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We seek to inform decision making through education, research, demonstration projects, and the dissemination of information through publications, our Web site, and other media. Our programs bring together scholars, practitioners, public officials, policy advisers, and involved citizens in a collegial learning environment. The Lincoln Institute of Land Policy is an equal opportunity institution.

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House in Mexico © Getty Images

Supporting Land Policy Research in Latin America

To enhance the Lincoln Institute's commitment to building research capacity on international land policy issues, the Program on Latin America and the Caribbean initiated an expanded effort in 2006 to support research in that region. Since then the Lincoln Institute has issued annual public requests for research proposals that set out the criteria used to evaluate the proposals and a set of priority thematic topics, normally related to land markets, local public finance, and urban development. This year's priorities include implementation and impacts of land use regulations; land-based instruments to finance urban development; land markets; and urban form.

Most of those who submit research proposals are affiliated with academic institutions throughout Latin America. Other applicants are typically practitioners from government entities, nongovernmental organizations, and private consultancies, as well as scholars working on Latin American themes at universities outside the region. About two-thirds of the proposals submitted and funded are from researchers having no prior affiliation with our Latin America Program, which is consistent with one objective of the research program—to widen the network of those studying land policy issues in the region.

The average size of research project funding has increased over time from around \$10,000 in 2006 to about \$26,000 at present. Some projects that involve extensive field work to support empirically based research have received larger amounts. Over time the program has also become more competitive, with the number of applications growing from 90 in the first year to 150 currently.

The priority topics and selection criteria are designed to encourage empirical studies, and the 18-month funding cycle allows time for data collection, analysis, and preparation of a final report. Lincoln Institute staff provide technical assistance to many researchers as they finalize their research designs and carry out their work. The participants are also invited to a methods workshop at the beginning of each research project cycle to review survey instrument and sample design, multivariate statistical analysis, experimental methods, and the use of geographic information systems.



Gregory K. Ingram

At the end of each research project cycle all participants discuss each others' draft papers at a research seminar. Both the methods workshop and research seminar are highly valued by the researchers, and the events have been offered in Colombia, Argentina, and Costa Rica to facilitate access from different parts of the region. Other training courses offered by the Latin America Program, such as those on urban economics

and land market analysis, are also often relevant for those carrying out these research projects.

Selected final research reports are posted as working papers on the Lincoln Institute Web site. Currently 33 final papers are available and another 15 are in process. Many of these papers are downloadable in both English and either Spanish or Portuguese. In addition, seven of the completed research papers have been summarized as *Land Lines* articles, making their results accessible to a wide audience. This April issue presents one such report on home values in Mexico, and announces the completion of a CD-ROM that compiles more than 80 *Land Lines* articles that have been translated into Spanish under the title *Perspectivas Urbanas*.

This research program complements another long-standing Latin America Program initiative that provides support for students working on dissertation and masters theses. The graduate student program is also competitive and based on open requests for proposals. In the past two years, the Lincoln Institute has taken steps to increase the coordination between these two research support initiatives, particularly by coordinating the priority topics and harmonizing the selection criteria. By supporting both emerging graduates and more experienced researchers, these initiatives are developing an extensive network of capable analysts who can advance knowledge about land policy and its consequences in Latin America.

The request for research proposals in 2010 will be posted on the Lincoln Institute's Web site and distributed electronically by email to those in the region who have registered on our Web site. See page 28 of this *Land Lines* issue for additional information.

Estimating Home Values

*Marco González-Navarro and
Climent Quintana-Domeque*

Information on home values is crucial for researchers and policy makers interested in analyzing and implementing well-informed public policies in the areas of taxation and infrastructure provision. The repeat sales methods, such as the S&P/Case-Shiller index, that are commonly used in the United States

to study house price dynamics are not feasible in many developing countries, where declared transaction prices for homes are often underreported for various reasons.

Homeowners also need a trustworthy measure of their home value to aid personal decision making such as retirement (Lusardi and Mitchell 2007), consumption (Campbell and Cocco 2007), savings (Juster et al. 2005), and the debt composition of the household (Disney, Bridges, and Gathergood 2006).

We have assessed the reliability of household survey data on homeowner estimates of home value in Mexico and argue that on average the estimates of short-tenure owners tend to be reasonably unbiased and precise. Homeowner estimates of property market price obtained through such surveys may be the most convenient and reliable means of tracking home values under some circumstances.

Valuing Homes in the United States

All major household surveys in the United States—the decennial census, the Panel Study of Income Dynamics, the American Housing Survey, and the Survey of Consumer Finances—ask a question such as: “*What is the value of this property; that is, how much do you think this property would sell for if it were for sale?*” The main argument favoring the use of such a question on home valuation is its ease of collection. It is also crucial to assess the reliability of these self-reported home valuations against other measures.

In Kish and Lansing (1954), homeowners in U.S. cities were asked to estimate the market value of their homes, and estimates for the same homes were later made by professional appraisers. The main finding was that the average bias in people’s estimates was around zero. That is, although individuals’ estimates could be quite different from the appraised values, the errors seemed to cancel out on average. This was an important finding, and it justifies the continued use of the question in large surveys. When the researchers focused on different subgroups, they found that new homeowners made the most precise estimates of their home value.

Housing built by a construction company in Acayucan, Mexico



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in Mexico

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There was no increase in accuracy if the respondent was the household head or had more education, or if the appraiser was able to enter the property during the appraisal.

Using the same methods and similar data, Kain and Quigley (1972) confirmed that errors were largely offsetting, but were correlated with the socioeconomic characteristics of the respondent. More education was associated with a smaller positive bias in the homeowner's estimate. This research also inquired into the determinants of nonresponse to the question, and found that those with higher incomes and education but shorter tenure in the home were more likely to provide an estimate of their home value.

Because the ideal estimate of the market price of a house is the most recent sale price, some studies have compared sales data for recent transactions with owners' estimates. Goodman and Ittner (1992), for example, compare owners' estimates with subsequent sales prices for the same property using the 1985 and 1987 American Housing Survey. They find that the average U.S. homeowner overestimates the home value by 6 percent above its sale price, and that the average absolute error is around 14 percent. The error is largely unrelated to the characteristics of the owner, the house, or the local market.

Another approach is to compare tax assessments with homeowner self-valuations (David 1968). The obvious problem with using tax assessments is that they may not be updated constantly to reflect current market conditions, resulting in a flawed impression of housing value. Overall these U.S. studies have found that, on average, owners tend to overestimate the value of their homes by around 5 percent. This overvaluation is unrelated to owner and home characteristics other than the length of tenure in the home. Such studies can thus be used reliably to obtain reasonable estimates of home valuation at a very low cost in U.S. housing markets.

Housing Markets in Developing Countries

In developed countries, access to land occurs mainly through formal purchases, while in developing countries it is not uncommon for a substan-



Self-built housing in Acayucan, Mexico

tial proportion of urban growth to occur through squatting, especially by low-income groups. They can organize themselves and invade government lands, protected areas, and even private property. By the time tribunals establish the illegality of such actions, some politicians may find it useful to provide protection and services to the squatters in exchange for their votes and political support, rather than removing them from the invaded land.

In some cases, local governments engage in expropriation of land that is later transferred to political constituents. Those who acquire their property under such conditions have a harder time determining the monetary value of the property since they did not pay for it initially. Sometimes the property cannot be sold easily since it lacks a valid title.

Another distinction of housing markets in developing countries is the large proportion of self-built housing stock where families acquire a home by building it themselves or hiring friends and family to help them over long periods of time. The prevalence of self-built homes, instead of housing developments by specialized construction companies, occurs in part because the financial system is underdeveloped, and mortgages are either nonexistent or very expensive. The lack of developed mortgage markets can force families into inefficient construction methods, because

the house is built in stages using whatever building materials are affordable and available at the time. These constraints can generate unnecessarily high construction costs, as well as unregulated and inefficient building practices. If people estimate their home's worth as the sum of the expenses incurred in building it, those homeowners in areas without mortgages would be more likely to value their self-built homes at a higher value because of their sweat equity.

Self-building can also influence access to information about the current market value of that property. Housing developments built by a construction company generally have a high degree of homogeneity, so house sales in the neighborhood will generate information on the current value of the surrounding properties. When housing is self-constructed, this information channel disappears, because such homes are not an adequate proxy for the value of another home in the neighborhood.

Jimenez (1982) provides one of the few studies of home values in a developing country. Using data from an impoverished neighborhood in the Philippines, he finds that the mean values of owner and appraiser estimates are not statistically distinguishable. His Philippine sample compares well with Kain and Quigley's (1972) results for St. Louis, Missouri, in terms of differences in average valuations.

Self-built housing in Acayucan, Mexico



© Marco González-Navarro and Climent Quintana-Domeque

However, Jimenez finds the average absolute value of the differences between individual owner estimates and appraiser valuations to be approximately 55 percent of the mean appraised value, while the comparable figure for Kain and Quigley is approximately 20 percent.

Household Survey and Appraisal Data

Our analysis uses data from a household survey and appraisals for the same homes by an appraiser who is also a real estate agent. The survey, conducted between mid-February and mid-March 2006, included approximately 1,200 dwellings in the outskirts of the city of Acayucan, in the state of Veracruz in central Mexico.

The sampled homes were in the poorer districts of the city, where streets are not paved and many homes lack vital water and sewer services. The average house in the sample has 2.5 rooms. Only 63 percent of the dwellings have an indoor bathroom, and 60 percent have a roof made out of metal sheets, asbestos, or palm leaves. Further, 12 percent of homeowners reported they did not have a property title.

The interviewed families were the owner-occupants, not renters, and most of them lived in small, single-floor homes on a well-delimited lot. Among the housing questions in the survey was: "Approximately how much money do you think this house would sell for nowadays?" The average owner's estimated home value is \$19,948, while the average appraisal is only \$12,123 (all figures in 2006 U.S. dollars). The median difference, although much smaller (\$1,545), and the mean log difference are also significant for both measures. (See González-Navarro and Quintana-Domeque [2007; 2008] for a detailed description of the survey.)

