.0%	2.8%
Nebraska	76.6%	8.2%	3.1%	0.0%	0.0%	11.0%
Nevada	65.0%	4.3%	16.5%	0.0%	0.0%	14.2%
New Hampshire	98.3%	0.0%	0.0%	0.0%	0.0%	1.7%
New Jersey	97.6%	0.0%	0.5%	0.0%	0.0%	1.8%
New Mexico	48.2%	39.0%	5.0%	0.0%	0.0%	7.8%
New York	55.0%	15.9%	2.8%	11.8%	7.6%	6.9%
North Carolina	74.2%	18.7%	2.0%	0.0%	0.0%	5.0%
North Dakota	84.8%	11.1%	1.9%	0.0%	0.0%	2.2%
Ohio	67.1%	7.8%	0.9%	20.9%	0.2%	3.1%
Oklahoma	52.4%	40.0%	4.2%	0.0%	0.0%	3.5%
Oregon	76.1%	0.0%	6.4%	2.5%	1.1%	14.0%
Pennsylvania	70.7%	1.0%	1.4%	16.5%	0.0%	10.3%
Rhode Island	97.3%	0.0%	0.3%	0.0%	0.0%	2.3%
South Carolina	84.3%	2.0%	4.1%	0.0%	0.0%	9.5%
South Dakota	72.9%	22.3%	1.3%	0.0%	0.0%	3.4%
Tennessee	62.6%	26.6%	4.9%	0.0%	0.0%	5.9%

Texas	83.0%	10.9%	3.9%	0.0%	0.0%	2.2%
Utah	66.5%	18.8%	8.9%	0.0%	0.0%	5.8%
Vermont	93.5%	1.1%	1.7%	0.0%	0.0%	3.7%
Virginia	71.6%	7.9%	10.4%	0.0%	0.0%	10.0%
Washington	60.3%	20.1%	8.5%	0.0%	0.0%	11.1%
West Virginia	79.7%	0.0%	4.4%	0.0%	0.0%	15.9%
Wisconsin	93.0%	3.1%	0.7%	0.0%	0.0%	3.1%
Wyoming	75.7%	17.6%	2.0%	0.0%	0.0%	4.7%

Table 7

Local Direct General Expenditures by Function, 2006

	Education	Public Welfare	Transportation	Public Safety	Gov. Admin	Cumulative Share
United States Total	43.7%	3.8%	6.0%	10.8%	5.4%	69.6%
Alabama	41.7%	0.4%	6.0%	9.0%	4.2%	61.2%
Alaska	48.9%	0.1%	8.6%	8.8%	5.8%	72.2%
Arizona	41.4%	1.2%	7.1%	14.2%	7.5%	71.6%
Arkansas	57.8%	0.2%	6.1%	10.1%	4.6%	78.8%
California	38.0%	7.7%	5.1%	12.6%	6.1%	69.4%
Colorado	38.6%	2.9%	8.2%	10.2%	6.5%	66.4%
Connecticut	55.6%	0.8%	4.0%	9.0%	3.8%	73.3%
Delaware	61.4%	0.0%	6.0%	9.0%	5.3%	81.7%
District of Columbia	18.5%	23.0%	1.3%	12.0%	5.7%	60.4%
Florida	38.4%	1.4%	7.5%	13.9%	6.3%	67.5%
Georgia	47.2%	0.4%	6.2%	10.5%	6.5%	70.8%
Hawaii	0.0%	1.1%	9.3%	21.5%	11.1%	43.0%
Idaho	45.2%	0.8%	7.2%	9.7%	5.6%	68.4%
Illinois	45.3%	1.0%	6.7%	11.7%	6.0%	70.7%
Indiana	42.5%	2.6%	4.6%	8.0%	5.3%	63.0%
Iowa	48.1%	0.9%	8.5%	7.4%	3.7%	68.6%
Kansas	46.4%	0.5%	7.5%	8.9%	5.2%	68.5%
Kentucky	50.0%	0.4%	5.4%	10.2%	4.7%	70.7%
Louisiana	39.5%	0.4%	6.3%	13.4%	6.5%	66.0%
Maine	53.5%	0.9%	8.0%	8.6%	5.1%	76.2%
Maryland	51.5%	0.7%	4.4%	11.5%	5.4%	73.4%
Massachusetts	50.2%	0.3%	3.3%	11.4%	3.5%	68.8%
Michigan	46.0%	2.0%	6.7%	9.6%	5.4%	69.8%
Minnesota	40.1%	7.0%	10.1%	8.3%	5.1%	70.5%
Mississippi	47.7%	0.4%	7.1%	8.4%	5.4%	69.0%
Missouri	49.5%	0.5%	8.1%	9.9%	5.0%	73.1%
Montana	50.7%	1.4%	7.4%	9.6%	5.8%	74.9%
Nebraska	49.1%	1.2%	9.3%	8.7%	5.5%	73.7%
Nevada	35.9%	2.4%	12.0%	14.7%	8.4%	73.4%
New Hampshire	52.9%	4.3%	5.4%	10.6%	5.3%	78.6%
New Jersey	53.4%	2.5%	3.3%	10.4%	4.0%	73.6%
New Mexico	52.4%	1.3%	5.6%	12.3%	5.9%	77.6%
New York	38.3%	7.9%	5.6%	10.0%	3.3%	65.1%
North Carolina	42.3%	4.6%	2.9%	9.0%	4.0%	62.9%
North Dakota	50.0%	2.1%	11.3%	7.3%	5.5%	76.3%
Ohio	43.8%	5.6%	5.6%	9.8%	6.7%	71.6%
Oklahoma	50.5%	0.3%	8.1%	10.0%	6.8%	75.8%

Oregon	43.0%	1.9%	8.1%	11.6%	5.7%	70.4%
Pennsylvania	47.4%	7.0%	4.1%	8.0%	5.3%	71.9%
Rhode Island	56.6%	0.4%	2.8%	15.0%	4.3%	79.2%
South Carolina	48.5%	0.1%	3.0%	8.5%	5.4%	65.5%
South Dakota	49.8%	0.6%	10.3%	8.9%	5.8%	75.4%
Tennessee	41.3%	0.9%	5.4%	11.3%	5.3%	64.2%
Texas	51.0%	0.4%	6.2%	9.7%	4.8%	72.1%
Utah	46.8%	1.2%	7.3%	11.0%	7.2%	73.5%
Vermont	65.8%	0.1%	9.2%	5.5%	4.3%	84.8%
Virginia	46.4%	4.6%	6.1%	11.2%	6.3%	74.7%
Washington	39.9%	0.4%	10.2%	10.9%	5.5%	66.8%
West Virginia	60.4%	0.1%	3.1%	7.2%	6.5%	77.2%
Wisconsin	45.8%	6.9%	9.4%	10.4%	4.6%	77.1%
Wyoming	42.5%	0.4%	6.3%	7.4%	6.0%	62.7%

Table 8

Share of Local Direct General Expenditures Directly Benefiting Real Property by Function, 2006

