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EDITOR
Katharine Wroth

CONTRIBUTING EDITORS
Anthony Flint, Will Jason

DESIGN & PRODUCTION
Studio Rainwater
www.studiorainwater.com

PRODUCTION EDITOR
Susan Pace

VICE PRESIDENT OF PUBLICATIONS, COMMUNICATIONS & LEARNING DESIGN
Maureen Clarke

PRESIDENT & CEO
George W. McCarthy

CHAIR & CHIEF INVESTMENT OFFICER
Kathryn J. Lincoln

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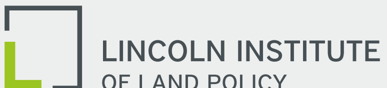
Lincoln Institute of Land Policy
113 Brattle St., Cambridge, MA 02138

T (617) 661-3016 or (800) 526-3873
F (617) 661-7235 or (800) 526-3944

EMAIL FOR EDITORIAL CONTENT
publications@lincolninst.edu

EMAIL FOR INFORMATION SERVICES
help@lincolninst.edu

www.lincolninst.edu



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The Scholar House of Central Appalachia, in Richmond, Kentucky, provides housing and childcare for single parents pursuing a college education. Credit: Fahe (https://fahe.org).

PRESIDENT'S MESSAGE GEORGE W. McCARTHY

Fixing Complicated Problems

WRITING DURING THE LAST GILDED AGE, Henry George warned of the social and economic perils of giving away land value increases to landowners who had done nothing to earn them. In this new Gilded Age, wealth inequality coupled with persistently low interest rates is leading to a worsening redistribution of wealth, with a growing share flowing to the asset-rich while a growing share of families is priced out of decent housing. One positive outgrowth of the pandemic is the political will we've summoned to deal with two related challenges that have their roots in land policy: the housing affordability crisis and the wealth gaps created by structural racism.

A consensus is emerging among policy analysts and policy makers that both challenges are the result of exclusionary land policies. While exclusion is the principal driver, it is not the only one. More important, no single remedy will magically call forth more affordable housing and simultaneously close wealth gaps.

Dozens of local, state, and national governments—including that of Pasco, Washington, profiled in this issue—are reforming residential zoning that previously permitted only detached single-family dwellings. The logic of this intervention is sound. Single-family zoning constrains development with restrictions like minimum lot sizes. This drives up housing costs and excludes lower-income families from buying or renting in desirable neighborhoods. By relaxing these policies, it will be possible to produce more housing at lower prices. At least in theory.

Market fundamentalists argue that the financial incentives are so powerful that if we make it possible to build two, four, or even twelve units on a parcel that formerly permitted one, we cannot help but solve the housing affordability crisis through increased production. But there is a big difference between permitting the development of multiple units and multiple units being developed. And there is no guarantee that these units will be affordable. Many unaffordable condos and apartments have been built in high-density locales like New York City, where affordable housing is in critically short supply. A lot of them are vacant. How can places like Pasco keep the same thing from happening?

Part of the answer has to do with the housing market. As I've noted before, housing represents two very different commodities traded in the same market. Each unit can satisfy the demand for shelter for a family or the demand for yield from hungry investors. Often, but not always, a housing unit can satisfy both—when the owner occupies the unit. But more and more frequently, households find themselves competing for available shelter against investors drowning in liquidity. With the exception of a pathbreaking intervention by the Port of Cincinnati that I will discuss another time, the investors usually win.

As global wealth inequality worsens, the wedge between shelter provision and investment opportunity is precipitating unassailable affordable housing shortages. But not *housing* shortages. We have some 20 million more units of housing in the United States than we have households, and there are more houses than households in every housing market in the country. Even in a tight market like Pasco, the U.S. Census reports that there are 23,126 housing units but only 22,174 households. The metro market that includes Pasco contains 106,104 housing units and 100,336 households.

One positive outgrowth of the pandemic is the political will we've summoned to deal with two related challenges that have their roots in land policy: the housing affordability crisis and the wealth gaps created by structural racism.

This oversupply is not vast, but it offers a good illustration: our problem is not supply, but the kind of housing we supply (or allow to be supplied).

Land, too, is a commodity traded in multiple markets—as an investment good and a good with multiple uses: residential, industrial, commercial, and agricultural. The price of land derives from a complex mix of social, statutory, and economic factors that are almost completely outside the aegis of the landowner. If more people migrate to a city or neighborhood, the land value goes up. If infrastructure improvements are made, like wastewater treatment or accessible transportation, the value of the land goes up. If local policies allow for more intensive development on a parcel, its value will go up.