The other source of data is the set of housing value assessments produced by a trained appraiser and real estate agent. Having only one person perform all the assessments minimized the risks of subjective decision making and varied assessment practices. The appraiser visited one out of every two homes where residents had been interviewed, and the assessments were performed within two months of the household survey, thus reducing concerns about house price inflation or volatility.

In the completed surveys, the response rate for the question on the owner's estimate of the home value was approximately 74 percent. One important advantage of this study's two-part procedure

TABLE 1
Average Bias and Inaccuracy of Homeowners' Estimates of Home Value

	All Owners in Sample	Tenure 1 year	Tenure 2 years	Constructed Neighborhood
Self-Assessed Home Value (P_s)	\$19,948 (0.00)	\$14,848 (0.00)	\$14,625 (0.00)	\$26,903 (0.00)
Appraised Home Value (P_a)	\$12,123 (0.00)	\$14,189 (0.00)	\$12,972 (0.00)	\$25,039 (0.00)
Error (bias) ($P_s - P_a$)	\$7,825 (0.00)	\$659 (0.83)	\$1,652 (0.39)	\$1,864 (0.50)
Percentage Error ($(P_s - P_a)/P_a$)	1.24 (0.00)	0.21 (0.42)	0.36 (0.11)	0.11 (0.32)
Absolute Error (inaccuracy) $P_s - P_a$	\$13,517 (0.00)	\$7,371 (0.00)	\$6,462 (0.00)	\$8,019 (0.00)
Absolute Percentage Error $(P_s - P_a)/P_a$	1.59 (0.00)	0.58 (0.01)	0.69 (0.00)	0.33 (0.00)
Clusters	52	11	16	1
Sample Size	267	12	23	14

is the ability to investigate appraised home values for the 26 percent of respondents who did not answer the question about home value. Hence, unlike any previous study, we look at whether non-response to that question by the owner is related to the home value as measured by the appraiser.

We found evidence that the average appraised value is equal for respondents who did and did not provide a home value estimate. Additionally, age, sex, household head status, and having a property title and tenure are not related to the probability of response. This suggests that homeowners who do not provide an estimate of home value are a random subset of the sample. This is an important finding if homeowner valuations are to be used in other studies to estimate average home prices in a locality in developing countries.

We assume that the appraiser's valuation is very close to the market value of the house. We also think it is reasonable to interpret the discrepancy between home values obtained from the owners and the appraiser as originating from homeowner's misperceptions about market value. There are several reasons justifying such an interpretation. First, the appraiser is likely to have a more accurate estimate than the owners of the lot size (one of the most important determinants of home value). Second, the appraiser can infer other housing characteristics accurately. Third, he is likely to be cognizant of the market forces involved in home valuation in the city.

The Relationship Between Owner and Appraiser Estimates

Table 1 shows the average degree of error and lack of precision or accuracy in the owners' estimates for several subsamples. As in previous studies, our results are shown for different measures of bias (the difference between the owner's and appraiser's home value estimates, and the percentage difference in terms of the appraiser's estimate) and inaccuracy (the absolute difference and the absolute percentage difference).

Among all owners in the sample the average difference between the owner's estimate and the appraised value is around \$7,800, indicating that owners tend to overestimate the value of their homes. The mean percentage difference is 124 percent of the appraised value. In terms of inaccuracy or lack of precision, the mean absolute difference is approximately \$13,500, reflecting how different the appraiser's estimates are from those of the homeowner's. On average, the owners in the sample have an unrealistically high estimate of the value of their home.

These results contrast with the available evidence for the United States and the Philippines. Both Kain and Quigley (1972) in St. Louis and Jimenez (1982) in the Philippines report a mean percentage difference of less than 0.5 percent. In terms of precision, we also find very different results. In our sample, the absolute percentage difference is estimated to be more than 150 percent,



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Self-built housing in Lima, Peru

while it is approximately 55 percent in the Philippines and 20 percent in St. Louis. On the other hand, the error and inaccuracy results for short-tenure owners (less than two years) are statistically close to zero. The same result holds for mean percentage error, and the absolute percentage error is reduced by more than 50 percent.

As mentioned earlier, one of the differences between developed and underdeveloped housing markets is the lack of home construction by specialized companies and the lack of information about the distribution of home prices. The last column of table 1 isolates the set of homes that were constructed rather than self-built. For this

subgroup, the mean error and the mean percentage error are not statistically different from zero, while the absolute percentage error (33 percent) is the smallest of the four groups. This may suggest that owners of self-built homes provide upwardly biased estimates because self-building over time is more expensive than purchasing an already constructed house.

Determinants of Individual Bias and Inaccuracy

The results suggest that long tenure is responsible for the bias and inaccuracy in homeowners’ estimates. In González-Navarro and Quintana-Domeque

TABLE 2
Estimates of Mean Home Values at the Census Tract Level

Census Tract	Average Appraiser’s Estimate	Average Owner’s Estimate	Average Short-tenure Owner’s Estimate
1	\$9,789	\$26,406	\$12,636
2	7,045	14,072	3,636
3	21,221	27,480	37,576
4	8,724	21,127	9,091
5	10,743	14,321	14,318
6	12,395	15,680	10,152
7	9,583	14,613	13,636
8	14,082	14,267	16,667
9	11,074	12,215	3,030
Mean Difference (bias)		\$6,169	\$1,787
Mean Percentage Difference		0.63	0.07
Mean Absolute Difference (inaccuracy)		\$6,169	\$4,831
Mean Absolute Percentage Difference		0.63	0.38

Note: The means are calculated over the census groups in the top panel.

(2009), we show that neither the discrepancy in the lot size estimate nor the socioeconomic characteristics of the respondent seem to be correlated with the error or the lack of precision of homeowners' estimates. Only tenure is a significant correlate of bias and lack of precision.

Given these results, we subsequently estimated average home values at the census tract level to study the performance of the self-reported value depending on tenure status. As we argued earlier, self-reported value among homeowners with short tenure provides a more accurate estimate of average home value. One important issue with using only recent homeowners is the small sample size. Table 2 shows that the two measures of bias (mean difference and mean percentage difference) for short-tenure homeowners provide a less distorted estimate of the mean home value, as do the measures for mean absolute difference and mean absolute percentage difference.

Although we made every effort to obtain market prices to benchmark the professionally appraised values, the search proved elusive. This fact underscores the importance of assessing the reliability of self-reported home values in developing countries, where homeowners' estimated market values seem to be the most available measure of home value.

Conclusion

In our sample, the valuation bias associated with longer tenure is positive, confirming the results found for recently transacted homes in several U.S. studies. Our main finding is that the tenure-driven bias is potentially much larger in a developing country context. Owners with long tenure largely overestimate the value of their homes, with a mean absolute percent error on the order of 150 percent. However, families with tenure of two years or less have reasonably accurate and unbiased estimates of the value of their homes. A cluster of similar homes built by a specialized construction company shows zero bias and dramatically more precise estimates with respect to the other subgroups.

We find nonresponse to the question of home value to be uncorrelated with the appraised value of the house and other demographic characteristics of the homeowner. This suggests that unbiased estimates of the average value of groups of homes can be obtained through household surveys. Additionally, bias and inaccuracy are not robustly related to socioeconomic characteristics, such as family


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income or level of education of the respondent. To summarize, the results of this study caution against using homeowner estimates for analysis of individual behavior, but suggest that these estimates can be used to reasonably approximate mean home values for clusters of homes. If the objective is to estimate average home value, then the answers from homeowners with short tenure may be used successfully in future surveys in developing countries. 

PROPERTY TAX RELIEF: The Case for Circuit Breakers

*Daphne A. Kenyon, Adam H. Langley,
and Bethany P. Paquin*

Even as the economy begins to recover from the greatest recession since the 1930s, the worst may be yet to come for state and local governments because their fiscal situations typically lag the general economy by two to three years. State budget deficits for FY2010 totaled more than 25 percent of general fund budgets—the largest budget gaps on record.

Making matters worse is the impending “stimulus cliff,” which arises because most of the roughly \$135 billion in federal stimulus aid to state governments and school districts was used to help close state budget gaps in FY2010, leaving a small fraction of the aid for FY2011 (Lav, Johnson, and McNichol 2010). Even before the current recession, states faced substantial structural deficits. The U.S. Government Accountability Office (2007, 1) predicted state and local governments would face

“large and growing fiscal challenges” within a few years time, and continuing through 2050.

These grim forecasts for state and local budgets have led some analysts and policy makers to call for reducing the size of state government, consolidating local governments, restructuring tax systems, and even changing state constitutions. According to Rob Gurwitt (2010, 18) of *Governing* magazine, the “fundamental assumptions about how state government operates need rewiring.”

Given the likelihood of a long-term state and local government fiscal crisis, property tax relief is an important state government function that is now more critical than ever. This article argues that most efforts to provide property tax relief, such as assessment limits and homestead exemptions, are inefficient and create substantial unintended consequences. Circuit breaker programs—a property tax relief mechanism first developed in the 1960s—deserve renewed attention in an era of streamlined state government because they target aid to those who need it most.

Alternative Approaches to Property Tax Relief

The property tax accounts for the largest share of own-source revenues for local governments, and is particularly suitable for funding local services for at least two reasons. First, it is a stable revenue source: property tax revenues do not fall dramatically during recessions as income tax and sales tax collections generally do. Second, property taxes are imposed on an immobile tax base: while people may have the option to buy the same goods in a nearby town with lower sales taxes, or move across state lines for lower incomes taxes, they cannot move their land across city lines to seek lower property taxes.

The property tax is not without problems, however. Chief among them are the disparities in property values across communities, an inexact relationship to taxpayers' ability to pay, and the long-standing unpopularity of the tax. Its revenue importance means that improvement rather than elimination is the best way to address these problems.

Property tax relief can be provided in many ways, some of which are more effective and equitable than others. Wealth disparities among communities make locally funded property tax relief programs inherently problematic. Funding property tax relief at the state level is a better option, since communities with large concentrations of needy taxpayers are unlikely to have the resources to fund local-option tax relief programs. State funding also eliminates inequities in property tax relief among communities.