	Education	Health	Transportation	Public Safety	Sewerage	Gov. Admin	Other	Total
United States Total	43.7%	3.2%	6.0%	10.8%	3.2%	5.4%	10.4%	82.6%
Alabama	41.7%	2.8%	6.0%	9.0%	3.7%	4.2%	21.9%	89.2%
Alaska	48.9%	1.9%	8.6%	8.8%	2.7%	5.8%	8.9%	85.5%
Arizona	41.4%	1.1%	7.1%	14.2%	3.6%	7.5%	11.1%	86.0%
Arkansas	57.8%	0.5%	6.1%	10.1%	3.2%	4.6%	7.5%	89.9%
California	38.0%	4.9%	5.1%	12.6%	2.7%	6.1%	9.5%	78.8%
Colorado	38.6%	1.5%	8.2%	10.2%	3.6%	6.5%	12.5%	81.0%
Connecticut	55.6%	1.0%	4.0%	9.0%	2.4%	3.8%	4.3%	80.1%
Delaware	61.4%	1.0%	6.0%	9.0%	6.7%	5.3%	2.9%	92.4%
District of Columbia	18.5%	6.3%	1.3%	12.0%	3.0%	5.7%	9.9%	56.6%
Florida	38.4%	1.2%	7.5%	13.9%	3.2%	6.3%	14.3%	84.8%
Georgia	47.2%	3.2%	6.2%	10.5%	3.5%	6.5%	13.9%	91.0%
Hawaii	0.0%	2.3%	9.3%	21.5%	10.5%	11.1%	17.8%	72.4%
Idaho	45.2%	1.8%	7.2%	9.7%	3.4%	5.6%	19.0%	92.0%
Illinois	45.3%	1.2%	6.7%	11.7%	2.4%	6.0%	10.1%	83.4%
Indiana	42.5%	1.0%	4.6%	8.0%	4.5%	5.3%	16.8%	82.7%
Iowa	48.1%	3.1%	8.5%	7.4%	2.5%	3.7%	14.4%	87.7%
Kansas	46.4%	2.4%	7.5%	8.9%	2.9%	5.2%	10.0%	83.4%
Kentucky	50.0%	2.1%	5.4%	10.2%	2.8%	4.7%	7.1%	82.3%
Louisiana	39.5%	1.0%	6.3%	13.4%	3.1%	6.5%	15.3%	85.1%
Maine	53.5%	0.6%	8.0%	8.6%	3.4%	5.1%	6.5%	85.9%
Maryland	51.5%	1.6%	4.4%	11.5%	3.2%	5.4%	8.1%	85.6%
Massachusetts	50.2%	0.5%	3.3%	11.4%	3.2%	3.5%	7.2%	79.4%
Michigan	46.0%	9.0%	6.7%	9.6%	4.1%	5.4%	6.3%	87.1%
Minnesota	40.1%	2.5%	10.1%	8.3%	2.4%	5.1%	11.1%	79.6%
Mississippi	47.7%	1.0%	7.1%	8.4%	2.0%	5.4%	19.7%	91.4%
Missouri	49.5%	2.0%	8.1%	9.9%	3.5%	5.0%	11.3%	89.3%
Montana	50.7%	3.1%	7.4%	9.6%	2.8%	5.8%	7.3%	86.8%
Nebraska	49.1%	1.0%	9.3%	8.7%	2.0%	5.5%	10.8%	86.4%
Nevada	35.9%	1.2%	12.0%	14.7%	2.1%	8.4%	12.2%	86.5%
New Hampshire	52.9%	0.6%	5.4%	10.6%	2.3%	5.3%	4.8%	82.0%
New Jersey	53.4%	1.0%	3.3%	10.4%	2.9%	4.0%	5.3%	80.4%
New Mexico	52.4%	0.6%	5.6%	12.3%	2.0%	5.9%	8.9%	87.9%
New York	38.3%	2.8%	5.6%	10.0%	2.7%	3.3%	11.1%	73.8%
North Carolina	42.3%	6.4%	2.9%	9.0%	4.4%	4.0%	15.2%	84.3%
North Dakota	50.0%	1.7%	11.3%	7.3%	1.7%	5.5%	6.6%	84.3%
Ohio	43.8%	5.5%	5.6%	9.8%	3.9%	6.7%	6.7%	82.1%
Oklahoma	50.5%	1.4%	8.1%	10.0%	3.4%	6.8%	11.4%	91.7%
Oregon	43.0%	4.5%	8.1%	11.6%	4.7%	5.7%	6.5%	84.1%

Pennsylvania	47.4%	6.4%	4.1%	8.0%	3.5%	5.3%	3.3%	78.2%
Rhode Island	56.6%	0.3%	2.8%	15.0%	2.5%	4.3%	3.5%	85.1%
South Carolina	48.5%	0.9%	3.0%	8.5%	2.4%	5.4%	22.4%	91.1%
South Dakota	49.8%	1.1%	10.3%	8.9%	2.9%	5.8%	7.8%	86.6%
Tennessee	41.3%	1.7%	5.4%	11.3%	3.3%	5.3%	17.0%	85.3%
Texas	51.0%	2.0%	6.2%	9.7%	3.0%	4.8%	10.6%	87.3%
Utah	46.8%	2.5%	7.3%	11.0%	4.5%	7.2%	8.4%	87.6%
Vermont	65.8%	0.5%	9.2%	5.5%	3.1%	4.3%	3.1%	91.4%
Virginia	46.4%	4.0%	6.1%	11.2%	3.1%	6.3%	6.9%	84.1%
Washington	39.9%	3.5%	10.2%	10.9%	4.1%	5.5%	13.3%	87.3%
West Virginia	60.4%	1.5%	3.1%	7.2%	4.4%	6.5%	8.6%	91.7%
Wisconsin	45.8%	4.9%	9.4%	10.4%	3.6%	4.6%	6.1%	84.9%
Wyoming	42.5%	2.3%	6.3%	7.4%	2.0%	6.0%	25.9%	92.5%

Chapter 4

Section A.9

Smart Growth and Property Tax Incentives in State Statutes

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Introduction

The purpose of this research note is to identify and provide a description of other states' statutes that use property taxes to provide incentives for smart growth and in-fill development or that provide disincentives for open-field or greenspace development.

We would like to emphasize four points in the approach to this task. 1) Smart growth is a broad concept that carries different meanings in different states; 2) the primary tools states use to encourage smart growth are regulations and infrastructure investment policies rather than property tax policies or incentives; 3) many state actions are effectively in line with smart growth though states may not refer to actions as "smart growth" or declare publicly that the effort is intended to manage growth; 4) property tax incentives can unintentionally contribute toward smart growth principles.

The American Planning Association (APA), a leading organization in smart growth, defines smart growth broadly as:

> "Smart growth is the planning, design, development and revitalization of cities, towns, suburbs and rural areas in order to create and promote social equity, a sense of place and community, and to preserve natural as well as cultural resources. Smart growth enhances ecological integrity over both the short- and long-term, and improves quality of life for all by expanding, in a fiscally responsible manner, the range of transportation, employment and housing choices available to a region."[1]

States identified by the APA as proactive in smart growth break down the concept into specific legislative principles.[2] The smart growth guiding principles selected for this

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[1] American Planning Association. *Planning for Smart Growth: 2002 State of the States* (February 2002), pp. 21-22.

[2] These states identified in American Planning Association. *Planning for Smart Growth: 2002 State of the States* (February 2002) on page 6-7.

project that are consistent with the APA definition above and common to states proactive in smart growth[3] are as follows.

1. Mix land uses
2. Create housing opportunities and choices for diverse income groups (i.e. affordable housing)
3. Create walkable communities
4. Foster distinctive, attractive communities with a strong sense of plan
5. Preserve open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems
6. Strengthen and direct development to existing communities, promote infill and redevelopment
7. Make development decisions predictable, fair, and cost effective

The appendix catalogues relevant legislation from all 50 states according to these principles. State statutes discussing property tax incentives pertaining to these principles were selected and catalogued according to each principle with a brief description of the type of tool (i.e. tax abatement, tax credit, etc.), and relevant excerpts which were collected verbatim. Two tables bound at the end of this research note consolidate the information in the appendix, Table 1 and Table 2.

The most common property tax incentive relevant to smart growth is the preferential assessment program. Most states have this program irrespective of smart growth, though in some cases the program contributes toward the fifth principle of preserving farmland and open space. All preferential assessment programs are described in detail in Table 3 provided electronically, and a discussion in section five explains which programs contribute toward the fifth principle.

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[3] See Maryland, Massachusetts, Vermont, Rhode Island, and Pennsylvania for examples of principles: Maryland http://www.mdp.state.md.us/smgprinciples.htm ; Massachusetts § 7-40R-1 and http://www.mass.gov/Agov3/docs/smart_growth/patrick-principles.pdf; Vermont http://www.smartgrowthvermont.org/learn/smartgrowth/principles/ ; Rhode Island § 45-22.2-3; Pennsylvania code 53 P.S. § 11101 and 53 P.S. § 10701-A

This research note is organized according to the framework of the seven principles preceded by a more in depth discussion of smart growth and the methodology used. The note concludes with a discussion of the findings.

Smart Growth

The smart growth movement among states has been documented and encouraged by the American Planning Association (APA). The APA is the leading organization in studying smart growth, surveying states, and providing legislative models for Congresses and recommendations for Governors interested in pursuing statewide smart growth. The APA began modernizing state statutes regarding planning and management of development in 1994, entitling its initiative "Growing Smart." Initially, the APA focused exclusively on state and regional planning and relationships between state, regional and local planning efforts. Expanding its efforts, the APA began drafting model legislation for local planning, agency planning, planning commission structures, plan preparation, and making state environmental acts cohesive with local planning. In its third phase, the APA began providing model legislation for implementing tools at the community level. The *Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition* provides annotated model statutes and other tools for audiences ranging from governors to planners to legislators interested in revising planning laws to grow smart.[4] Guided by the APA, states began reforming or introducing comprehensive planning efforts in the 1990s to grow smart.

[4] American Planning Association. *Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition*, Gen. Ed. Stuart Meck (January 2002), pp. 9.