Who wins when we allow multifamily construction on formerly single-family lots? Landowners who receive windfall increases in land values are among the big winners. This increase in property values puts nearby homeowners at risk, if it raises their tax bills. If zoning changes aren't designed to be part of a broader strategy to tackle affordability, they could inadvertently usher in displacement. Planners in Pasco know this and are working on a suite of balanced and comprehensive tactics to keep their community affordable.

This country's legacy of racial exclusion further complicates land and housing markets, while eluding all efforts to address it. Historically, deed restrictions, legal covenants, and other overt, but now illegal, practices ensured that people were kept out of neighborhoods based on skin color, ethnicity, or religious affiliation. These were supplemented with blatantly racist finance practices established at the birth of the modern housing finance system. For six decades, we have attempted to confront these forms of structural racism using public policy, with very limited success. It is an important cautionary tale.

Starting with the Civil Rights Act of 1964, the Fair Housing Act of 1968, and the Equal Credit Opportunity Act in 1974, the nation nominally prohibited discrimination in housing and lending. The Community Reinvestment Act of 1977 imposed further affirmative obligations on regulated lenders to meet the credit needs of their communities. And yet, in 2018 the Center for Investigative Reporting analyzed 31 million mortgages and found that people of color were denied conventional mortgages by regulated lenders at significantly higher rates than whites in 61 metropolitan areas, even after controlling for income and other socioeconomic factors. The national racial gap in homeownership rates is

This duplex in Portland, Oregon, is an example of "missing middle" housing that can provide more affordable options in formerly single-family neighborhoods. To be truly effective, the zoning changes that allow such housing must also mandate affordability and must be part of a broader housing strategy. Credit: Sightline Institute Middle Homes Photo Library via Flickr CC BY 2.0.

worse today than it was in 1960, when efforts to address housing discrimination began.

Closing the racial wealth gap will require much more than leveling the financial playing field and producing more housing units. Stable, affordable housing in high-opportunity areas is foundational to the long-term economic success of families. But increasing the housing stock does not necessarily increase affordable housing for lower-income households, nor does it ensure that historically excluded populations will have access to wealth-building homeownership opportunities in thriving neighborhoods.

We need aggressive inclusionary housing requirements that obligate landowners to build affordable housing when redeveloping former single-family sites. We also need to provide and protect opportunities for historically excluded families to purchase affordable homes and build wealth.

In almost every housing market in the United States, we're producing too much of the wrong kind of housing and letting the existing housing stock slip out of local control. Escalating rents are inspiring conversions of single-family homes to rental units at unprecedented rates. Single-family rental real estate investment trusts (SFR REITs) have become a hot investment. According to CoreLogic, investors acquired more than 25 percent of all the single-family homes purchased in the United States in the last two quarters of 2021. A single zoning reform will not change the way the market works, and nothing will stop global capital from bidding housing in desirable neighborhoods away from families that need shelter unless other actions are taken.

We need aggressive inclusionary housing requirements that obligate landowners to build affordable housing when redeveloping former single-family sites. We also need to provide and protect opportunities for historically excluded families to purchase affordable homes and build wealth. Rather than giving away additional development rights to landowners, development rights should be sold. Development rights are traded actively in many private and some public markets in the United States. Municipalities could raise billions of dollars by selling development rights, and the proceeds could be used for affirmative efforts to address the racial wealth gap by, for example, providing generous down payment assistance or property tax relief.

Once we have established a reasonable supply of affordable housing, we need to preserve it. This will require shielding affordable housing stocks from global capital markets. This can be done easily with steeper capital gains taxes imposed on speculative property transactions. In Taiwan, land value increment taxes had a chilling effect on property speculation. In addition, deed restrictions can limit future sales prices. Alternative ownership arrangements like limited equity cooperatives or community land trusts can ensure permanent affordability. If we don't act now, we'll face continual affordable housing crises in the coming decades. But there is an important caveat: preserving affordable housing by limiting the financial upside will impede our efforts to close racial wealth gaps through homeownership. This illustrates the challenges of intervening in complex systems. Once we recognize the complexity, we can consider tradeoffs to find a practical and acceptable compromise.

At the Lincoln Institute, we applaud the recognition that land policy sits at the roots of major social and economic challenges. But simplistic interventions in complex land and housing systems will not address these staggeringly complex challenges. We cannot rely on increasing the supply of housing as a silver-bullet solution. We must layer zoning reform with other policies, trying different combinations in an iterative process. As we proceed, we should be mindful of the words of H.L. Mencken: "there is always a well-known solution to every human problem—neat, plausible, and wrong."