Assessment caps are used as a property tax relief measure in 20 states, and other states regularly examine proposals to employ such measures. A recent comprehensive study on assessment limits found, however, that "30 years of experience suggests that these limits are among the least effective, least equitable, and least efficient strategies available for providing property tax relief" (Haveman and Sexton 2008, 37). Assessment caps provide the greatest tax reductions to homeowners whose property values have increased the most. Even though such gains in housing wealth are not a liquid asset, tax relief should not be structured to provide the greatest benefit to those with the greatest increase in wealth.

Assessment limits also create horizontal inequities in cases where two homeowners with identical

incomes and homes in the same community face dramatically different property tax bills solely because one owner has lived in the home longer. Fixed-dollar homestead exemptions are better, but still do a poor job of targeting homeowners with the highest property tax burdens, because they provide the same dollar value of property tax relief to all homeowners facing a particular tax rate, regardless of their income.

Residential property tax relief programs across the United States are seldom targeted by income—the best measure of a household's ability to pay taxes. Of the 216 residential property tax relief programs in effect in 2006, only 81 took income into account when setting benefits by using an income ceiling, and only 37 programs set tax relief benefits that varied by income (Significant Features of the Property Tax 2010). Given the fiscal crisis, states should consider replacing untargeted property tax relief with circuit breaker programs that can provide relief to more households in need, without spending more money.

The Case for the Property Tax Circuit Breaker

When applied to property tax relief, the term *circuit breaker* is used to describe programs that provide benefits directly to taxpayers, with benefits increasing as claimants' incomes decline. As an electrical circuit breaker stops the flow of electrical current to protect a circuit from overload, a property tax circuit breaker is a policy mechanism designed to stop property taxes from exceeding a claimant's ability to pay, protecting the taxpayer from property tax overload.

A clear definition is critical since most states with true circuit breaker programs do not use that term to describe them. For example, Maine calls its circuit breaker program the Maine Property Tax and Rent Refund Program. Meanwhile, some states use the term to refer to property tax relief programs in which relief does not vary with income. In Indiana, a program is called a circuit breaker even though the program ties relief to property value, not to income.

Over the last 40 years, two-thirds of the states and the District of Columbia have adopted state-funded circuit breaker programs (see figure 1). Each of these programs satisfies the circuit breaker definition above. However, the design of these programs, and consequently their effectiveness, varies

BOX 1**New York's Effort to Provide Targeted Property Tax Relief**

Policy makers in New York state are considering adopting a new, expanded circuit breaker program to provide more targeted property tax relief because the existing circuit breaker program does not provide adequate assistance. It currently excludes households with incomes above \$18,000, and provides an average annual benefit of only \$109 per claimant (Bowman et al. 2009).

The state's primary means of providing direct property tax relief to households is the School Tax Relief program (STAR), which has three components. Basic STAR is available to all taxpayers on their primary residence, and exempts the first \$30,000 in property value from school district taxes, with adjustments for municipalities where assessed values diverge from market values and for downstate counties with high real estate prices. Enhanced STAR exempts a higher value, and is available only to homeowners over age 65 with limited incomes. Middle Class STAR provided a rebate check that depended on households' income and their other STAR benefits, but was repealed in 2009 for 2009–2010 and subsequent fiscal years.

STAR is an expensive program—the three property tax components cost about \$3.9 billion in 2008–2009. However, because benefits are spread so widely, many homeowners still face excessive property tax burdens. According to the 2006 American Community Survey, even after accounting for reductions under the Basic and Enhanced STAR programs, 20.1 percent of New York homeowners paid more than 10 percent of their income in property taxes, while 52.6 percent paid less than 5 percent. By providing such generous relief to the second group, the state is not able to provide enough for the first. Also, by providing larger exemptions for counties with high house prices, STAR largely subsidizes households in property-wealthy communities, which makes the state's property tax system more regressive (Duncombe and Yinger 2001).

To provide more targeted relief, several proposals have been introduced to establish a new circuit breaker program. During the 2005–2006 legislative session, Assemblywoman Sandy Galef and Senator Betty Little sponsored a plan with many desirable features: a multiple-threshold formula to make the distribution of tax relief more progressive; an income ceiling high enough to include all middle-income households; and a copayment requirement to discourage excessive spending by local governments. The cost would

have been limited by making homeowners choose either circuit breaker benefits or Middle Class STAR.

The Omnibus Consortium put forward a proposal similar to the Galef–Little plan, but with two improvements. First, it includes renters. Second, it uses a graduated structure for the income brackets, so that a small income increase that moves a claimant from one bracket to the next does not result in a much larger decrease in circuit breaker benefits.

The consortium's proposal was introduced in spring 2009 by Senator Liz Krueger and Assemblyman Steve Englebright; it is cosponsored by Galef, Little, and many other legislators. Once fully implemented this plan is estimated to cost \$2.3 billion annually, which is 65 percent less than the cost of the 2008–2009 STAR property tax programs, even though the new plan would provide much more generous relief to households facing the largest property tax burdens.

Plans to pay for the circuit breaker have been clouded by the state's repeal of the Middle Class STAR rebates in response to the 2009–2010 budget deficit. Governor David Paterson has also proposed a circuit breaker plan, which would tie circuit breaker benefits to a spending cap for state government. Annual spending growth would be restricted to inflation growth. When revenues exceed this limit, the surplus would be returned to homeowners via a circuit breaker. While this plan may seem attractive, it would accentuate budget cycles and result in unpredictable year-to-year fluctuations in tax relief for homeowners.

Given the state's fiscal crisis, creating a new circuit breaker program now seems more difficult than when the Galef–Little bill was being actively debated in the 2006–2008 period. Still, it is a positive sign that many legislators and the governor are all advancing targeted and cost-effective circuit breaker proposals, and have repealed the expensive and untargeted Middle Class STAR program.



Ron Deutsch (left) and John Whiteley at a June 2009 meeting of the Omnibus Consortium.



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cost of circuit breaker programs without rendering these programs ineffective.

Use a multiple-threshold circuit breaker formula. States use three basic types of circuit breaker formulas: threshold, sliding-scale, and quasi circuit breakers. Threshold circuit breakers are the only type that bases tax relief directly on property tax burdens—that is, the percentage of income spent on property taxes. Using multiple thresholds will result in a more progressive distribution of benefits.

Threshold formulas provide a benefit for the portion of a claimant's property tax bill that exceeds set percentages of income. For example, the Massachusetts circuit breaker, which is limited to taxpayers over age 65, uses a 10 percent single-threshold formula. The taxpayer is responsible for the entire tax bill up to 10 percent of household income, while the circuit breaker benefit offsets the tax bill above this threshold, up to a maximum benefit of \$960.

Multiple-threshold formulas set multiple threshold percentages that increase from the lowest income bracket to the highest, with these thresholds usually applied incrementally like a graduated income tax. Maryland uses four threshold percentages: the circuit breaker benefit offsets any property tax liability above 0 percent of income for the first \$8,000 of income, above 4 percent for the next \$4,000 of income, above 6.5 percent for the next \$4,000 of income, and above 9 percent for income of \$16,001–\$60,000.

Sliding-scale formulas reduce property taxes by a set percentage for each income bracket, with lower relief percentages for higher income brackets. All claimants in a given income bracket receive the same percentage of relief regardless of their property tax bill.

Quasi circuit breakers use multiple income brackets to target benefits to low-income households; benefits are determined without reference to a claimant's property tax bill, except that they cannot exceed the actual property tax paid. A few states use hybrid circuit breakers that employ elements of all three types of formulas.

Ensure reliable state funding. Even generous circuit breakers can become ineffective without reliable state funding. Circuit breaker benefits should be treated as an entitlement, rather than relying on budget appropriations that can result in pro-rated benefits (as in Iowa), unpredictable annual changes in formulas (as in New Jersey), or elimination of benefits in some years (as in California). Unpredictable fluctuations in circuit breaker benefits are difficult for taxpayers to manage and can have potentially dire consequences on household budgets.

Given the disparities in property wealth across municipalities, it is important for circuit breakers to be funded by the state, rather than at the option of local governments. Because of differences in program design and participation levels, the costs to state governments of existing circuit breaker programs vary considerably, ranging from .004 percent to 6.3 percent of property tax collections among 14 states where program cost data are readily available (Bowman et al. 2009, 20).

Use copayment requirements with threshold circuit breakers. States that use threshold formulas should relieve only a portion of property taxes exceeding the threshold. The remaining difference between the taxes exceeding the threshold and the circuit breaker benefit may be considered a copayment. Copayment requirements are important for avoiding inefficient increases in local spending. If a circuit breaker shields taxpayers from 100 percent of any property tax increase, they have no incentive to scrutinize increased local spending since they will benefit from better public services without any increase to their tax bill.

Deliver circuit breaker benefits in a timely and visible way. States use three methods of distributing circuit breaker benefits: rebate checks, income tax credits, and property tax credits or exemptions. A property tax credit reduces the tax bill based on a property's full assessed value, while a property tax exemption reduces a property's assessed value.

Providing benefits through a property tax credit or exemption has two key advantages over rebate checks or income tax credits. First, taxpayers receive an immediate reduction in their property tax bills instead of facing a delay between the date they pay their property taxes and the date their circuit breaker application can be processed. Second, taxpayers observe the benefit as property tax relief instead of mistaking an income tax credit for income tax relief. Since renters do not pay property taxes directly, their circuit breaker benefits can be dispersed through a rebate check.

Use a public outreach campaign. Low participation is a common problem among existing circuit breaker programs. Taxpayers will not apply for benefits if they are not aware of the program, or if they do not believe they qualify for benefits. To increase awareness and participation, states may promote programs through print advertising, broadcast media, and/or speaking tours. The Internet is a particularly useful and low-cost tool for circulating up-to-date program details including deadlines, contact information, printable claim forms, or online applications. Some states are able to enlist the help of nonprofit organizations in promoting participation if the group views the circuit breaker program as supporting its mission. For example, the Gerontology Institute at the University of Massachusetts promotes that state's program as part of its efforts on behalf of the elderly.