More and more states are pursuing legislation geared towards smart growth. Leading states in the smart growth movement (Delaware, Florida, Georgia, Maryland, New Jersey, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Washington and Wisconsin) tend to follow a similar pattern.[5] Governors establish Commissions that issue reports with recommendations for the legislature. When successful, the legislature passes an Act that either formulates statewide comprehensive planning policy or encourages local governments to develop plans (in the form of suggestion, supportive resources, or technical assistance).[6] The presence of a statute that creates a statewide comprehensive plan for development or one that encourages local governments to comprehensively plan growth provides an indicator that the state is part of the smart growth movement, though the extent of the states' commitment to smart growth varies.

The APA presented a hierarchy reflective of states' commitment to smart growth in a 2002 publication. According to the APA's survey conducted in 1999-2001, thirteen states were implementing statewide comprehensive planning reforms, 10 states were improving local planning while working on statewide amendments, and 15 states were pursuing their first major statewide planning reform (including Iowa) at that time. Thirteen states were not pursuing statewide planning reforms.[7] In 2008, a review of the statutes revealed that 32 states mention comprehensive plans for growth in their statutes, including those that merely encourage local planning.

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[5] American Planning Association. *Planning for Smart Growth: 2002 State of the States* (February 2002), p.6.
[6] http://www.planning.org/growingsmart/summary.htm
[7] American Planning Association. *Planning for Smart Growth: 2002 State of the States* (February 2002), pp. 14-15.

As comprehensive planning reflects, the primary smart growth action involves intergovernmental coordination. The APA describes a great variety of smart growth tools in its survey, "Planning for Smart Growth: 2002 State of States," that describes the smart growth activities of all states to manage growth and development in the years 1999-2001.[8] The APA identifies smart growth activities as the executive orders, study commissions that provide recommendations, comprehensive planning reform legislation, and any other legislation geared towards planning and managing growth in line with the definition presented in the introduction. Many coordinating activities are necessary to approach growth comprehensively guided by smart growth principles and many pieces of legislation can be used for smart growth.

The primary efforts to coordinate individual activity, *i.e.* households, businesses, and land owners, towards smart growth principles are generally in the form of regulations developed by urban planners and implemented by planning departments. As a planning issue, smart growth tends to be tackled through regulations such as zoning regulations, building codes, environmental protection provisions, *etc.* rather than financial incentives largely because the former falls within the ambit of a planning agency.[9] For example, New Hampshire identifies a number of leading innovative land use controls for controlling growth, none of which involve financial incentives: timing incentives; phased development; intensity and use incentive; transfer of density and development rights; planned unit development; cluster development; impact zoning; performance standards;

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[8] American Planning Association. *Planning for Smart Growth: 2002 State of the States* (February 2002)
[9] The information in this paragraph derives from an interview on August 1, 2008 with Dr. Nancy Augustine, Senior Research Associate at the George Washington Institute for Public Policy, former urban planner.

flexible and discretionary zoning; environmental characteristics zoning; inclusionary zoning; accessory dwelling unit standards; impact fees; and village plan alternative subdivision.[10] Financial incentives contribute to smart growth at the level of individual activity, but planning and regulation tools provide the primary thrust towards smart growth.

Reflective of the breadth of smart growth activity, Maryland's Department of Planning counts 80 programs in the state's statutes that contribute towards smart growth.[11] For this reason, the appendix does not provide an exhaustive collection of all smart growth legislation. It focuses on statutes that provide property tax incentives relevant to the 7 smart growth principles that serve as the framework for this research task. No property tax incentives were found to contribute towards some of the smart growth principles in the statutes, in which case examples of statutes authorizing regulatory tools that contribute toward those smart growth principles are provided.

Most statutes catalogued in the appendix do not include the phrase "smart growth." In fact, only three states use the phrase in their statutes: Massachusetts, New York, and New Hampshire,[12] as of September 2008. Without mentioning smart growth *per se*, many state statutes discuss managing growth to prevent harmful effects of sprawl and leapfrog development, which is consistent with the intention of smart growth efforts

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[10] N.H. Rev. Stat. Ann. tit. 64, 674:21

[11] Maryland Department of Planning, "Smart Growth Background" http://www.mdp.state.md.us/smartintro.htm. Retrieved September 12, 2008.

[12] See appendix: Massachusetts Mass. Gen. Laws, tit. 7, §40R [Comprehensive plan]
Massachusetts Mass. Gen. Laws tit. 7, §40R.9 [State financial incentive]
New York N.Y. Tax Law § 606 [State tax credit]
New York N.Y. State Finance Law § 54 [State incentive for regional consolidation]
New Hampshire NH tit. 1, §§9-A:1 – 9-B:1-5; tit. 64, §674:2 [Comprehensive planning]

to encourage a compact pattern of development. State comprehensive plans (such as Idaho) provide principles to guide state and local planning such as: mix land uses, create affordable housing, preserve open space and farmland, build in existing communities, provide a variety of transportation options, create more pedestrian walkways, *etc*. Statutes that do not provide a statewide comprehensive plan with explicit principles but suggest that local entities develop comprehensive plans (such as Kentucky, Maryland, and South Carolina) often require that specific elements be included in the plan such as: a land use plan, a transportation plan, a community facilities plan, a resources plan, *etc*.

The primary smart growth activity occurs in planning, intergovernmental coordination, regulation, and zoning. Statutes included in the appendix do not necessarily have a clear connection to a state's smart growth efforts. The statutes included provide property tax incentives relevant to the principles selected for this study.

Methodology

Statutes related to comprehensive planning were collected from all 50 states. The presence of statutes that authorize, encourage, or require comprehensive planning indicates that a state potentially has interest in smart growth. States with the framework for comprehensive planning will likely continue to develop legislation that contributes to smart growth, if not now, in the future. Also, wording in the comprehensive plans reveals states' idea, vision, or definition of smart growth. These statutes are catalogued in the appendix under the principle, "Foster distinctive, attractive communities with a strong sense of plan."

Statute research began with states identified by the APA as the most active in smart growth comprehensive planning (Delaware, Florida, Georgia, Maryland, New

Jersey, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont, Washington and Wisconsin). Keyword searches with words related to the 7 principles were conducted in each state's most recent revised statutes published online. For example, a keyword search would include: "Open space" AND "urban growth" AND property AND tax. Variations of this search for all principles were conducted. A pattern emerged that property tax incentives contributed to the following principles: 2) Creating housing opportunities and choices for diverse income groups (i.e. affordable housing); 5) Preserving open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems; and 6) Strengthening and directing development to existing communities, and promoting infill and redevelopment. Regulatory tools contributed to all other principles, with the exception of the principle, 4) Foster distinctive, attractive communities with a strong sense of plan, which consists of comprehensive planning statutes. The appendix provides examples of statutes promoting or requiring regulatory tools that contribute to the principles.

Statute keyword searches among the rest of the 50 states focused on the three principles to which property tax incentives contributed (affordable housing, land preservation, and infill/redevelopment) as well as the principle regarding planning (fostering communities with a strong sense of plan).

Identifying statutes relevant to the principles of creating affordable housing and preserving open space, farmland, parks, and environmental areas was straightforward because these statutes used these key words to describe the purpose of the statute. Statute searches for the principle, "Direct[ing] development to existing communities, promote infill and redevelopment," cast a wider net of possibly relevant statutes. Every state has

enterprise zone programs or revitalization programs geared towards blighted areas, but often the goal of these programs is strictly economic and irrelevant to spatial considerations implicit in smart growth such as diverting new development to redevelopment and containing growth within pre-existing communities. These programs were included in the appendix if the statute wording articulated smart growth concepts outlined in the first two sections of this research note. For example, **Illinois** 65 Il Comp Stat 5/11-74.4-1 *et seq* [Authorizes Tax Increment Financing] expresses the need for municipalities to utilize tax increment financing in designated areas out of concern for the lack of physical maintenance of existing structures, obsolescence, and lack of planning in addition to economic concerns. Another example is **Maryland** Tax-Property 9-234 [Authorizes property tax credit], which provides local option to municipalities to issue a property tax credit to owners for redeveloping vacant and underutilized commercial buildings.[13]

The *APA's Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition* provides descriptions of statutes that the APA considers to be related to smart growth. The appendix includes these statutes when related to property tax incentives. For example, **Maryland** Tax-Property §9-229 [Authorizes property tax credit] authorizes local governments to provide a property tax credit to owners for redeveloping brownfield sites. The Guidebook describes this statute

[13] An example of a statute that aligns with a principle of economic revitalization without a clear connection to preventing sprawl is **Iowa** Code tit. 1, §15.332; §15.335A [Authorizes property tax incentive for Job Creation]. Some states consider strictly economic revitalization statutes as smart growth efforts; other states do not.

on page 14-64 (vol. 2) among a list of statutes that issue tax abatements that the APA considers relevant to smart growth.