As Delivery Methods Evolve, Will City Streets Keep Up?

UPS is among the companies testing e-bikes and other alternative delivery vehicles. Credit: UPS.

FOR YEARS, innovations in alternative mobility—scooters, e-bikes, autonomous vehicles—have focused on how individuals get around. But the pandemic era has put fresh emphasis on a different mobility goal: moving *stuff* around.

The demand for rapid delivery has increased sharply in the past two years, and it doesn't seem to be abating. By some estimates, companies like Door Dash see the quick delivery of groceries alone adding up to a $1 trillion market. With major companies from UPS to Domino's trying out new ways to deliver their products, the pace and range of vehicle experiments has accelerated—and that is likely to impact the design, planning, and regulation of urban and suburban spaces.

While it's unclear *which* of these experiments will pan out, it's undeniable that new kinds of delivery vehicles are or soon will be on our streets. With new questions arising, urban design thinkers, retail and technology companies, and municipalities are working to address the convergence of increasing delivery demand and new vehicle forms.

Leading the micro-mobility pack is the e-bike, a form that's been around for decades but has lately become strikingly popular: with sales up 145 percent since the pandemic started, e-bikes now reportedly outsell electric cars. John MacArthur, a program manager at Portland State University's Transportation Research and Education Center (TREC), has been researching their potential—including the "tantalizing hope" that micro-mobility tech gets more people out of cars—for the better part of a decade. Last year, he taught a new class focused on cities dealing with all manner of new micro-mobility experiments, or "technologies being thrust in the public right of way."

Students in that class found that the pandemic was inspiring a range of responses from cities. On the one hand, work-from-home trends reduced and reconfigured car-centric commuter patterns. In Portland and elsewhere, MacArthur notes, that led to the creation of more bike and bus lanes. On the other hand, delivery demand spiked, leading to concern about a corresponding spike in single-occupancy delivery vehicles.

MacArthur's research connected him to Portland's B-Line Urban Delivery, a 12-year-old firm that operates a fleet of electric cargo trikes that can handle 500-pound loads. With input from TREC and B-Line, Portland is now considering ways to create "micro-delivery hubs." In this model, a truck brings a load of deliveries to a strategic location, with e-bikes or other micro-vehicles handling the last mile for each delivery, reducing traffic congestion. Such experiments are already underway in Europe, where delivery giant UPS has been experimenting with e-bikes, delivery hubs, and other "sustainable logistics solutions."

MacArthur acknowledges that complicated zoning and other issues are involved. But the bigger point is that Portland is among the cities proactively grappling with the future of mobility and how cities can respond to it and, more important, shape it.

Shaping the response to new vehicle forms was a theme of a recent "Rebooting NYC" research project spearheaded by Rohit Aggarwala, a senior fellow at the Urban Tech Hub of the Jacobs Technion-Cornell Institute at Cornell Tech. Aggarwala—who previously led mobility work for Sidewalk Labs and recently joined New York City government as commissioner of the Department of Environmental Protection and the city's chief climate officer—sketches the broader context. "If a vehicle is designed to fit well in traditional traffic, then it is almost by definition not designed to be a good urban vehicle," he says. Cars, pickups, and SUVs are built for highways; their makers put far less emphasis on, say, turning radius or other factors that would make them more suited to the narrower confines of urban streets.

Thus the rise of new, smaller autonomous vehicles such as the Nuro, shaped like a diminutive van and about half the width of a conventional sedan; with no driver, it's designed to haul up to 500 pounds of cargo. The startup might be best known for a limited pilot program

Nuro, an autonomous vehicle company founded by two former Google engineers, has partnered with companies including Domino's, CVS, Walmart, and FedEx on delivery pilot projects in several U.S. states. Credit: Domino's.

in Houston with Domino's, offering "the world's first fully automated pizza delivery service."

While such wee vehicles are pitched as virtuously reducing not just pollution but also traffic congestion, the reality is that they're often fundamentally unsuited to real-world traffic. So where can they go?

Another recent pilot program involving startup Refraction AI's REV-1 had the three-wheeled, washing machine–sized autonomous vehicle hauling pizzas via bike lanes in Austin, Texas—a development that some cyclists were not pleased about. "What if in two years we have several hundred of these on the road?" one bike advocate asked a local journalist. Yet another startup, Starship, has been testing its small mobile robot—a 55-pound object with the footprint of a wagon—in several cities, using sidewalks. This, too, has met with a mixed response.