Conclusion

The current fiscal crisis may usher in a new era for state governments under intense pressure to redesign programs to "do more with less." Property tax relief is a core function of state governments, and it can be made more fair and cost-effective by using a circuit breaker program. This policy tool is designed to stop the property tax from exceeding a taxpayer's ability to pay by targeting tax relief to those who need it most.

A majority of the states currently employ circuit breakers, but most programs fall short of ideal leaving ample room for improvement. New York's poorly targeted property tax relief system, for example, could be replaced with an expanded circuit breaker that provides more help to taxpayers overburdened by the property tax, but costs less than the current program. Circuit breaker programs can also help strengthen the property tax itself as a mainstay of local government finance. **L**

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AFTER “KELO”

POLITICAL RHETORIC AND POLICY RESPONSES



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New London, Connecticut

Harvey M. Jacobs and Ellen M. Bassett

In June 2005 the U.S. Supreme Court issued a much anticipated decision in the case of *Kelo v. City of New London, Connecticut* (545 U.S. 469 [2005]). The close decision (5–4) galvanized the planning, development, redevelopment, and property rights communities, and continues to have national and international repercussions. What was at issue?

New London, Connecticut is an old, industrial, port city on America’s east coast. Its economic height in the 1920s was based on shipbuilding. Since that time the city has experienced substantial economic and population decline. As the property tax base dwindled, the city’s ability to provide basic public services also deteriorated. In the 1990s, New London developed a plan for economic revitalization, focused on a neighborhood with 115 separate properties. The plan required consolidation of these properties into a single parcel. The city further proposed to transfer ownership of

some sections of the newly configured parcel to a multinational pharmaceutical company for a research and production facility.

The city approached landowners about their interest in the voluntary sale of their land, and 100 landowners agreed to sell. The city then proposed the use of eminent domain on the outstanding 15 properties (an action where the city would pay fair market value for each property). In so doing, the city did not assert that these properties were “blighted”—the legal and planning standard under which such eminent domain actions have existed since the 1954 U.S. Supreme Court decision in *Berman v. Parker* 348 U.S. 26 (1954).

Rather, under the authority of state enabling legislation and based on a comprehensive plan, both of which the court later acknowledged, the city asserted only that the outstanding parcels were required as part of the plan to accomplish a greater public good—increased jobs for the community, increased public revenues (taxes), and increased economic competitiveness.

The *Kelo* Case

Fighting to save her “little pink house,” Susette Kelo became the spokesperson for the opposition to New London’s proposed action on the remaining 15 parcels. Kelo and her co-litigants argued that the type of eminent domain proposed by the city was a misreading of the original intent of the U.S. Constitution’s takings clause (“nor shall private property be taken for public use, without just compensation”).

According to Kelo’s lawyers, the original constitutional clause was intended to allow for governmental actions that create public facilities (e.g., roads, parks, airports, hospitals), but not for government to take private land from one owner to give to another owner. They asserted that if the court found in favor of New London (and against Susette Kelo, which the court did) there would be no effective limit to any proposed physical taking of privately owned land by government. That is, government could always assert that a proposed new use of land was in the greater public interest.

The reasoning and final decision in *Kelo* was unsurprising. On a base of strong legal and historical analysis, the majority of the court showed why the action by the City of New London was acceptable. In so doing, it affirmed 50 years of similar actions by local and state governments throughout the country—actions which, while often clothed in a justification of blight, regularly had no more (or less) justification to them than that provided by New London.

The court itself provided the basis for much of the public policy controversy that followed when it stated that the decision was only about whether New London’s action was acceptable under the U.S. Constitution: Did it violate the terms of the takings clause in the Fifth Amendment? But, the court noted, “We emphasize that nothing in our opinion precludes any State from placing further restrictions on its exercise of the takings power” (545 U.S. 469 [2005] at 489). That is, while New London’s and similar local and state governmental actions were legal under the federal constitution, the U.S. Supreme Court invited state legislatures to decide whether such actions should be legal under state constitutions.

The negative reaction to the court’s decision was swift and strong. Within a week a proposal was floated that then-U.S. Supreme Court Justice

David Souter’s home in Weare, New Hampshire should be condemned so it might be replaced by the Lost Liberty Hotel. Using the threat of unconstrained governmental action against ordinary homeowners, a national movement emerged to thwart the impact of *Kelo*.

Following the invitation of the court, 43 states adopted laws that appear to challenge *Kelo* (see figure 1). The explicit intent of most of these laws is to prohibit governmental eminent domain actions both for the sole purpose of economic development and in cases where privately owned land is taken from one owner to be transferred to another owner.

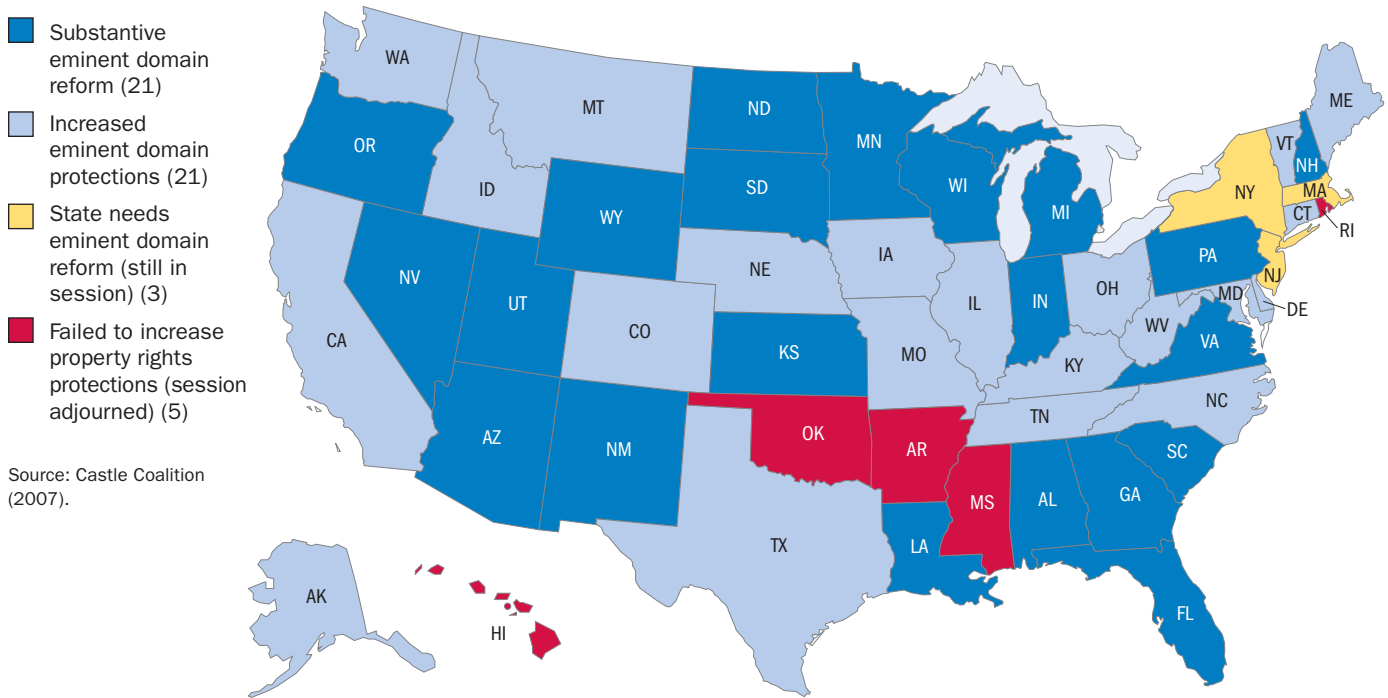
Analysis of State-based *Kelo* Laws

Beginning in 2007, we began a two-year research project on the impact of these state-based laws. Planners, public sector lawyers, and redevelopment officials were already expressing strong concern about the constraints these new state laws could have on normal planning practice. Our question was, Would these laws impact planning, and if so, how? To investigate these laws, we adopted a multilevel approach that:

- inventoried and cataloged *Kelo* laws that had been adopted since 2005;
- undertook exploratory interviews with key stakeholders in the post-*Kelo* debate (ranging from representatives of the American Planning Association and the National Conference of State Legislatures to the Castle Coalition, the organization actively promoting the state-based laws);
- conducted a Web-based survey about the impacts of the laws with groups including planners, municipal attorneys, and developers; and
- tracked the emerging literature, mostly from opponents of the *Kelo* decision (that is, those who supported the new state-based laws) about their perceptions of the impacts these laws were having.

State and local governments are now grappling with circumstances quite different from those of a decade ago, especially since the economic recession in 2008 and 2009. Declines in development activity, property values, and property tax revenues appear to be leading a public discussion less focused on rapacious government activity and more concerned about how to encourage development. This

FIGURE 1
Eminent Domain Legislation Status Since *Kelo*



change in the economic climate has had a substantial impact on the reach of the adopted state-based *Kelo* laws.

Stakeholder interviews provided some interesting insights as to agreements and conflicts among those focused on these new laws. Both proponents and opponents are willing to acknowledge that there have been instances of abuse by local governments in the exercise of eminent domain; they differ in whether they see this as an occasional or a regular occurrence.

Both groups comment on how the public discussion about the appropriate response to state-based laws has brought together seemingly unusual and unexpected allies. For example, libertarians and property rights activists who are opposed to expropriation on philosophical grounds are finding themselves allied with community activists who see an historical pattern of eminent domain abuse against communities of color and the poor.

Proponents and opponents also note that much of the change to date is in the legal framework for takings actions, and they agree it is less clear what the impact has been on actual planning and governmental practice. Even opponents of these laws

(many planners, for example) see some good coming from them. They argue that eminent domain is becoming more tied into the planning process, more open, and more participatory.

Our survey results reinforced some of these points and added others (Jacobs and Bassett 2010). Respondents reported mixed reactions to the assertion that state-based *Kelo* laws were negatively impacting urban revitalization efforts, economic development planning, or programs for affordable housing (see table 1). Despite these results, respondents did note a negative effect on the willingness of local governments to use eminent domain, though there appeared to be no impact on blight designations by these governments.