The appendix includes notation for each statute in brackets that indicate the property tax incentive tool authorized or provided by the statutes (in addition to some examples of regulatory tools such as zoning). Statutes that issue property tax incentives at the state level read as follows: [Tax deduction]; [Tax credit]; [Tax Increment Replacement]; [State tax exemption]; [State financial incentive]; [State reimbursement for exemption], *etc*. Statutes that authorize local governments to provide a property tax incentive at the municipality's discretion read as follows: [Authorizes easement]; [Authorizes tax freeze]; [Authorizes property tax credit]; [Authorizes tax exemption]; [Authorizes Tax Increment Financing], *etc*. Iowa's statutes provide a good example of the difference between property tax incentives at the state level and those authorized for local governments: **Iowa** Code tit. 10, § 427.1 [State property tax exemptions] uses wording, "The following classes of property shall not be taxed…" Whereas **Iowa** Code tit. 1, §15E.196 [Authorizes incentives] uses wording, "The county or city for which an eligible enterprise zone is certified may exempt from all property taxation all or a portion of the value added to the property..." A directive issued at the state level in the statutes differs from an authorization for local governments to implement a property tax incentive. Sometimes the authorization includes mandatory requirements for local governments and other times it is at local option.

An important issue to consider when looking at whether state programs are state mandated or local option to provide tax relief is whether or not states reimburse local government spending for property tax relief. If states do not reimburse local

governments for the tax relief they provide, whether voluntarily or not, local property tax revenues are significantly reduced. This has implications for a local government's ability to fund services as well as for the state to equalize property tax collections across the state. A state can enhance its commitment to smart growth by compensating local governments for smart growth activities.

In this study, state reimbursement of local government spending on tax relief was not specifically researched, as this information is often not available in the same place as the program description or in the statute. However, future research on this topic could include a search for such information, and likely places for it include end of the year financial reports or budget documents that detail state spending or state tax expenditures, including, state budgets, state Comprehensive Annual Financial Reports (CAFRs), the annual report for the state tax or revenue department, state tax expenditure budgets, or other such statistical or research reports.

The next section describes each of the principles selected for this study and the statutes presented in the appendix.

Principles

These principles contribute to the intention of smart growth to result in a compact pattern of development. This section explains the importance of each principle to smart growth and describes the property tax incentives and other tools included in the appendix of statutes. Table 1 summarizes all statutory property tax incentives according to the type of property tax incentive found for each state. Table 2 summarizes the type of property tax incentives commonly used for each principle and shows that property tax incentives are only used for three of the smart growth principles selected for this project. Table 3

serves as a reference table for preferential assessment programs discussed in the fifth section on preserving open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems.

1. Mix land uses

Integrating compatible land uses creates communities that are better places to live. Mixing land uses can achieve a number of objectives: 1) placing retail, residential, restaurant, and transportation land uses in close proximity make transportation alternatives to driving, such as walking or biking, viable; 2) mixed land uses provides a larger and more diverse population base to support public transportation; 3) mixed land uses can increase the number of people on the street and enhance the vitality and perceived security of the area; 4) revitalizes the community creating a more pedestrian friendly area for people to meet in public spaces; 5) mixing commercial uses with residential; 6) creates an attractive neighborhood for employees interested in a balanced quality of life.[14]

The statute review shows that property tax incentives are generally not used to mix land uses, rather local governments mix land uses by zoning. Neither property values nor property tax levies are differentiated directly on the basis of the mix of uses surrounding a subject property. The market value of an individual property is influenced by the value of nearby properties, but it is not clear that the market embraces a mix of

[14] Information in this paragraph summarizes *Smart Growth Online* is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

land uses. The appendix provides two examples of state statutes that authorize local governments to zone for mixed land uses: **Pennsylvania** 53 P.S. § 10701-A [Authorizes incentives and zoning] and **New York** N.Y. General City Law § 81-f [Authorizes zoning].

2. Create housing opportunities and choices for diverse income groups (e.g. affordable housing)

Quality housing choices for all income levels contributes to smart growth for a number of reasons. Housing constitutes a significant portion of new construction and therefore strongly impacts the way communities grow. Housing determines a household's access to society such as transportation, commuting patterns, access to services and education, *etc*. Strategic housing development can help employees live closer to their workplace, it can help reduce auto-dependency to benefit the environment, and it can help communities use infrastructure resources more efficiently. Smart growth housing strategies not only emphasize diversifying housing options on newly-developed land, but also increasing housing supply in existing communities. Converting some single family structures to multi-family structures in a neighborhood can slowly increase density, which mitigates sprawl and increases the viability of public transport, without changing landscape of the community.[15]

[15] Information in this paragraph summarizes *Smart Growth Online* is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

Of the thirteen statutes listed in the appendix, six of them explicitly offer or authorize property tax incentives: **Connecticut** Conn. Gen'l Stat. §8-215 – 216 [Authorizes and incentivizes tax abatement]; **Iowa** Code §404.3B [Authorizes tax exemption]; **Maine** MRS, tit. 30, §5250-A [Authorizes Tax Increment Financing]; **New York** N.Y. R.P.T. Law §421-a. [Authorize tax exemption]; **Oregon** ORS §§307.651 – 307.687 [Authorizes zoning and tax exemption]; **Vermont** Stat. Ann. tit. 32, §3847; §3836 [Authorizes tax exemption]. See appendix.

Illinois' statute, **Illinois** 310 ILCS 67/1 – 25 [Requires planning and incentives in municipalities with housing shortages], requires communities designated as having an inadequate supply of affordable housing to devise a plan with incentives to facilitate construction of affordable housing. Local governments may or may not choose to use property tax incentives to facilitate affordable housing construction. Further study of local government activity would be necessary to ascertain the extent of property tax incentives.

The other statutes listed in the appendix provide examples of statutes that use tools other than property tax incentives to encourage housing property choices for diverse income groups, such as incentive zoning, impact fees, and density bonuses.

One problem that arises in relying on these types of tools to promote affordable housing is that they tend to only provide incentives to create affordable housing in blighted areas in need of revitalization. These tax credit programs do not encourage developers to create affordable housing in marketable areas. Creating affordable housing in marketable areas provides housing options throughout the region in a way that accomplishes the goals described in the first paragraph of this section. An affordable

housing organization in St. Louis, FOCUS St. Louis, recommends that state level tax credits should be offered at the time of sale funded through the real estate transfer tax.[16]

3. Create walkable communities

The creation of walkable communities is considered a smart growth goal because it lowers private and environmental transportation costs, enhances social interaction, improves personal and environmental health, and expands consumer choice by locating mixed land uses in closer proximity. Land use zoning and community planning and design are the primary methods communities utilize to achieve walkable communities.[17]

The appendix provides one example of zoning in state statutes that explicitly refers to the creation of pedestrian friendly communities. **Pennsylvania** 53 P.S. § 10701-A [Authorize zoning]. The principle of walkable communities is closely tied with the principles of mixed land use.

4. Foster distinctive, attractive communities with a strong sense of plan

As prescribed by the APA, state comprehensive plans "provide goals, policies, and objectives[18] for state and other agencies, such as regional agencies and local

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[16] FOCUS, "Affordable Housing for the Region's Workforce," (August 2005), p. 19. http://www.focus-stl.org/prog/pdfs/affordablehousing.pdf (accessed August 21, 2008).

[17] Information in this paragraph summarizes Smart Growth Online is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

[18] The APA provides a list of topical areas that goals and policies in comprehensive plans should cover: Agriculture; urbanization; air quality; water quality; natural resources, living and non-living; natural hazards and disasters; historic, scenic, and archaeological resources; economic development; housing, including affordable housing; education; recreational and cultural development; human and social services;

governments. Such plans are intended to coordinate policy among all levels of government in such areas as economic development, land use, transportation, health, education, public safety, water resources, and intergovernmental relations."[19] If the principles are not stated outright in the statute, it lays out elements for the planning commission to develop such as: a land use plan, a transportation plan, a community facilities plan, a resources plan, *etc*.[20]

Comprehensive plans are necessary to coordinate statewide smart growth efforts. Planning at the community level is equally important. Communities can best accommodate their preferences for quality lifestyle as defined by that locale by taking control of how and where to grow, for example, in a way that ensures that infill and greenfield development is determined by accessibility and physical relationship to other buildings and spaces specific to their locale.[21] Coordination and planning among all levels of government are necessary to pursue smart growth.