Such responses signal a major potential flashpoint, but also, perhaps, an opportunity. Aggarwala points out that in New York and other cities, bicyclists and e-bike users (who are often delivery workers) have long battled over bike lane use. In many cases, bike advocates have fought for years or decades to establish dedicated lanes, and have little interest in seeing them clogged with newfangled motorized vehicles of any kind.

But the problem isn't the e-bikes or AVs or robots, each of which offers positive alternatives to traditional cars, Aggarwala says: "The problem is all these alternative vehicles being shoehorned into an incomplete network of generally unprotected lanes that are way too narrow." Thus the "Rebooting NYC" proposals include creating New Mobility Lanes. This would involve widening and expanding the city's existing bike lanes into a "network that can accommodate both bicycles and these new vehicles."

Other researchers have made similar proposals for "light individual transport lanes," with varying specifics but a common goal. "You're basically providing more space for different kinds of vehicles," says MacArthur of PSU. "That's the big question that planners will have to face in the next five years." It's a knotty challenge for municipalities caught between the ambitions of tech companies, the limits on local regulation resulting from superseding state or federal rules, and the reality that even designating bike lanes in the first place depends more on mustering political will and popular support than it does on the planning that underpins it.

While such wee vehicles are pitched as virtuously reducing not just pollution but also traffic congestion, the reality is that they're often fundamentally unsuited to real-world traffic. So where can they go?

On that last point, Aggarwala suggests a potential opportunity. As a political matter, bike lanes are often seen as benefiting just a portion of the population at the expense of everyone else. But pretty much everyone has been stuck behind a delivery vehicle. And, maybe more to the point, more of us than ever have come to depend on those delivery vehicles. So rejiggering the way road space is divided doesn't just benefit the few—it's for nearly everyone. In other words, Aggarwala asks: "What if you broaden the relevance of a bike lane by expanding its use?"

Clearly a wave of new-vehicle experimentation is poised to disrupt the delivery business, in a time of unprecedented demand. It's worth thinking about how planners and policy makers can not just respond to that wave, but harness it to help make city streets more functional and accessible for all.

Rob Walker is a journalist covering design, technology, and other subjects. He is the author of *The Art of Noticing*. His newsletter is at robwalker.substack.com.

Courtesy of Randall Woodfin.

When he was elected in 2017, Randall L. Woodfin became the youngest mayor to take office in Birmingham in 120 years. Now 40 and nearly a year into his second term, Woodfin has made revitalization of the city's 99 neighborhoods his top priority, along with enhancing education, fostering a climate of economic opportunity, and leveraging public-private partnerships.

In a city battered by population and manufacturing loss, including iron and steel industries that once thrived there, Woodfin has looked to education and youth as the keys to a better future. He established Birmingham Promise, a public-private partnership that provides apprenticeships and tuition assistance to cover college costs for Birmingham high school graduates, and launched Pardons for Progress, which removed a barrier to employment opportunities through the mayoral pardon of 15,000 misdemeanor marijuana possession charges dating to 1990.

Woodfin is a graduate of Morehouse College and Samford University's Cumberland School of Law. He was an assistant city attorney for eight years before running for mayor, and served as president of the Birmingham Board of Education.

Generating Change in Birmingham

This interview, which has been edited for length, is also available as a *Land Matters* podcast: **www.lincolninst.edu/publications/podcasts-videos**.

ANTHONY FLINT: *How do you think your vision for urban revitalization played into the large number of first-time voters who've turned out for you?*

RANDALL WOODFIN: I think my vision for urban revitalization—which, on the ground, I call neighborhood revitalization—played a significant role in not just the usual voters coming out to the polls to support me, but new voters as well. I think they chose me because I listen to them more than I talk. I think many residents have felt, "Listen, I've had these problems next to my home, to the right or to the left of me, for years, and they've been ignored. My calls have gone unanswered. Services have not been rendered. I want a change." I made neighborhood revitalization a priority because that's the priority of the citizens I wanted to serve.

AF: *With the Infrastructure Investment and Jobs Act and the American Rescue Plan Act bringing unparalleled amounts of funding to state and local governments, what are your plans to distribute that money efficiently and get the greatest leverage?*

RW: This is a once-in-a-lifetime opportunity to really supercharge infrastructure upgrades and investments we need to make in our city and community. This type of money probably hasn't been on the ground since the New Deal. When you think about that, there's an opportunity for the city of Birmingham citizens and communities to win.