With regard to changes in the planning process toward becoming more open and transparent, the majority reported no changes to date, and nearly half of the respondents saw no impact on the extent of conflict within the process (see table 2). When respondents were asked to share exactly how their localities were grappling with new requirements regarding eminent domain, most identified what we characterize as soft or tacit approaches—building networks, enhancing communication,

and linking eminent domain into citizen participation processes.

Despite these relatively mild responses to the passage of state-based laws, 76 percent of respondents suggested that the property rights movement (the proponents of these laws) remains strong or very strong in their areas, versus 19 percent neutral and 4 percent reporting a weak or very weak movement. Yet the respondents also suggested that it was their perception that neither the average citizen nor the majority of elected officials were focused on the issues raised by the property rights movement.

The recent writings of supporters and proponents of the state-based *Kelo* laws add further understanding of what is (and is not) happening with these laws (see Ely 2009; Morris 2009; Somin

2009). There appears to be a broad consensus that there has been little substantive impact from the state-based laws. Overall, the laws are characterized as more symbolic than substantive in nature and content. In the words of Ely (2009, 4), they are “merely hortatory fluff.” Why this is true, however, is a subject of some disagreement. Some analysts suggest it is because of the way key interest groups shaped the legislation. Others argue that while citizens appear to be concerned about the *Kelo* decision, they are less motivated to focus on the particular solution crafted by state legislatures.

There appears to be little expectation of substantive follow-up action by Congress or the U.S. Supreme Court, so whatever occurs will continue to be a function of actions by state legislatures and state courts. Nevertheless, the public is more aware

TABLE 1
Sector Impacts of *Kelo* Laws

What has been the impact of your state's <i>Kelo</i> initiative on...	All Respondents		Planning Community Respondents		Nonplanning Community Respondents	
	Value	%	Value	%	Value	%
...economic development planning at the local level?	(n = 58)		(n = 36)		(n = 22)	
Positive/Strongly Positive	2	3	1	3	1	5
No Impact	30	52	20	56	10	45
Negative/Strongly Negative	26	45	15	41	11	50
...urban revitalization activities of central cities?	(n = 56)		(n = 35)		(n = 21)	
Positive/Strongly Positive	1	2	0	0	1	5
No Impact	23	41	14	40	9	43
Negative/Strongly Negative	32	58	21	60	11	53
...the willingness of local governments to publicly con-temple and discuss projects that might utilize eminent domain?	(n = 56)		(n = 34)		(n = 22)	
Positive/Strongly Positive	7	13	5	15	2	9
No Impact	16	29	10	29	6	27
Negative/Strongly Negative	33	59	19	56	14	64
...the willingness of local governments to designate areas as blighted?	(n = 55)		(n = 36)		(n = 19)	
Positive/Strongly Positive	8	15	6	17	2	11
No Impact	30	55	23	64	7	37
Negative/Strongly Negative	17	31	7	20	10	53
...local efforts to provide affordable housing?	(n = 53)		(n = 34)		(n = 19)	
Positive/Strongly Positive	0	0	0	0	0	0
No Impact	43	81	27	79	16	84
Negative/Strongly Negative	10	19	7	21	3	16

TABLE 2
Process Impacts of *Kelo* Laws

	All Respondents		Planning Community Respondents		Nonplanning Community Respondents	
	Value	%	Value	%	Value	%
What has been the impact of your state's <i>Kelo</i> initiative upon the transparency and accountability of local governments when they make eminent domain decisions?						
Processes are:	(n = 53)		(n = 30)		(n = 23)	
...significantly/somewhat more transparent and accountable.	12	23	5	17	7	30
...unchanged (no impact).	40	75	24	80	16	70
... significantly/somewhat less transparent and accountable.	1	2	1	3	0	0
What has been the impact of your state's <i>Kelo</i> initiative upon levels of conflict and disagreement in public planning and decision-making processes?						
Processes have:	(n=53)		(n = 33)		(n = 20)	
...significantly/somewhat lower levels of conflict and disagreement.	0	0	0	0	0	0
...not changed (no impact).	33	62	23	70	10	50
...significantly/somewhat higher levels of conflict and disagreement.	20	38	10	30	10	50

of the eminent domain issue after *Kelo*, and that may affect future citizen and landowner actions. Where there is a distinction between substantive and symbolic legislation, the more substantive laws appear to be a function of both strong economic growth conditions in states and the promotion of laws through the initiative process versus the legislative process.

Impacts and Implications

Immediately after the *Kelo* decision, commentaries and reports by property rights advocates warned of impending danger for the American homeowner and the fundamental threat to American democracy. However, little has changed in the decade since a Lincoln Institute report examined the first generation of property rights laws (Jacobs 1999). That study concluded that state-based laws were having little impact on actual policy and planning practice. It appears that the same is largely true now.

That there should be social conflict over the public's efforts to manage privately owned land is, in and of itself, not surprising (Jacobs and Paulsen 2009). That the physical taking of land would be the source of this conflict is even less surprising. What is surprising is that, beyond the spirited focus of a set of dedicated activists, it is not clear that the American public or their elected representatives really see the issues raised by the state-based laws

as requiring substantial attention, and especially not now. The impacts of the state-based *Kelo* laws can be viewed in three ways.

Changes in Eminent Domain Activity

Both supporters of state-based *Kelo* laws and independent researchers find little change in what local and state governments are actually doing, or anticipate doing, as a result of the laws. There are several possible explanations. One is that few *Kelo*-style takings actually occur (Kayden 2009). The New London, Connecticut action was intended for economic development and was not based on a declaration of blight.

Physical takings can be initiated for a wide range of activities, but for at least 50 years (since *Berman v. Parker*) eminent domain for inner-city redevelopment has usually been accompanied by a declaration of blight. Almost none of the recent state-based laws prohibit physical takings when blight is declared. A second explanation is that even in situations where some physical taking is required, many of the transactions are (or at least appear to be) voluntary. Even in the New London situation, 100 of 115 landowners sold their land voluntarily and did not require an eminent domain action by the city. It is possible that the state-based laws are a solution to a problem that does not really exist.

Changes in Planning Practice

The state-based laws have not been all bad for planning practice. In fact, they have helped sensitize a broad range of interests to a core set of planning issues. In so doing the laws have made the planning and decision-making process a more central focus of public discussion and debate. Where there are indications of change to planning practice, they appear to be welcomed by planners. State-based laws are leading to requirements that when eminent domain is exercised it needs to be tied more explicitly to a broader planning and development process, as was the case in New London.

This means that eminent domain will be more transparent, and planners (and the elected officials to whom they report) will become more accountable. All in all, these new laws suggest that planners need to further improve the communication techniques and processes they use for planning in general, and eminent domain proceedings in particular. Few planners find objection to this, and many embrace it.

Changes in Public Discourse

As argued by even the supporters and proponents of state-based legislation, the most significant impact of these laws seems to be in the area of public

awareness. The wide-ranging media coverage of the *Kelo* decision, the apparent bottom-up backlash against the decision, and survey data about the common understanding and appropriateness of the decision all suggest significantly heightened attention to eminent domain, and to the role of governmental activity in physical takings. It is precisely this situation that provides the conditions for changes in planning practice.

Conclusions

This research was conceptualized and begun at a time when public discussion about land use, taxation, and takings was set within a very different frame than it is today. Now, local, state, and national discussion is focused on the aftermath of the subprime mortgage collapse, the recession, and their systemic impacts on the domestic economy. Communities and states nationwide are having uncomfortable discussions about the provision of local and state services as the property tax and income tax bases that support those services soften and frequently decline, sometimes significantly and precipitously.

The national media seems to have a constant stream of articles detailing this problem. What is particularly significant for our research is the interrelationship of these events. In years past when



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local governments found themselves in a fiscal crisis, they could and would turn to their states for assistance. And in turn, when states found themselves in a parallel fiscal crisis, they could and would turn to the national government. Today neither the states nor the national government are able to provide assistance as their own fiscal positions stagnate, if not decline.

It is in this context that it is necessary to understand the present and then project the likely future of eminent domain actions by state and local governments and planning authorities. Research by supporters and proponents suggests that substantive, state-based legislation could be explained in part by the level of economic activity in the different states. States with strong economies, especially in the homebuilding sector, were more likely to pass substantive legislation.

What happens when there is not a strong state or local economy or when they are in a downward

spiral? For the foreseeable future, we believe it is likely that planning in general and eminent domain in particular will be reexamined, and perhaps even witness a resurgence in support. Communities severely affected by the credit, housing, and mortgage-finance crises are being forced to reexamine eminent domain and related powers as ways to address abandoned housing and facilitate economic and social redevelopment. It is not at all clear what, if any, resistance they will experience from a citizenry wanting and needing solutions to real and seemingly ever more complex problems.

Even though survey respondents spoke to the continued strength and presence of the property rights movement, the results also indicated that it was not clear that the core issues of importance to the property rights movement were important to citizens in general, or even to elected officials. Does this mean that the property rights activists will abandon their activism? No. Just as they have sought to continuously advance their agenda and learn from their policy experiments for more than a decade, they will again learn from their successes and failures with state-based *Kelo* legislation. These laws represent the latest, not the final, wave of policy activism on property rights issues in the United States.

The planning community should not ignore the property rights advocates who have succeeded in changing the way the American public thinks about the core issue in physical and regulatory takings—the appropriate balance of the government vis-a-vis the individual with regard to property rights. But at the same time, it is not clear that the institutional changes these advocates have brought forth through state-based *Kelo* laws have changed public administrative practice, or that the laws fundamentally matter to the public and its representatives.