The appendix includes all statutes relevant to comprehensive planning at all levels of government: state, region, and local. Some statutes issue statewide plans (Idaho, Massachusetts), some statutes authorize the creation of regional commissions to develop a regional comprehensive plan (California, New Mexico), and others authorize municipal

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public safety; transportation; technological change; governmental organization and intergovernmental relations; and citizen involvement" (page 4-41). American Planning Association. *Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition*, Stuart Meck, FAICP, Gen. Editor.

[19] American Planning Association. *Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition*, Stuart Meck, FAICP, Gen. Editor. Volume 1, page 4-31.

[20] Maryland Code Article 66B § 3.05

[21] Information in this paragraph summarizes Smart Growth Online is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

commissions to develop a comprehensive plan for the municipality[22] (Arizona, Michigan, Mississippi, Montana, West Virginia). Some states recommend that local governments engage in planning (Maine), others require every municipality to plan (Alaska, Arizona, Minnesota, Utah, South Dakota). One state encourages counties and municipalities to develop comprehensive plans by offering an incentive: "Increased allocation of certain funds for counties and municipalities with approved growth plans" (Tennessee §6-58-109. See Appendix).

In the appendix, the notation in the brackets such as [Authorizes], [Recommends], and [Requires] connote the strength of pressure the statute places on local entities to plan. In cases like Colorado, Connecticut, Maryland,[23] North Dakota, South Carolina, Virginia, Washington, and Wisconsin, statute wording is unclear as to whether or not planning is mandatory. In some cases, the word [Encourages] is used. Texas actually uses the word "encourages" to describe the purpose of the statute. Statutes of Kentucky, New Hampshire, and Tennessee issue a call for a comprehensive plan to be developed. The notation [State comprehensive planning] connotes that the state is in the process of developing a statewide plan. North Carolina specifically encourages government agencies to plan rather than municipalities. Wyoming does not have a statute for comprehensive planning, but it does authorize the governor to appoint a state planning coordinator.

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[22] Only statutes that authorize, recommend, require, or encourage a comprehensive plan from all local governments were included. If the statute mentioned a comprehensive plan for only one city, it was not included in the appendix.

[23] The APA identified Maryland as a leading state in smart growth and comprehensive planning in its 2002 publication, State of States. Maryland's statewide comprehensive plan has since been repealed. The current statute encourages local planning. Maryland remains active in smart growth, as discussed in the MD government website, http://www.mdp.state.md.us/smartintro.htm.

Broadly speaking, local governments can engage in comprehensive planning even if not required to by the state. However, many local governments would not have the capacity to engage in planning if not given the legal structure or guidelines from the state. Statutes related to comprehensive planning for 32 states are included in the appendix (excluding Wyoming). Iowa does not currently have a comprehensive plan in its statutes, but the legislature introduced a bill for comprehensive planning in 1999, H.J. 901 (House file 752). Most states have discussed and devised bills for comprehensive plans, but not all state legislatures successfully pass them.

5. Preserve open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems

Open space as a smart growth concept refers to natural areas in and around localities that provide community space, recreation, farm land, habitats for plants and animals, natural beauty and critical environmental areas like wetlands. Preserving open space also guides development into existing communities which mitigates sprawl and the negative externalities associated with it (e.g. inefficient infrastructure, auto-dependency, pollution, congestion, *etc*.).[24]

A variety of implementation tools are used to "Preserve open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems" such as zoning, agricultural preservation easements, sale or transfer of development rights, and public

[24] Information in this paragraph summarizes Smart Growth Online is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

purchase of land.[25] Property tax incentives that could be used to preserve open space and farm land include preferential assessment programs, tax freezes, easements, tax exemptions, and tax abatements. Each statute listed in the appendix under this principle includes a description of the implementation tool used. Some statutes authorize local governments to provide incentives to preserve land, which could either be a property tax incentive, an exemption from administrative rules and requirements, or some other type of incentive. In such cases, statutory research is not sufficient to identify all property tax incentives used at the local level.

The appendix includes some examples of two common tools that are not property tax incentives: incentive zoning and transfer of development right. Incentive zoning allows developers to build at higher density in exchange for the provision of social and environmental amenities such as parks, open space areas, schools, and affordable housing.[26] For example, New York authorizes local governments to provide incentives or bonuses "on the condition that specific physical, social, or cultural benefits or amenities would inure to the community…in accordance with the city's comprehensive plan."[27] The other implementation tool, transfer of development right, is used specifically for the preservation of environmentally sensitive areas, agricultural land, open space, and historic landmarks (See New York, Ohio, Oregon, and Pennsylvania in the appendix).[28]

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[25] Youngman, Joan. 2005. "Taxing and Untaxing Land: Current Use Assessment of Farmland." State Tax Notes. September 5. Washington, DC: Tax Analysts, p.732.
[26] Feiock, Richard C., António F. Tavares, and Mark Lubell. 2008. "Policy Instrument Choices for Growth Management and Land Use Regulation," *Policy Studies Journal*, 36(3): 468.
[27] N.Y. General City Law § 81-d [Authorizes incentive zoning] (see appendix)
[28] Feiock, Richard C., António F. Tavares, and Mark Lubell. 2008. "Policy Instrument Choices for Growth Management and Land Use Regulation," *Policy Studies Journal*, 36(3): 468.

Under this principle, the appendix displays 37 statutes, 20 of which are explicit property tax incentives for preserving open space or farmland. For example, **California** Cal. Govt. Code §§ 51050-51065; 51080-51087; 51090-51094; 51075; 51070-51073 [Authorizes Easement] authorizes local governments to grant easements to owners of open space in order to prevent development on the property. Hawaii offers a tax exemption to owners living in urban districts who dedicate a portion of their land to open space, landscaping, or public recreation: **Hawaii** Haw. Rev. Stat. §246-34 [State tax exemption]. New Jersey provides an incentive to local governments to provide easements by offering grants to local governments that reimburse up to 80 percent of the cost of acquiring easements on farmland: **New Jersey** § 13:8C-20, § 13:8C-37, § 13:8C-39 [Incentive for easement]. New York exempts property devoted to open space and conservation from the Real Estate Transfer Tax: **New York** N.Y. Tax Law § 1438-e [Real Estate Transfer Tax exemption]. Tennessee has a state compensation fund to offset losses in local government revenue due to property tax exemptions: **Tennessee** §11-14-406 and §11-7-109 [State reimbursement for exemption].

Preferential assessment programs are another form of property tax incentives offered in state statutes. Examples of these programs included in the appendix are from California, Maine, New Hampshire, Nevada, Vermont, and Washington. These programs all have an administrative feature in the program that signals that the preferential assessment program contributes to preserving open space and/or farm land: a time commitment or penalty for withdrawal from the program. The following paragraphs explain such programs in detail and how they relate to smart growth.

Preferential Assessment Programs

Preferential assessment programs generally promote the goal of preserving farmland and open space, though their efficacy in achieving these goals has been questioned. If a land owner receives preferential assessment for the current use activity, but suffers no penalty for selling to developers, then the program does not ensure long-term preservation of land used for open space or farming. Many state preferential assessment programs include penalties for changing the use of land, but even with the penalties, the effectiveness of these programs is unclear.[29]

One of the most influential ways that governments across the country affect land usage is through the taxation of property. In order to apply property taxes, also called ad valorem taxes, states and local governments first determine the value of the land to be taxed. Then, a specific tax rate is applied to the value; generally governments classify land into various types, such as residential, commercial, etc, and then set a specific rate for each class.[30]

The primary way that state and local governments impact land use through the property tax is by applying distinct valuation methods to different land in order to lower the property tax burden on particular types of land. If all land were valued using a market value approach, property taxes on land used for activities such as farming and open space would be higher, making it more likely that farmers and landowners would sell the land for development. In order to lower the property tax burden on lands that are not used in a

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[29] Youngman, Joan. 2005. "Taxing and Untaxing Land: Current Use Assessment of Farmland." State Tax Notes. September 5. Washington, DC: Tax Analysts, p.732-734.

[30] This section draws on research and excerpts from an article entitled "Preferential Tax Treatment of Property Used for 'Social Purposes': Fiscal Impacts and Public Policy Implications" by Woods Bowman, Joseph Cordes, and Lori Metcalf in a forthcoming publication by The Lincoln Institute for Land Policy.

way that brings the highest return to the land (i.e. for development), and to encourage landowners to retain land in certain favored uses such as farming and open space, state and local governments employ a variety of assessment practices to tax certain lands at the "current use value" of the land rather than its current market value, or on the price it would bring on the open market. Such practices, often called preferential assessment, or use value assessment, generally apply to land that is used for farming, conservation and open space, parks and recreation, timber and forest production, and historic preservation. As such, preferential assessment programs are property tax incentives for specific uses of land, many of which fall directly in line with states' smart growth goals.