With a population just over 200,000 people, Birmingham is the second-largest city in Alabama. Credit: Sean Pavone via iStock/Getty Images Plus.

We set up a unified command system to receive these funds. In one hand, in my left hand, the city of Birmingham is an entitlement city and we'll receive direct funds. In my right hand, we have to be aggressive and go after competitive grants for shovel-ready projects.

With our Stimulus Command Center, what we have done is partner not only with our city council, but we've partnered with our transportation agency. We have an inland port, so we partner with Birmingham Port. We partner with our airport as well as our water works department. All of these agencies are public agencies who happen to serve the same citizens I'm responsible for serving.

For us to approach all these infrastructure resources through a collective approach, that's the best way. We have an opportunity with this funding to supercharge not only our economic identity, but also to make real investments in our infrastructure that our citizens use every day.

AF: *The Lincoln Institute has done a lot of work aimed at equitable regeneration in legacy cities. What in your view are the key elements of neighborhood revitalization and community investment that truly pay off?*

RW: This is how I explain everything that happens from a neighborhood revitalization standpoint. I'll first share the problem through story. The city of Birmingham is fortunate to be made up of 23 communities in 99 neighborhoods. When you dive deep into that, just consider going to a particular neighborhood in a particular block. You have a mother in a single-family household where she is the responsible breadwinner and owner.

She has a child or grandchild that stays with her. She walks out onto her front porch, she looks to her right, there is an abandoned, dilapidated house that's been there for years that needs to be torn down. She looks to her [left], there's an empty lot next to her. When she walks out to that sidewalk, she's afraid for her child or her grandchild to play or ride the bicycle on that sidewalk because it's not bikeable.

That street, when she pulls out from the driveway, hasn't been paved in years. The neighborhood park she wants to walk her child or grandchild down to hasn't had upgraded, adequate playground equipment in some time. She's ready to walk her child or grandchild home because it's getting dark, but the streetlights don't work. Then she's ready to feed her child or grandchild, but they live in a food desert. These are the things we are attempting to solve for.

One is blight removal, getting rid of that dilapidated structure to the right of her. We need to go vertical with more single-family homes that are affordable and market rate so [we don't have] "snaggletooth" neighborhoods where you remove blight, but now you have a house, empty lot, house, empty lot, empty lot.

That child, we have to invest in that sidewalk so they can play safely or just take a walk. We have to pave more streets. We have to have adequate playground equipment. We have to partner with our power company to get more LED lights in that neighborhood, so people feel safe. We have to invest in healthy food options so our citizens can have a better quality of life. These are the things related to neighborhood revitalization that I frame and address to make sure people want to live in these neighborhoods.

AF: *What are your top priorities in addressing climate change? How does Birmingham feel the impacts of warming, and what can be done about it?*

RW: Climate change is real. Let me be very clear in stating that climate change is real. We're not near the coast and so we don't feel the impact right away that other cities do, like Mobile would in the state of Alabama. However, when those certain weather things happen on the coast in Alabama, they do have an impact on the city of Birmingham.

We also have an issue of tornadoes where I believe they continue to increase over the years and they affect a city like Birmingham that sits in a bowl in the valley. Around air quality, Birmingham was a city founded from a blue-collar standpoint of iron and steel and other things made here. Although that's not driving the economy anymore, there's still vestiges that have a negative impact.

We have a Superfund site right in the heart of our city that has affected people's air quality, which I think is totally unacceptable. Addressing climate change from a social justice standpoint has been a priority for the city of Birmingham and this administration. What we are doing is partnering with the EPA for our on-the-ground local issues.

From a national standpoint, Birmingham joined other cities as it relates to the Paris Deal. I think this conversation of climate change can't be in the isolation of a city and unfortunately, the city of Birmingham doesn't have home rule. Having the conversations with our governor about the importance of the state of Alabama actually championing and joining calls of, "We need to make more noise and be more intentional and aggressive about climate change" has been a struggle.

AF: *What about your efforts to create safe, affordable housing, including a land bank?*

RW: I look at it from the standpoint of a toolbox. Within this toolbox, you have various tools to address housing. At the height of the city of Birmingham's population, in the late '60s, early '70s, there was about 340,000 residents. We're down to 206,000 residents in our city limits.

You can imagine the cost and burden that's had on our housing stock. When you add on homes passing from one generation to the next and not necessarily being taken care of, we've had a considerable amount of blight. Like other cities across the nation, we created a land bank. This land bank was created prior to my administration, but what we've attempted to do as an administration is make our land bank more

We have to pave more streets. We have to have adequate playground equipment. We have to partner with our power company to get more LED lights in that neighborhood, so people feel safe. We have to invest in healthy food options so our citizens can have a better quality of life.