Was *Kelo* decided properly? That is a different question than our research focus. Are the state-based *Kelo* laws warranted as a response to the *Kelo* decision? That is a question that individuals and interest groups need to answer for themselves. Is there anything about the state-based *Kelo* laws that most planners should worry about? No there is not, but this does not mean that these laws or their supporters should be ignored. It does mean that planners and their allies and what they do in the public interest are on much stronger ground than the passage of these laws would seem to indicate. ■

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Comparative Analysis of the Property Tax in Latin America

Martim Smolka, Lincoln Institute of Land Policy; Claudia De Cesare, City of Porto Alegre, Brazil; Olman Rojas, Cadastre and Registry Regularization Program, Costa Rica; Wany Chaves Solano, Ministry of Finance, Costa Rica

The course combines lectures, presentations, and analysis of practical experiences with interactive exercises and debates among participants. Taking the challenges faced in Costa Rica as a case study, the course will evaluate issues of collective interest, such as the relationship between property taxes and other taxes; local finance models; property tax fiscal design; fiscal decentralization; restructuring of cadastral

projects and routines for continuous updating of data; mass appraisal and quality control of work; reducing tax evasion (tax collection and debt recovery); and performance indicators. Special attention will be given to issues of implementation of tax reforms and administrative revisions of property tax.

MONDAY–FRIDAY, MAY 3–7

Guatemala City, Guatemala **Legal Dimension of Land Policy in Latin America**

Martim Smolka, Lincoln Institute of Land Policy; Maria Mercedes Maldonado, National University of Colombia

There is a lively legislative discussion in many Latin American countries on legal reforms associated with urban planning, land use, fiscal issues, and property rights. This course, designed primarily for a Central American audience, examines the relationships among legal systems, urban development processes, and the legal dimension of land policies overall, including their foundation, principles, and major institutions.

THURSDAY–FRIDAY, MAY 20–21
Managua, Nicaragua

Seminar on Planning and Land Management Tools

Martim Smolka, Lincoln Institute of Land Policy; Maria Isabel Pares, National University of Engineering, Nicaragua

The Executive Branch and the National Assembly in Nicaragua are making efforts to develop the legal framework to facilitate land use planning, environmental resources, and land management. The objective of this seminar is to discuss and obtain feedback in order to strengthen the knowledge about land management to help formulate land policy. This seminar is designed for public, private, and nonprofit decision makers, as well as specialists and government officials.

WEDNESDAY–THURSDAY, JUNE 9–11
Curitiba, Brazil

Policy and Administration of Property Tax: Review and Measurements to Improve the Property Tax

Martim Smolka, Lincoln Institute of Land Policy; Claudia De Cesare, City of Porto Alegre, Brazil

This seminar is cosponsored with the Ministry of the Cities in Brazil to support municipalities regarding property tax

issues. It aims to evaluate principles, practices, and strategies to improve the property tax, taking into consideration its equity, efficiency, and effectiveness. Issues to be analyzed include opportunities, limits, and challenges to improve property tax systems; international/national experiences to reduce conflicts with taxpayers and facilitate tax administration; the legal basis for fiscal and urban matters; court decisions that affect policy, assessment, and administration; alternatives to improve assessment equity to reduce tax evasion and increase the rate of tax debt collection; and sharing of local experiences over implementation issues of property tax reforms.

Lincoln Lectures

This annual lecture series highlights the work of scholars and practitioners who are involved in research and education programs sponsored by the Lincoln Institute. The lectures are presented at Lincoln House, 113 Brattle Street, Cambridge, Massachusetts, beginning at 12 p.m. (lunch is provided). Consult the Lincoln Institute Web site (www.lincolninst.edu) for information about other dates, speakers, and lecture topics. The programs are free, but pre-registration is required. Go to the Web site or email rsugihara@lincolninst.edu to register.

WEDNESDAY, APRIL 28
Cities and Climate Change: Learning from the Portland Experience

Gil Kelley
Lincoln-Loeb Fellow
Lincoln Institute of Land Policy and Harvard Graduate School of Design
Former Director of Planning
Portland, Oregon

WEDNESDAY, MAY 5
Conservation in a World of Limited Resources: Setting Priorities

Dan Perlman
Visiting Fellow
Lincoln Institute of Land Policy
Chair, Environmental Studies Program and Associate Professor of Biology
Brandeis University
Waltham, Massachusetts



Canfei He earned his Ph.D. degree in geography from Arizona State University in 2001, and then moved to the University of Memphis, Tennessee, where he taught as an assistant professor. In August 2003, he returned to China as an associate professor in Peking University's College of Urban and Environmental Sciences, and was promoted to full professor in 2009. In addition to his academic duties at Peking University, Dr. He has served as associate director of the Peking University–Lincoln Institute Center for Urban Development and Land Policy since 2007. He is also the associate director of the Economic Geography Speciality Group of the China Geographical Society.

Dr. He's research interests include multinational corporations, industrial location and spatial clustering of firms, and energy and the environment in China. The World Bank invited him to write a background paper on industrial agglomeration in China for the World Development Report 2009: Reshaping Global Economic Geography.

Dr. He has authored four academic books and his work is published widely in English journals including Regional Studies, Urban Studies, Annals of Regional Science, International Migration Review, Eurasian Geography and Economics, Post-Communist Economies, and China & the World Economy. Dr. He also serves on the editorial board of three journals: Eurasian Geography and Economics, International Urban Planning, and China Regional Economics.

Canfei He

LAND LINES: *How did you become associated with the Lincoln Institute of Land Policy and its programs in China?*

CANFEI HE: I learned about the activities of the Lincoln Institute of Land Policy's recently established China Program from one of my colleagues at Peking University in 2003 soon after I returned from the United States. At that time, the Lincoln Institute was working in China on a number of specific programs, and I became involved in several associated research projects.

My official relationship with the Institute began with the establishment of the Peking University–Lincoln Institute Center for Urban Development and Land Policy (PLC) in October 2007. The Institute had been exploring a more long-term partnership with Peking University for some time, and as those discussions progressed, my previous contacts offered opportunities for me to serve as a liaison between the two institutions. I was nominated by Peking University to serve as the associate director with its director, Joyce Yanyun Man, who is also a senior fellow of the Lincoln Institute and director of its Program on the People's Republic of China. Over the past two years or more, I have been helping to develop the center and coordinate its work with other partners at Peking University, as well as serving as a research fellow of the center.

LAND LINES: *Why are urban development studies so important in China?*

CANFEI HE: China's urbanization during the past three decades has been remarkable. As an overwhelmingly rural population in 1978 when reforms began, China is now 45.7 percent urbanized, and the country is projected to be 60 percent urbanized by 2020. This means that China's cities will need to accommodate more than 100 million new urban residents in this decade.

Market forces, local forces, and global forces are all conspiring to influence the pattern of China's urbanization and development. Accompanying large-scale and rapid urbanization are revolutionary spatial, structural, industrial, institutional, and environmental changes in an incredibly brief span of time. The multiplicity of these driving forces makes the study of urban development in China both complex and challenging. The next wave of urbanization will have far-reaching implications for the country's future development, and thus there is a critical need for more high-quality, objective research on the subject.

LAND LINES: *What are some of the most unusual aspects of urban development in China?*

CANFEI HE: China's current urban development is quite different institutionally from that of most Western countries. Urbanization in China has occurred at the same time that its economy has become market-oriented, globalized, and decentralized. Whereas most Western urbanization occurred in a period of greater economic isolation, China's urban development has been directly influenced by international investment and global economic trends.

A second factor is China's *hukou* system of personal registration that limits the mobility of its people in part by linking their access to social services to the location of their registration. This system thus presents an institutional barrier that inhibits rural-urban migration despite ongoing reforms.

Regional decentralization is another important aspect that, combined with the state and collective ownership of land, has allowed local governments to play a distinct role in China's urban development. Land acquisition fees resulting from the sale of multi-decade leases for the use and development of state-owned lands have generated enormous revenues, and have been a critical source of municipal financial resources for urban infrastructure investment. This fee-based revenue, in turn, creates incentives that have promoted even more intense urbanization. On the other hand, the major planning role afforded to local governments in China means that

urban planning practice lacks consistency across the country's diverse regions, and is often hostage to local interest groups.

China is facing increasing global challenges and pressures from many sources including multinational corporations, nongovernmental organizations, global environmental standards, and rising energy prices. These challenges may increase the costs of urban development, but at the same time they may encourage a more sustainable process of urbanization.

LAND LINES: *How do you approach urban studies in China through your own research?*

CANFEI HE: China's urbanization goes hand in hand with its industrialization, and foreign investment has played a significant role in the country's growth. Urbanization demands labor, land, capital, and technology, as well as supporting institutions. Consequently, there are myriad approaches to studying urban development in China that focus on a particular factor or set of factors.

My own research interests fall within the capital and institutional approaches. Specifically, I investigate industrial agglomeration and foreign direct investment in Chinese cities by highlighting the institutional environment of economic transition. Investigating the elements driving industrial agglomeration in different cities and understanding the locational preferences of foreign and domestic firms are crucial for designing coherent and focused urban planning policies.

For instance, my research on foreign direct investment in real estate development and the locational preferences of international banks found that local market conditions and regional institutions largely determine the locational preferences of multinational services. This type of observation can be of use to planners and politicians in China seeking to foster the growth of the service industry.

With the increasing emphasis on global climate change and acknowledgement of the environmental impacts of China's first 30 years of reform and development, I am also becoming more involved in research on the environmental impacts of

urbanization, including energy consumption and carbon emissions. China has made a commitment to reduce its CO₂ emission by 40–45 percent per unit of GDP by 2020, relative to 2005. This means that building low-carbon and energy-efficient cities is another goal on the already lengthy list of challenges that includes servicing, housing, and employing the country's millions of future urban dwellers.

LAND LINES: *Given this ongoing international dialogue, how can China best learn from Western urbanization experiences?*

CANFEI HE: We recognize that there is much to learn from the West, including alternative approaches to land policy, housing policy, transportation policy, environmental policy, suburbanization, and the development and planning of megacity regions. China has the benefit of using the West's experience as a roadmap to help it avoid many of the problems that have arisen in Western cities, such as urban sprawl and gridlock. That economic, political, and geographic diversity offers a wealth of reference points for China's cities that should not be ignored and can help China avoid problems that have plagued many Western metropolises.

However, it is necessary to research the applicability of particular international experiences, considering the uniqueness of China's history and culture. Too often analyses of Western urbanization are presented as a blueprint for China, when in fact institutional, economic, and political differences mean that, for one reason or another, those solutions are impractical or unfeasible.