Preferential assessment programs have a number of policy goals, including preserving farmland and open space, preventing urban sprawl, and assisting family farmers.[31] While preferential assessment programs overlap with smart growth goals, the legislative intent behind these programs is not always apparent in the statutes. In states with a strong farm lobby, preferential assessment programs intend to provide financial assistance to farmers who struggle in the modern economy to profit in the agricultural industry. The statutes provide no indication whether preferential assessment programs serve as a type of welfare for farmers or as a property tax incentive to encourage land use in accordance with smart growth goals. The table of preferential assessment programs includes all such programs in the 50 states without certainty of smart growth intentions behind the programs. This section provides a guide for interpreting the table and

[31] Youngman, Joan. 2005. "Taxing and Untaxing Land: Current Use Assessment of Farmland." *State Tax Notes*. September 5. Washington, DC: Tax Analysts.

understanding which programs are most likely to have impacts in accordance with smart growth principles.

Administrative Structure of Preferential Assessment Programs

Although states have many different structures for preferential assessment programs, states generally must take these steps to set up a program: first, set eligibility requirements to determine what land qualifies and who may apply for use valuation for property taxation; next, determine how tax savings will be recovered when land no longer qualifies for use valuation; and finally, determine a method for determining the capitalization rate it will use to estimate value.[32] The first two administrative tools, eligibility requirements and tax savings recovery in the event of a change in use, potentially make the preferential assessment programs relevant to smart growth objectives.

In order to determine eligibility, many states use similarly structured programs to preferentially assess a variety of land types, which allows grouping of these often diverse land groups into a single category. Some of the land uses qualifying land for preferential assessment include those mentioned above: agricultural or farmland; conservation, open space, parks, or recreation; forest or timber production; and historic land or buildings. All of these land uses except forest or timber production fall directly in line with smart growth principles, and thus contribute to states' smart growth efforts.

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[32] International Association of Assessing Officials. (n.d.) "Property Valuation: IAAO Use Valuation Study." http://www.ksrevenue.org/pdf/finalreport.pdf. Retrieved February 18, 2008.

States often further restrict land uses that qualify by setting eligibility criteria for the land. These include: size limits - which may be a minimum or a maximum; location requirements - which would usually indicate that the land is adjacent to something else; or requisite designations - which includes official recognition by a federal, state, or local agency that the property is an important resource worthy of protecting. Further, such a designation may be a certification, designation, or formal review process initiated by the landowner and carried out by a federal, state, or local agency to demonstrate that the land meets eligibility criteria of a (possibly separate) program. States also may have programs requiring that the land be covered by a management plan, such as a forest, or environmental plan approved by some federal, state, or local agency demonstrating that the landowner has a strategy for protecting and ensuring the continued quality of the resource.

Perhaps one of the more important administrative program components to consider when assessing the extent to which preferential assessment programs contribute to smart growth goals is whether or not states require landowners to make a time commitment for the use of the land. A time commitment may indicate a state interest in preserving the current use of the land in addition to providing assistance to the current owner. Furthermore, some states apply penalties when owners change the use of the land, which in theory prevent speculators from buying up farm land to hold it for later development while getting preferential taxation. As Joan Youngman points out in "Taxing and Untaxing Land: Current Use Assessment of Farmland," long-term preservation of land is not ensured if farm owners are free to sell their land for

development at any time.[33] Penalties for changing the use of land may also indicate the program's relevance to smart growth goals.

States often require the owner to make a multi-year commitment to keep the land in the preferred use. Some programs require a landowner to hold the land in the target land use (i.e. agriculture) for some number of years, or even permanently. This commitment is usually spelled out in the program description, but the requirement for a multi-year commitment may also be "hidden" in provisions that penalize withdrawal of land from the program before a certain number of years have elapsed, or ever. Often, receiving the tax incentive is predicated on having already had the land in a certain use for a prior minimum amount of time.

The range of explicitly required time commitments varies anywhere from two to 10 years for the programs in the states that have them. The programs that require explicit commitments often come with a penalty if the commitment is broken, or programs may not specify an intended time commitment, yet the penalty for withdrawal from preferential use could be said to constitute an implicit commitment on the part of the owner. There are other assessment methodologies that require no more than an annual "commitment" to the target land use, made in conjunction with the filing of an annual property tax form or application. These programs may also contain provisions with a penalty for noncompliance (or disqualification) during the year for which the preferential assessment is requested. In such cases a subtle distinction is made: landowners can opt

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[33] Youngman, Joan. 2005. "Taxing and Untaxing Land: Current Use Assessment of Farmland." *State Tax Notes*. September 5. Washington, DC: Tax Analysts.

out of "annual programs" by not applying for the preferential assessment. Programs that require an open-ended or "permanent" commitment alluded to in the previous paragraph, do not allow landowners to opt out of the program without penalty. The determination and application of this penalty is the second part of the administrative structure states must address. States call the development penalty numerous things, including: rollback tax, conveyance tax, tax recapture, recoupment tax, and land use change tax, to name a few.

In order to value the land for tax purposes, states specify a particular valuation methodology. While the valuation methodologies vary by state, a broad categorization follows:

- *Income productivity of the land.* This is the most common type of valuation. The formula or guidelines devised by the state considers the productivity of the land. This is the case if a fixed dollar value is differentiated according to crop, soils present on the land, yields, or other site characteristics that influence the actual or potential productivity of the land. It may or may not refer to "income" productivity, but the valuation of the land is tied to how much of whatever resource it can produce, and the state must determine the capitalization method for the way income productivity will be measured.
- *Assessment ratio.* This method values agricultural land as a flat or fixed percentage of fair market value (or some other taxable value).
- *Fixed dollar value or percentage of default (or baseline) valuation.* This methodology entails assigning a specific dollar value per acre or unit, or a fixed percentage of market or other value in order to calculate preferential assessment.

- *Exemptions/Easements*. These methods of determining relief include full or partial exemptions from property tax and permanent property tax relief for easements (contractually an agreement to retain the property for agricultural use).
- *Some other formula devised by the state*. The state establishes a formula to be applied to land in the target use that is to be applied to all such land in the state. This can include classifications established by the state, as for land growing certain types of wood or crops, or differentiation by geography - as long as the formula is set by the state. The alternative is for local property assessors to devise their own method. In this latter case, the state probably (but possibly may not) establishes guidelines to be considered by the local property appraiser.
- *Freeze Assessments* - This method of tax relief entails "freezing" the assessment value of a property to hold it at a constant level for a period of time, usually while historic property is being rehabilitated or brownfields are cleaned up. States will specify a time period for the assessment freeze, and may gradually bring the valuation back to market level.

In order to describe and categorize the way states assess certain land in a preferential manner for property taxation, GWIPP collected data from state statutes and state web pages. Next, state officials administering the property tax were asked to verify and/or supply additional information as necessary. The attached data tables present the results in a spreadsheet format condensed for the purposes of this project from the original data collection.

Most of the information presented in Table 3 comes directly from states' statutes. Any information included in the tables not found in statutes was derived from surveys

filled out by state officials. For example, an Arizona state official considered the agricultural program to have an open space conservation objective, though open space conservation was not explicitly stated in the statute concerning the agricultural program.[34]

Agricultural or Farm Land

Some states have one program to cover some or all of these types of land; others have discrete programs for each eligible land type. The most common type land considered under use value programs is agricultural land. According to a recent survey of the 50 states' use value assessment practices, 49 states (all except Michigan[35]) do engage in preferential assessment of agricultural land.[36] Some common practices among states include assessing agricultural land based on the income productivity of the land as it is currently being used, or using a fixed rate per acre for calculating the tax. As previously mentioned, the overall effect of these methods is to value land at less than fair market value for tax purposes, so that the property tax burden is not too high on land that is not used in the most economically productive manner (i.e. for development). This is especially true for land near urban areas where the market pressure to develop the land is high. The goal of giving farmers financial (tax) incentives to keep their land in agricultural use instead of selling it for development directly coincides with smart growth goals to keep land from being developed adjacent to urban areas.

Land Used for Conservation, Open Space, Parks, and Recreation

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[34] The survey was conducted by the George Washington Institute of Public Policy (GWIPP) for The Lincoln Institute for Land Policy

[35] Rather than preferentially assessing agricultural land, Michigan provides tax assistance to farmers through state-funded income tax credits (Youngman, 2005).