A family explores One Pratt Park shortly after its opening in 2019. Upgrading parks, playgrounds, and other local infrastructure is a key part of the neighborhood revitalization efforts underway in Birmingham. Credit: Andrew Yeager/WBHM.

efficient. Then driving that efficiency is not just looking toward those who can buy land in bulk, but also empowering the next-door neighbor, or the neighborhood, or the church that's on the ground within that neighborhood to be able to participate in purchasing the lot next door to make sure, again, that we can get rid of these snaggletooth blocks or snaggletooth neighborhoods, and go vertical with single-family homes.

Another thing we're doing is acknowledging that in urban cores, it's hard to get private developers at the table. What we've been doing [with some of our ARPA funds] is setting aside money to offset some of these developer costs to support not only affordable but market-rate housing within our city limits, to make sure our citizens have a seat at the table so they can feel empowered, if they choose to want to actually have a home, that there's a path for them.

AF: *Finally, tell us a little bit about your belief in guaranteed income, which has been offered to single mothers in a pilot program. You've joined several other mayors in this effort. How does that reflect your approach to governing this midsize postindustrial city?*

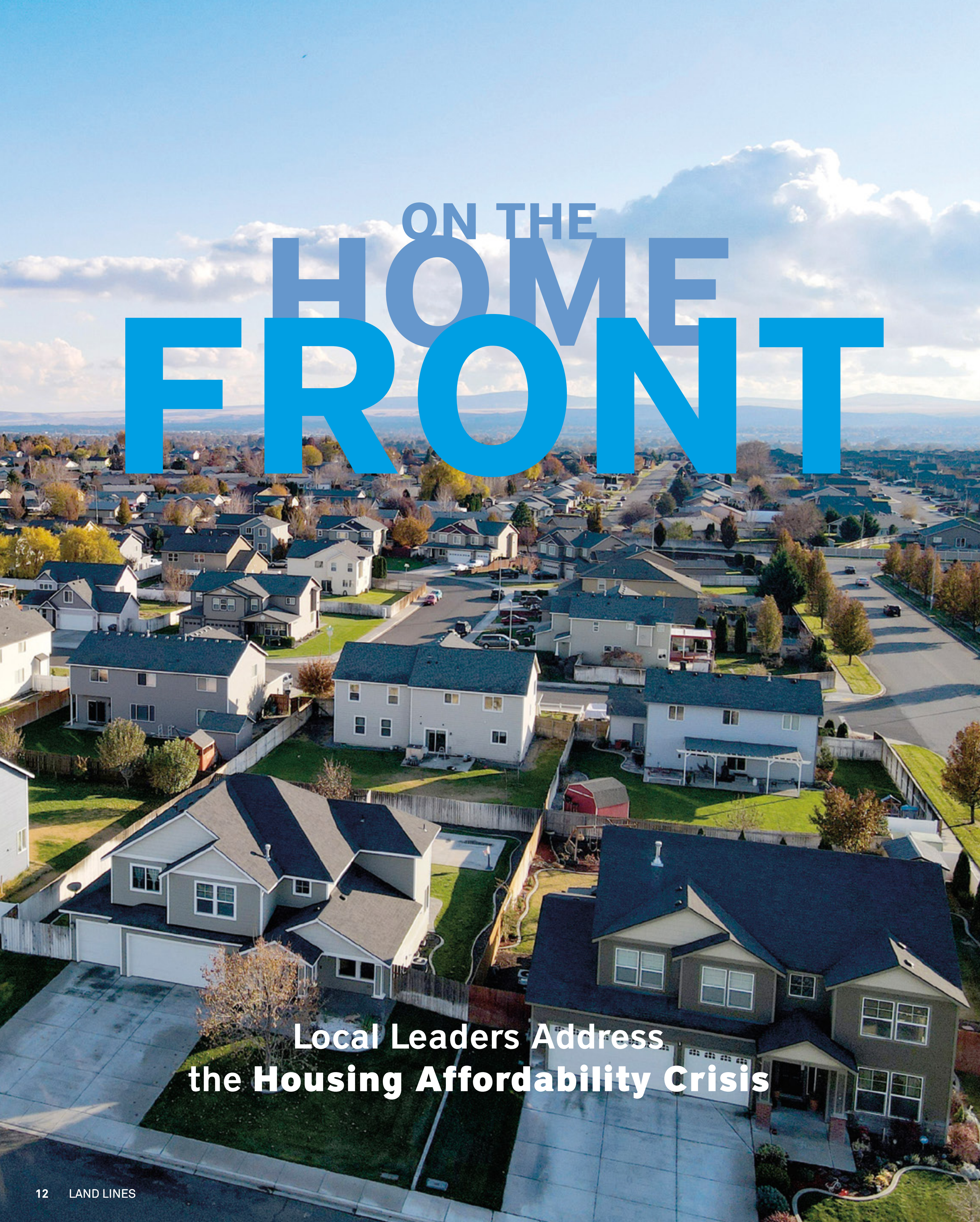
RW: The city of Birmingham is fortunate to be a part of a pilot program that offers guaranteed income for single-family mothers in our city. This income is $375 over a 12-month period. That's $375 a month, no strings attached, no requirements of what they can spend the money on.