LAND LINES: *Why is China's urbanization and urban development so important to the West?*

CANFEI HE: China's urbanization will be one of the most important dynamics of the twenty-first century, not only for China but also for the West and the rest of the world. Millions of newly affluent consumers and empowered global citizens will exert significant new demands on the world's finite natural resources in several ways.

First, with the United Nations Millennium Development Goals, China and the world committed themselves to halving the number of people living on less than \$1 per day by 2015. Given China's large number of rural poor, the country's urbanization and economic development will be instrumental in meeting this important goal, as well as in achieving other goals such as those related to education and improving children's health. Only cities have the institutional reach and financial capacity to meet these goals on a large scale.

Second, much has been made of the gulf in understanding between China and the West in recent years. Urbanization and urban development will help to integrate China further into the global community, but it may also create more opportunities for cultural friction. The West has a vested interest in seeing that China urbanizes in an atmosphere that encourages openness and intercultural exchange.

Third, history demonstrates that urbanization entails a much greater demand for energy and other resources as living standards rise and as consumption and dietary patterns change. It has become a cliché to say that "as China goes, so goes the world," but China's urbanization and its related environmental impacts will have direct implications for the West and the rest of the world.

The recent memory of \$150 per barrel of oil shows that this future demand is likely to put great stress on international energy markets and the global economy. This latent demand also has broad implications for China's CO₂ emissions and for global climate change. The United States and China are key to any real hope of keeping the increase in average global temperatures less than 2 degrees Celsius warmer than preindustrial levels, as proposed at the recent climate conference in Copenhagen. Whereas the high level of development in Western countries means that changes happen incrementally, China's rapid urbanization offers hope to limit the world's future emissions by making significant changes now as the country develops. **L**

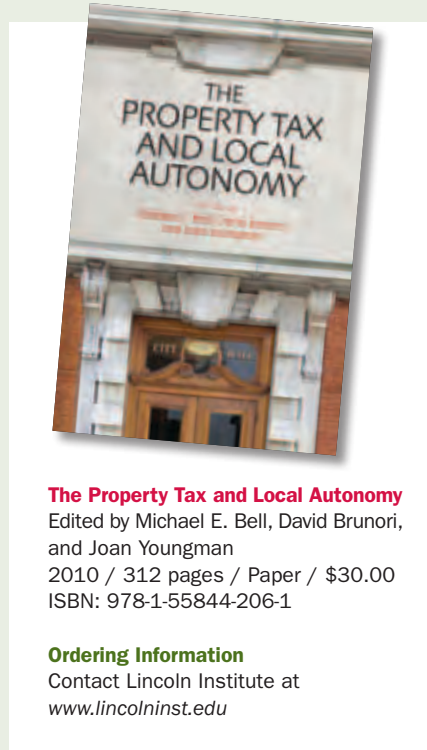
The Property Tax and Local Autonomy

The philosophical, economic, and political rationales for a strong property tax are clear. The property tax is the most efficient and effective means for raising revenue to fund local government services. No other sources of revenue can ensure local autonomy, a critical factor in American government since the beginning of the republic. Conventional wisdom holds that the property tax is essential to local autonomy because there are no viable alternatives to raising revenue. Yet the property tax in the United States has been under siege for decades.

This book examines the issues and consequences of a declining property tax base with respect to local government autonomy as a follow up to the Lincoln Institute book *Erosion of the Property Tax Base* (2009) that presented papers from the first property tax policy roundtable cosponsored by the Lincoln Institute and the George Washington Institute of Public Policy. The editors of that volume documented trends and causes of the local property tax base decline. In this volume, they focus attention on the “so what” question: Why is it important that local governments have access to a strong, vibrant local property tax?

The answer to this question is rooted in the concept of local autonomy. The American political landscape is dominated by the belief that localities are critical to governance. Local autonomy—the ability of local government to undertake activities that reflect the preferences of local residents—requires a source of locally raised revenue that local government can use as it sees fit. Local autonomy is the underlying premise of the efficiency gains presumably derived from the theory of fiscal federalism. It also stimulates civic engagement and is the basis of local democracy and accountability.

The local property tax has been the primary source of local own-source revenue upon which local autonomy depends. This volume considers the consequences for local autonomy that flow from a decline in the local property tax base. The chapters include arguments in support of



The Property Tax and Local Autonomy

Edited by Michael E. Bell, David Brunori, and Joan Youngman
2010 / 312 pages / Paper / \$30.00
ISBN: 978-1-55844-206-1

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www.lincolnst.edu

and against local autonomy and decentralization; efforts to measure local autonomy and its variations among the 50 states; research on the effect of school finance reform on the local tax base and on support for elementary and secondary education; the consequences of reduced property taxes on local autonomy; and possible replacements for the property tax as a means of financing autonomous local governments.

Understanding the consequences of a diminished property tax system is critical to setting state and local policy in the twenty-first century. If the property tax continues to play a reduced role, local governments will be forced to rely even more heavily on state political institutions. If that happens, the overall system will likely be less efficient and less politically responsive.

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Joan Youngman is senior fellow and chair of the Department of Valuation and Taxation at the Lincoln Institute of Land Policy. Contact: jyoungman@lincolnst.edu

Municipal Revenues and Land Policies

Although much public discourse about the effects of the 2008 financial crisis on government finances focuses on federal and state budget deficits, most of us will experience actual impacts at the municipal level where governments clean streets, repair roads, hire teachers, fight fires, prevent crime, and maintain the water and sewer systems. What will happen if municipalities are no longer financially able to provide daily public services?

Given huge state budget deficits, most municipalities will need to deal with their financial problems themselves. In an attempt to expand own-source revenues, cities are facing voters' resistance to any tax and user fee increases due to the recession. Yet, curtailments in local services will adversely affect residents' welfare and may lead to labor and capital out-migration.

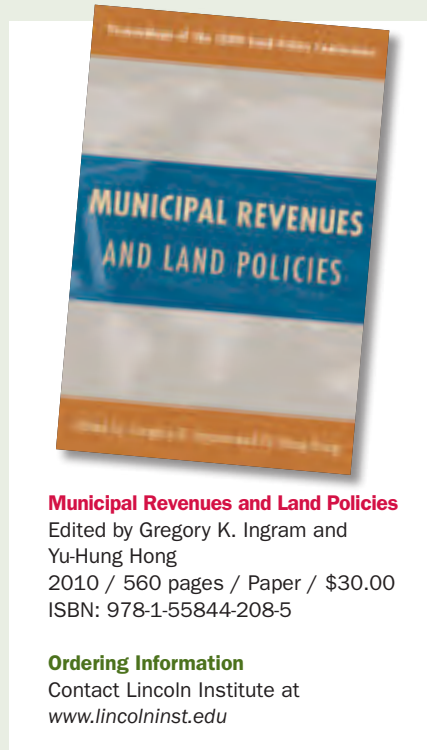
To explore municipal revenue options in the face of severe economic distress, the Lincoln Institute of Land Policy held its fourth annual land policy conference in June 2009 to discuss selected fiscal instruments. Public finance experts with backgrounds in economics, law, planning, and political science were invited to exchange their ideas. The chapters in this volume present key themes that emerged from the discussions.

There is no quick fix in the face of fiscal uncertainty, but it is clear that solutions must not undermine the city's economic base; tax hikes should be tied to service improvements; cities should encourage private provision of club goods to complement local public services; and a strong city government is needed to work with higher-level governments. These and other solutions for municipal finance policy are now more important than ever.

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Municipal Revenues and Land Policies
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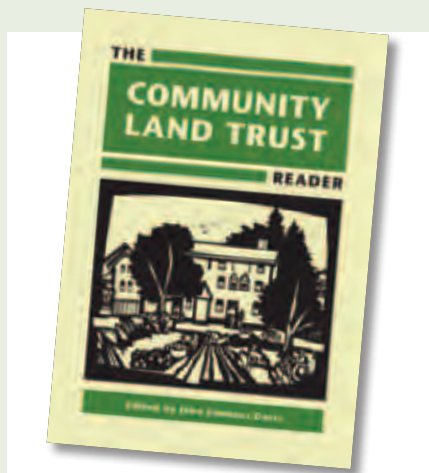
The Community Land Trust Reader

The *Community Land Trust Reader* brings together for the first time the seminal texts that inspired and defined the CLT. Selections trace the intellectual origins of an eclectic model of tenure that was shaped by the social theories of Henry George, Ebenezer Howard, Ralph Borsodi, and Arthur Morgan, and by social experiments like the Garden Cities of England and the Gramdan villages of India.

The community land trust arrived quietly on the American scene in the late 1960s, an outgrowth of the civil rights movement in the Deep South to help African-American farmers gain access to agricultural land. It soon found many other uses, including affordable housing and neighborhood revitalization, as it spread to urban, suburban, and rural communities throughout the country. By 2005, there were more than 200 CLTs, with a dozen new ones being organized every year. Today, CLTs are operating in 44 states and the District of Columbia, and they are being introduced in other countries as well: Canada, England, Scotland, Australia, and Kenya.

Rapid growth has brought many newcomers to the CLT movement, as residents, staff and governing board members, and public officials in communities hosting this new, innovative form of tenure that combines common ownership of land with individual ownership of any buildings located on that land. While these activists bring enthusiasm and energy to support the movement, many of them lack a deeper understanding of the origins and evolution of the CLT model to which they are so committed.

As the number, size, and diversity of CLTs grow, the model is being pushed beyond the ideological, organizational, and operational boundaries that once defined it. By cultivating a shared understanding of the model's origins, including the ideas and values underlying its many variations, we make it easier for distant CLTs to find a common identity and pursue a common agenda. At a time when much of the growth



The Community Land Trust Reader

Edited by John Emmeus Davis
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in the movement is being stimulated by local governments, it is especially important to be reminded of the model's core principles, such as inclusive membership and popular election of the governing board.

Conversely, a wider knowledge of the model's origins may help us let go of features that no longer serve the model's purposes or constituencies. A deeper appreciation for the evolution of CLTs may encourage today's practitioners to continue the experimentation that gave rise to the model in the first place.