[36] GWIPP-Lincoln Data Collection, 2007

Other land that receives preferential tax treatment but that is not used for farming includes land used for conservation or open space, parks or recreational areas, and historic preservation. GWIPP found that 28 states include conservation and open space as land uses qualifying for preferential valuation and taxation in at least one of the state's programs (note: some states, such as Arizona, have one program that includes various land use types mentioned here, and therefore that program may be counted for each category). Those states are:

Arizona	Kentucky	Oregon
California	Maine	Pennsylvania
Colorado	Maryland	Rhode Island
Connecticut	Massachusetts	Tennessee
Florida	Minnesota	Virginia
Georgia	North Dakota	Vermont
Idaho	New Hampshire	Washington
Illinois	Nevada	Wyoming
Indiana	Ohio	
Iowa	Oklahoma	

GWIPP found that nine states qualify historic preservation as an eligible land use in their use valuation programs; those states are:

Alabama	Florida	Maine
California	Georgia	New York
Connecticut	Illinois	South Carolina

Additionally, seven states qualify parks and recreation land specifically for preferential assessment; those states are:

Florida	Minnesota	Texas
Massachusetts	New Hampshire	
Maine	Pennsylvania	

Though methods for requiring land to stay in a particular use for a set amount of time vary across states, GWIPP found that at least 18 states require either a specific future time commitment, or require that in order to receive the tax benefits the land already has been in the preferential use for a specified number of years. These programs cover agricultural, open space and conservation, and parks and recreation land, and include the following states:

Arizona	Illinois	Ohio
California	Maine	Rhode Island
Colorado	Maryland	Texas
Delaware	Massachusetts	Utah
Florida	New Jersey	Washington
Georgia	New York	Wyoming

Currently, 27 states[37] have development penalties for taking the land out of at least one of the agricultural use value programs in that state.[38] These states are:

Alaska	Minnesota	Rhode Island
Alabama	North Carolina	South Carolina
California	New Hampshire	Tennessee
Connecticut	New Jersey	Texas
Delaware	Nevada	Utah
Georgia	New York	Vermont
Massachusetts	Ohio	Virginia
Maryland	Oregon	Washington
Maine	Pennsylvania	Wisconsin

For land use types in addition to agriculture, 23 states impose a penalty for removal of land from a preferential assessment program. Programs from the following states include conservation and open space, parks and recreations, or forestland:

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[37] Arkansas does not impose a penalty for change in use unless the landowner does not notify the local assessor of the change.
[38] GWIPP - Lincoln Data Collection, 2007.

Alabama	Massachusetts	Pennsylvania
California	Maine	Rhode Island
Connecticut	Minnesota	Tennessee
Delaware	Missouri	Texas
Florida	North Carolina	Virginia
Georgia	New Hampshire	Vermont
Illinois	New York	Washington
Indiana	Oregon	

As discussed above, these three groups of states have the highest potential for smart growth intentions behind their preferential assessment programs. The statutes do not explicitly mention smart growth, but the principles appear to overlap.

6. Strengthen and direct development to existing communities, promote infill and redevelopment

Smart growth directs development away from greenfields on the urban fringe and towards existing communities. Greenfields attract developers because of the lower land costs, ease of access and construction, larger parcels, simpler zoning requirements and a lack of residents to object. The two major costs associated with greenfield development is the loss of open space and farmland on the urban fringe as well as inefficient infrastructure. When development is directed towards existing communities, it uses existing infrastructure instead of building new infrastructure (such as roads, water lines, sewers, etc.).[39]

In order to direct development to existing communities, tools must lure developers away from undeveloped land and toward land already developed that can be

[39] Information in this paragraph summarizes *Smart Growth Online* is a website created by the Smart Growth Network, a group of non-profit and government organizations formulated in partnership with the U.S. Environmental Protection Agency in 1996. http://www.smartgrowth.org/sgn/default.asp (accessed September 12, 2008).

costly for the developer to tear down and redevelop. The APA points out that "there are as many different redevelopment programs as there are reasons or causes for redevelopment."[40] States have multiple statutory strategies for zoning and for creating financing to redevelop areas, each with a different purpose and method.

Statutes authorize local governments to utilize property tax incentives such as tax abatements by offering a lower rate or freezing the assessment value, tax increment financing, tax exemptions, and tax credits to entice developers to build in that area. One tool that facilitates redevelopment is Tax Increment Financing (TIF). Tiffs promote economic development by designated revenue from increases in assessed values to the TIF district. For example, Florida authorizes local governing bodies to implement TIFs with an approved community redevelopment plan: **Florida** Fla. Stat. 163.387 [Authorize Tax Increment Financing]. Another tool is a property tax credit. Maryland authorizes the county or municipal corporation to provide a property tax credit to owners that substantially rehabilitate a single dwelling or commercial property that is unsold or unrented. The local governing entity can provide a 100 percent tax credit for one year: **Maryland** Tax-Property § 9-207 [Authorizes property tax credit]. In addition, Maryland authorizes local governing entities to provide a property tax credits for the rehabilitation of vacant or underutilized commercial buildings: **Maryland** Tax-Property 9-234 [Authorizes property tax credit]. Illinois provides an 8 year assessment freeze on historic residences to encourage the rehabilitation of historic residences: **Illinois** 35 ILCS

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[40] American Planning Association. *Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change 2002 Edition*, Stuart Meck, FAICP, Gen. Editor, Vol. 2, page 14-29.

200/10-40 *et seq* [Historic Residence Assessment Freeze]. Of 31 statutes included in the appendix, 17 explicitly offer property tax incentives.

Other tools exemplified in the appendix that contribute to directing development towards existing communities includes administrative incentives, historic structures tax credit, zoning, brownfields liability exemption, impact fees, and incentive zoning. States charge developers impact fees that shift the cost of new public infrastructure to developers as a disincentive for building on undeveloped land.[41] Incentive zoning was previously discussed, so the discussion will focus on the other tools listed.

A challenge to redeveloping existing communities is brownfields. Defined by the Environmental Protection Agency, brownfields are "abandoned, idled, or underused industrial and commercial facilities where expansion or redevelopment is complicated by a real or perceived environmental contamination."[42] Indiana offers a property tax abatement for brownfield revitalization: **Indiana** §IC 6-1.1-42 [Tax abatement]. Aside from the cost of cleaning up a previous industrial site, the liability associated with pre-existing contamination is a strong disincentive for a new developer. States address this disincentive by exempting new owners from liability of pre-existing contamination or limiting their liability to only contamination caused or exacerbated by them. For example, Del. Code Ann. Tit. 7, § 9105 and 415 Il. Comp. Stat. § 5/58.9 proclaim, "liability for costs for voluntary cleanup assigned on a fault basis, damages proportional

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[41] Feiock, Richard C., António F. Tavares, and Mark Lubell. 2008. "Policy Instrument Choices for Growth Management and Land Use Regulation," *Policy Studies Journal*, 36(3): 468.

[42] U.S. Environmental Protection Agency, Region 5 Office of Public Affairs, *Basic Brownfields Fact Sheet*, (Chicago, 1996).

to polluter's portion of fault."[43] Twenty-five states exempt or limit new owners from liability of developing brownfields; only two examples (Ohio) are included in the appendix because this important piece of redevelopment is not a property tax incentive: **Ohio** Code tit. §3746.01; §3746.12. [Exemption from liability]; **New Hampshire** N.H. Rev. Stat. Ann. § tit. 10, 147-F:1 – 5 [Authorize relief from brownfield liability]

Historic preservation tax credit programs are income tax credits for property improvements. While this tool exists to preserve historic sites, it is often relevant to smart growth because the complexity and expense involved in historic property rehabilitation deters developers which results in dilapidated, vacant and abandoned buildings that bring down property values and contribute to neighborhood decline. The income tax credit for historic property brings buildings back to productive use while saving new materials and land necessary for new development.[44] Though this tool is often an income tax credit instead of a property tax credit, it is a relevant incentive that credits developer's expenditure on property improvements. Examples included in the appendix are: **Kansas** §79-32.211 [Historic structure tax exemption]; **New York** N.Y. Tax Law § 606 [Historic structure tax credit]; **Rhode Island** § 44-33.2-1 and § 44-33.2-3 [Legislative findings and Historic Structures Tax credit].

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[43] The APA highlights brownfield programs key to smart growth strategies: Cal. Health and Safety Code § 25300 et seq; Mich. Comp. Laws §§20101 et seq; Me. Rev. Stat. tit. 38, §343-E; Minn. Stat. §115B.175; Neb. Rev. Stat. §§81-15,181 et seq.; Ohio Rev. Code §3746.01 et seq.; Pa. Stat. tit. 35, §§60626.101 et seq; Wis. Stat. §§292.11 et seq. ; 35 Pa. Cons. Stat. Ann. §66027.1 et seq. ; Ohio Rev. Code § 3746.26(A)(1)(b); Del. Code Ann. Tit. 7, § 9105; 415 Il. Comp. Stat. § 5/58.9. APA p 14-36 guidebook.