Every city in this nation has its own story, has its own character, has its own set of unique challenges. At the same time, we all share similar fates and have similar issues. The city of Birmingham has its fair share of poverty. We don't just have poverty, we have concentrated poverty, [and] guaranteed income is another tool within that toolbox of reducing poverty. Birmingham has over 60 percent of households led by single women. That is not something I'm bragging about. That is a fundamental fact. A lot of these single-family mothers struggle.

I think we all would agree, no one can live off $375 a month. If you had this $375 additional funding in your pocket or your homes, would that help your household? Does that help keep food on the table? Does it help keep your utilities paid? Does it help keep clothing on your children's backs and shoes on their feet? Does it help you get from point A to B to keep your job to provide for your child?

This is why I believe this guaranteed income pilot program will be helpful. We only have 120 slots, so it's not necessarily the largest amount of people, but I can tell you over 7,000 households applied for this. The need is there for us to do every single thing we can to provide more opportunities for our families to be able to take care of their families.

Anthony Flint is a senior fellow at the Lincoln Institute, host of the *Land Matters* podcast, and a contributing editor to *Land Lines*.



ON THE HOME FRONT

Local Leaders Address the **Housing Affordability Crisis**

By Loren Berlin

WHEN JACOB GONZALEZ moved from Seattle back to his hometown of Pasco, Washington, to work for the region's Council of Governments in 2013, his housing needs were both seemingly straightforward and surprisingly difficult to address. "All I wanted was a tiny apartment for me and my CDs. I didn't even have a pet," he explains. "But there weren't many apartments, and I wasn't going to stress myself out by paying for space I either didn't need or couldn't afford, or by paying for an older apartment that didn't have what I wanted it to have." So he moved in with his parents.

Gonzalez joined the City of Pasco as a planner in 2018 and is now the planning manager for the city's Community and Economic Development department. These days, he rents a small cottage a few miles from his childhood home. He recognizes that his option to fall back on family for temporary housing is a luxury most of his fellow residents of Pasco do not have. "Thanks to my parents, I had choices. Maybe I didn't like my choices, but at least I had them, whereas a lot of our community members don't have that flexibility. For many of them, housing is a challenge on a month-to-month basis."

Like virtually every community in the United States, Pasco is facing a significant shortage of affordable housing. Located on the rich soils of the Columbia Basin in southeastern Washington, Pasco is a city of about 80,000 residents and is part of the Tri-Cities, a regional hub that includes the cities of Kennewick and Richland and is collectively home to about 300,000 people. Established by the Northern Pacific Railway Company in the late nineteenth century, Pasco is largely agricultural. For many decades it has been considered an affordable place to buy a home in a region with high housing costs.

Pasco, Washington—located along the Columbia River about three and a half hours southeast of Seattle—is experiencing rapid population growth and soaring housing costs.

Until a few years ago, Pasco could accommodate those buyers with housing stock that is 70 percent detached single-family and mostly built prior to 2000. However, Pasco has grown significantly in the past two decades and is now one of the fastest-growing cities in Washington. Today, Pasco is home to a relatively young and demographically diverse population; the median age in the city is 29, compared to 38 nationally, and more than half of residents identify as Hispanic or Latino. The rapid population growth is due at least in part to Pasco's rapidly diversifying economy, which has expanded beyond its agricultural base to include job opportunities in public health and local government services.

As the population has grown, land and housing costs have risen. In Pasco, the median home price has increased about 60 percent in less than five years, from $237,600 in 2017 to $379,000 in 2021. That's in line with an average increase of 66 percent across Washington during the same time, but dramatically higher than the 21 percent national increase.

Pasco is now one of the fastest-growing cities in Washington. . . . As the population has grown, land and housing costs have risen.