The *Reader* does not look only to the past, however. Many of its 46 essays and excerpts examine contemporary applications of the CLT in promoting home ownership, spurring community development, protecting public investment, mandating stewardship, and capturing land gains for the common good. They describe a modern-day model of private, nonmarket ownership that is fighting for acceptance on a national stage where better-known tenures historically favored by the market and state are the featured players.

Much of the *Reader* offers reflections on the present state of the CLT—how the model is or could be applied to promote economic equality, enhance residential security, and improve the quality of life in both urban and rural communities. Every time the CLT has spread to another region of the United States, there has been a burst of new ideas and new techniques that have enriched the movement as a whole. The same is sure to happen as the CLT spreads to other countries.

The final section of the book describes trends, challenges, and opportunities that are likely to have a significant impact on limiting or expanding the CLT movement in the years ahead. Such issues are not unique to the CLT, although they have special relevance for the everyday practice of CLTs. They also stake out the expansive intellectual and political space within which the movement as a whole may find room to grow.

The origins of this book can be traced to the National Community Land Trust Academy. Founded in 2006 as a joint venture of the National CLT Network and the Lincoln Institute of Land Policy, the Academy provides comprehensive training on theories and practices unique to CLTs. Many of the essays and excerpts contained in this collection have been regularly assigned as required readings in Academy courses. By bringing them together in a single volume, these materials are made more accessible for classroom use, as well as for practitioners, public officials, community activists, and others who want to learn more about the heritage of this vital movement.

ABOUT THE EDITOR

John Emmeus Davis is partner and cofounder of Burlington Associates in Community Development in Vermont, a consulting cooperative specializing in projects that promote permanently affordable housing. Contact: burlassoc@aol.com

The Lincoln Institute supports research fellows and other collaborators who document their research in working papers that are posted on the Institute Web site for free downloading (www.lincolninst.edu/pubs).

More than 645 working papers are currently available, including the results of Institute-sponsored research, course-related materials, and occasional reports or papers cosponsored with other organizations. Some papers by associates affiliated with the Institute's Latin America and China programs are also available in Spanish, Portuguese, or Chinese. The following papers have been posted since January 2010.

United States Programs

Nathan B. Anderson
Volatility of Individual Property Tax Payments

Stacy Becker
Do Local Planning Processes Fuel NIMBYism?: Place Identity, Risk Perception, and Development Decision Making in Three Suburban Communities

Richardson Dilworth and Robert Stokes
A Green Growth Machine: Urban Environmentalism as Economic Development

Donald Elliott
Premature Subdivisions and What to Do About Them

Todd Gabe
Beyond Educational Attainment: Knowledge-Based Investments to Enhance a Region's Human Capital and Resident Earnings

Anne Gadwa and Ann Markusen
Defining, Measuring, and Comparing Place-Based Public Investment Outcomes

Stephan J. Goetz, Mark D. Partridge, Dan S. Rickman, and Shibalee Majumdar
Sharing the Gains of Local Economic Growth: Race to the Top vs. Race to the Bottom Economic Development

Shannon Jackson and Karen Chapple
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Harvey Jacobs and Ellen M. Bassett
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A Critical Review of Property Tax Relief in Wisconsin: The School Levy Credit and the First Dollar Credit

Mark Skidmore and Eric Scorsone
Causes and Consequences of Fiscal Stress in Michigan Municipal Governments

Latin America Program

Fernanda Furtado, Vera F. Rezende, Teresa C. Oliveira, and Pedro Jorgensen Jr.
Sale of Building Rights: Overview and Evaluation of Municipal Experiences
(Also posted in Portuguese in 2010)
Outorga onerosa do direito de construir: Panorama e avaliação de experiências municipais

Vladimir Fernandes Maciel
Transport Infrastructure Investment: Assessing the Short-Run Effects of São Paulo's Beltway ('Rodoanel') on Land Prices
(Also posted in Portuguese in 2010)
Inversión en infraestructura de transporte: Un análisis del impacto del Rodoanel sobre los precios del suelo

New CD-ROM on Latin American Themes

The Lincoln Institute has prepared a new CD-ROM version of the Spanish language book *Perspectivas urbanas: Temas críticos en políticas de suelo en América Latina (Urban Perspectives: Critical Land Policy Themes in Latin America)*, edited by Martim O. Smolka and Laura Mullahy. The 2007 volume contains 63 articles originally published in English in *Land Lines* between 1994 and 2005.

The CD includes an additional chapter of 22 articles, most of them published since 2005. They are organized according to the book's focus on six themes: trends and perspectives in land policy; informality, regularization, and property rights; property taxation; value capture; land use and urban development; and public participation in development processes.

The new articles reflect some important changes that have occurred in Latin America and at the Lincoln Institute over the past several years. Nearly two-thirds of the articles report on research supported by the Institute's Latin America Program, and most of the others are interviews originally published in *Land Lines* as faculty profiles. These interviews offer an opportunity to explore the program's activities through the voices of some of its closest collaborators.

All of the Spanish language articles in both the book and the CD-ROM can be downloaded for free or purchased directly on the Lincoln Institute Web site at www.lincolninst.edu. The original English language articles are also available for free downloading from the *Land Lines* section of the Web site.

Perspectivas urbanas: Temas críticos en políticas de suelo en América Latina

Book / 2007 / Spanish / 416 Pages / Paper / \$25.00 / ISBN: 978-1-55844-163-7
CD-ROM / 2010 / Spanish / \$10.00 / ISBN: 978-1-55844-176-7



International Research and Fellowships

Requests for Proposals on Latin America and the Caribbean

The Lincoln Institute's Program on Latin America and the Caribbean coordinates research activities and seminars to promote the advancement of knowledge on urban land policies, land markets, and related themes in the region. Each year scholars are invited to submit proposals for a competitive selection of research projects in response to a Request for Proposals process.

In 2010 proposals will address four research themes: implementation and impacts of land use regulation; land-based instruments to finance urban development; land markets; and urban form. The RFP guidelines will be posted on the Lincoln Institute Web site in early June, and the deadline for submitting proposals is July 16, 2010. Consult the Web site at www.lincolninst.edu/education/rfp.asp.

China Program Fellowships

The Lincoln Institute's Program on the People's Republic of China offers fellowships for international scholars at universities or research centers around the world who are working on land and tax policy issues in China. These fellowships are designed to help researchers enhance their capacity in land and tax policy fields that address the Institute's primary interest areas in China. Priority topics include urban economics, land use and policy, urban and rural planning, local public finance, and property taxation. These fellowships are awarded annually each September through the Lincoln Institute.

The Lincoln Institute-Peking University Center for Urban Development and Land Policy in Beijing also offers research fellowships for land, urban, and tax policy scholars based in China, as well as thesis fellowships for masters and doctoral students working at Chinese universities.

The next application deadline for all of these fellowships is May 15, 2010. All applications are processed through the Peking University-Lincoln Institute Center's Chinese language Web site at <http://plc.pku.edu.cn>.



Visioning and Visualization

The Kona, Hawaii case study appears in the Lincoln Institute book *Visioning and Visualization: People, Pixels, and Plans*, which explores the interaction of technology and citizen engagement to help communities visualize different growth scenarios.

Building on a series of workshops sponsored by the Lincoln Institute, authors Michael Kwartler and Gianni Longo present principles, techniques, and cases based on their professional experiences in developing sophisticated public involvement processes that are used to apply information technology to planning and design. They suggest ways that digital visualization tools can be integrated in a public process to present participants with clear choices and help them make informed planning decisions. Evidence from communities throughout the country shows that public involvement supported by visualization leads to better plans and more livable places and communities.

This richly illustrated book will assist urban professionals, public sector leaders, and the public in navigating the complex and evolving public planning process. Three other case studies illustrate how public involvement and visualization tools were used to help the public make informed decisions.

- Southwest Santa Fe City/County Master Planning Initiative for the City and County of Santa Fe, New Mexico
- Near Northside Economic Revitalization Planning Process for the City of Houston, Texas
- Vision 2030: Shaping our Region's Future Together, a five-county vision program developed for the Baltimore (Maryland) Regional Transportation Board

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What's New on the Web

Visioning and Visualization

www.lincolinst.edu/subcenters/visioning-and-visualization

Effective regional planning requires extensive citizen engagement, but the process can be challenging. A new subcenter in the Resources and Tools section of the Lincoln Institute Web site provides a case study in how to use the latest technology to guide community consensus on future growth.

Kona Community Development Plan

At the Visioning and Visualization site, users can walk through the step-by-step process of the development of the Kona Community Development Plan on the big island of Hawaii. Work on the plan began in 2006 with a team of planners and designers headed by Gianni Longo of ACP–Visioning & Planning and Michael Kwartler of the Environmental Simulation Center.

The plan is based on a vision for more sustainable growth patterns in the Kona region, which was being threatened by the loss of significant natural, cultural, and agricultural resources. New residential construction, primarily second homes, outpaced already significant population growth by two to one, and there was no clear plan for infrastructure.

A critical component of developing an enforceable, long-range regional plan for the Kona district was to engage the citizenry and reach consensus on goals and priorities. Special emphasis was placed on visualizing options and using images to engage the public in making informed choices.



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Reaching Consensus

The Visioning and Visualization site details that process as citizens, planners, and public officials worked together to gather ideas, agree on challenges in focus groups, and examine different future growth scenarios, levels of density, and development boundaries to protect open space. Ultimately, consensus was reached on the concept that future growth in Kona should be guided into dense, walkable, mixed-use, and transit-oriented villages in already developed places.

Explore this new Web site on its own or as a companion to the book.

www.lincolinst.edu

Land Lines

APRIL 2010

2010 Publications Catalog

The Lincoln Institute's 2010 Publications catalog features more than 100 books, policy focus reports, and multimedia resources. These publications represent the work of Institute faculty, fellows, and associates who are researching and reporting on the following topics: property taxation, valuation, and assessment; urban and regional planning; smart growth; land conservation; housing and urban development; and other land policy concerns in the United States, Latin America, Europe, China, South Africa, and other areas around the globe.

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