[44] *Restoring Prosperity: A roadmap for revitalizing America's older industrial cities* is an initiative led by six states and partners at the national level to provide a roadmap to revitalizing cities through coordinated efforts between the states, regions, and cities. Partnering states include CT, MI, NJ, NY, PA, and OH. http://www.restoringprosperity.org/.

7. Make development decisions predictable, fair, and cost effective

The more predictable, fair, and cost effective are decisions, the more private sector developers will cooperate with public entities to achieve smart growth principles. Two examples of statutory efforts toward this principle are included in the appendix. New York offers grants to local governments for improving efficiency and competitiveness: **New York** N.Y. State Finance Law § 54 [State incentive for regional consolidation]. Pennsylvania authorizes municipalities to issue grants for the purpose of encouraging more efficient use of the land: **Pennsylvania** 53 P.S. § 10701-A [Authorizes encouragement of efficient use].

Conclusion

This research note examined the role of property tax incentives in smart growth efforts. A review of state statutes revealed that property taxes are not often used explicitly for smart growth purposes. In the framework of smart growth principles developed for this project, property tax incentives were most often in line with the fifth principle (preserving open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems), the sixth principle (strengthening and directing development to existing communities, promoting infill and redevelopment), and somewhat for the second principle (creating housing opportunities and choices for diverse income groups, i.e. affordable housing). Property tax incentives serve a limited role in smart growth because smart growth is fundamentally about managing the time, manner, and place of growth. Property is valued and taxed, generally speaking, on the basis of its own characteristics, and weakly related if at all to the characteristics of the

vicinity. The literature review will discuss the ways in which property tax incentives are effective in contributing towards the relevant principles.

This review of state statutes, as summarized in Table 1, documented ten states that provide a state tax credit or exemption at the state level that contribute toward smart growth as defined in this research note, not including preferential assessment programs.[45] Six states provide an incentive in the form of financial resources or compensation for local governments to provide tax exemptions, reductions, or easements.[46] Twenty-three states authorize local governments to provide easements, tax credits, incentives, abatements, tax exemption, TIFs, or preferential assessment programs geared towards smart growth principles.[47]

[45] Arizona, Georgia, Hawaii, Iowa, Indiana, Kansas, Maine, New York, Oregon, and Rhode Island
[46] California, Massachusetts, New Jersey, New York, Tennessee, and Vermont
[47] Arizona, California, Connecticut, Florida, Georgia, Illinois, Iowa, Maine, Maryland, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Vermont, West Virginia

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Restoring Prosperity: A roadmap for revitalizing America's older industrial cities. http://www.restoringprosperity.org/. Retrieved September 12, 2008.

Table 1: Smart Growth Statute Activity

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
AK							§§29.40.020 – 030	
AL								
AR								
AZ	A.R.S. §§42-11127 ; 42-12002; 43-1180				Ariz. Rev. Stat. §9-499.10			Ariz. Rev. Stat. §9-461.05
CA		Cal. Govt. Code §§16140-16154	Cal. Govt. Code §§ 51050-51065; 51080-51087; 51090-51094; 51075; 51070-51073		Cal. Govt. Code. §§65580-65589.8;65589.7; 65913.1;65915;65852.150; 65852.2	Cal. Health & Safety Code § 33607.5; §33330 et seq.	Cal. Govt. Code §§65560-65570	Cal. Govt. Code §65060-65060.8
CO							Colo. Rev. Stat. §30-28-106	
CT				Conn. Gen'l Stat. §8-215 – 216			Conn. Gen. Stat. §8-23	
DE							Del. Code tit. 22 §701—711	
FL					§ 163.2511, § 163.2517	Fla. Stat. §163.387		
GA			§ 44-10-3; § 44-10-8					

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
HI	H.R.S. §205-41; §205-46; §246-34							
IA	Code tit. 10, § 427.1			Code §404.3B	Code tit. 1, §15.332; §15.335A ;Code tit. 1, §15E.196			
ID								Code Ann. §67-6502
IL				35 ILCS 200/10-40 *et seq*	310 ILCS 67/1 – 25	65 Il Comp Stat §5/11-74.4-1 et seq	65 ILCS 5/11-1-25 ; 310 ILCS 67/1 – 25	
IN	§IC 6-1.1-42 ; § IC 6-1.1-21.2-11 ; § IC 6-1.1-12.1							
KS	§79-32.211							
KY								Ky. Stat. Ann. tit. 9, §100.187
LA								

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
MA		Mass. Gen. Laws tit. 7, §40R.9						Mass. Gen. Laws, tit. 7, §40R
MD				§ 9-107; § 9-206; § 9-208 ; § 9-220 ; § 9-226 ; Tax-Property § 9-207; § 9-234; § 9-236; § 9-243; §9-229			Md. Code 66B Land Use § 1.03	
ME	M.R.S. Ann. tit. 36, §§ 1101 – 1121			MRS tit.30-A, §3442		MRS, tit. 30, §5250-A	MRS tit. 30-A, §4312	
MI							§125.3807	
MN							Minn. Stat. §15B.05	
MO							Mo. Rev. Stat. §251.320	
MS							Miss. Code Ann. §17-1-1; §17-1-11	

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
MT							Mont. Code Ann. §7-15-4211	
NC							§ 160A-400.21	
ND							§54-40.1	
NE							§15-1102 ; §19-903	
NH			N.H. Rev. Stat. Ann. Tit. 5, § 79-C:1-7					NH tit. 1, §§9-A:1 – 9-B:1-5; tit. 64, §674:2
NJ		§ 13:8C-20, § 13:8C-37, § 13:8C-39		N.J. Rev. Stat. §§40A:21-2; 40A:21-4; §§40A:21-2; 40A:21-4				
NM							§3-56-1 – 9	
NV								

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
NY	N.Y. Tax Law § 606; N.Y. Tax Law § 1438-e	N.Y. State Finance Law § 54; N.Y. Agr. & Mkts § 323; N.Y. Env. Cons. Law § 57-0211		N.Y. R.P.T. Law §421-a; N.Y. General Municipal Law § 696	N.Y. General City Law § 81-d ; N.Y. General Municipal Law § 691			
OH						Ohio Rev. Code §§5709.40 et seq		
OK							§19-866.10	
OR	ORS 315.138			Or. Rev. Stat. §§458.005 - 458.065		Or Rev. Stat. §457.420		
PA				53 P.S. § 1241	53 P.S. § 10701-A		§ 25-9.171 to 175	
RI			§ 45-36-2		§ 44-33.2-1 ; § 44-33.2-3			
SC						S.C. Code §§31-6-10 et seq.	§6-29-510	
SD							§11-6-1—2	

	State tax credit or exemption	State incentive for local government to provide tax reduction, exemption, or easement	Authorize local government to provide easement	Authorize local government to provide tax credit, abatement, or exemption	Authorizes local governments to use incentives*	Authorize TIF	Encourage subgovern-ment planning	Comprehensive Plan
TN		§11-14-406; §11-7-109	§ 67-5-1002; 67-5-1009; 66-9-308				§§ 6-58-101 – 116	§§ 6-58-101 – 116
TX					§§ 374.001 – 015		§§ 391.001 – 391.004	
UT							§10-9a; §17-27a-401	
VA					Va. Code Ann. § 15.2-735.1		Va. Code Ann. § 15.2-2223.1 ; § 15.2-2223	
VT		Stat. Ann. tit. 32 §3760		Stat. Ann. tit.24 §2741 ; Stat. Ann. tit. 32, §3847 §3836				
WA							RCW 36.70A.130	
WI							Wis. Stat. § 66.1001	
WV			§8A-12-13, §8A-12-14, §8A-12-16				§8A-1-1; §8A 2-1; §8A-3-1	
WY								

Table 2: Property Tax Incentives

		Tax Credit		Exemption		Abatement or reduction		Easement		State incentives for local policies	Authorize TIF	Authorize assessment freeze	Preferential Assessment with Penalty
		State	Local Option	State	Local Option	State	Local Option	State	Local Option				
1	Mix land uses												
2	Create housing opportunities and choices for diverse income groups (i.e. affordable housing)			✓	✓		✓			✓	✓		
3	Create walkable communities												
4	Foster distinctive, attractive communities with a strong sense of plan												
5	Preserve open space, farmland, parks, natural beauty, and critical environmental areas, and ecosystems		✓	✓				✓	✓	✓		✓	✓
6	Strengthen and direct development to existing communities, promote infill and redevelopment	✓	✓	✓	✓	✓	✓			✓	✓	✓	
7	Make development decisions predictable, fair, and cost effective												