A residential neighborhood in Pasco, Washington. Credit: www.joelane.com.

According to Pasco's 2018–2038 Comprehensive Plan, more than 15,000 additional units of housing will be required by 2038 to accommodate the projected 48,000 new residents. At its current rate of production, city staff estimate, Pasco will fall about 5,000 units short of that target.

Pasco is not alone in grappling with housing issues related to rapid growth, says Martha Galvez, executive director of the Housing Solutions Lab at New York University's Furman Center for Real Estate and Urban Policy. "Growth has been a really common theme among small and medium-sized cities," Galvez notes. "Some of that growth is due to people migrating out of the big, hot coastal cities to smaller places where you can get more space for your dollar. And some of it is because these places are gaining jobs and attracting industries." That's the case in Pasco, where Amazon is building two warehouses, each more than one million square feet, and Darigold recently announced plans to build North America's largest whey processing center.

Broadly speaking, the shortage of affordable housing options plaguing nearly every community in America is at least partially the result of a significant decline in the production of single-family homes beginning in the mid-2000s, combined with stagnant wages and rising land and housing costs. The shortage has only worsened during the COVID-19 pandemic: low interest rates have stoked demand just as construction costs have increased due to labor and material shortages and supply chain challenges.

Across the country, places like Pasco are exploring how land use decisions can help address the housing affordability crisis. Last year, Gonzalez and his colleagues participated in the Housing Solutions Workshop run by the Furman Center and Abt Associates, in partnership with the Lincoln Institute. Designed to help leaders from small and midsize communities develop and implement balanced and comprehensive local housing strategies, the program invited applications from communities with populations between 50,000 and 500,000, and

Jacob Gonzalez, planning manager for community and economic development in Pasco. Credit: Courtesy of Jacob Gonzalez.

selected participants through a competitive national process. Gonzalez says the workshop helped him and his colleagues better identify barriers to increasing the availability of affordable housing in Pasco and meaningful actions they could take.

It was good timing. Two years earlier, the state of Washington had passed House Bill 1923, which offers communities the opportunity to qualify for planning grant assistance in exchange for a range of actions that promote urban density, such as authorizing multifamily zoning in areas previously zoned for single-family homes and approving smaller lot sizes. That legislation created an opportunity for Gonzalez and his colleagues. "We could apply for a grant, so that's always appealing," says Gonzalez. "And the legislation included a list of proposed code amendments we could make. So my department recommended three code amendments to the city council and the mayor."

In January of this year, the city of Pasco became one of 52 communities across Washington that have adopted some of the code amendments proposed in HB 1923. By doing so, Pasco is reforming the city's approach to land use and demonstrating the critical role local governments can play in promoting housing affordability.

Zoning for All

Pasco's historic approach to land use reflects its longstanding identity as a place where homeownership is affordable to people priced out of the region's better-known cities. Because of this cultural expectation of affordable homeownership, the city's primary focus has been ensuring a supply of single-family homes, and that was reflected in its zoning.

Prior to the city council vote, 84 percent of the land that was zoned residential in Pasco was restricted to single-family homes. The result of zoning like this, which is common in communities across the country, can be not only a housing shortage, but also numerous missed opportunities for a more affordable, diverse range of housing options, says Michael Andersen, a senior housing researcher at the Sightline Institute, which researches economic and policy issues in the Pacific Northwest.

"The effect of only allowing multifamily housing in such a small area is that you constrain the volume of lots that could be plausibly built on," Andersen says. "And you then have to wait until whoever owns one of those lots is interested in doing something with it. Part of the way to increase the number of homes being built is to increase the odds on any given property that it is time to do something on that land. In hockey they say that you miss 100 percent of the shots you don't take. With this zoning, Pasco decided not to take 84 percent of the shots."

Gonzalez and his colleagues understood this, so they worked with the city council to revise the city's housing policies. Under an amendment to the city's municipal code adopted in late January, 68 percent of land that is zoned residential will now be eligible for some forms of multifamily housing, including duplexes, triplexes, and, in some instances, small apartment buildings oriented around a courtyard. This represents a roughly fourfold increase in land available for multifamily properties, and allows for the development of "missing middle" housing—properties that occupy the middle of the housing spectrum, between detached single-family homes and massive multifamily developments.

Missing middle housing usually includes two to twelve units, and can be built in a neighborhood of single-family homes without seeming out of place or altering the feel of the area.

The population of Washington's Tri-Cities region, which includes Pasco, Richland, and Kennewick, grew 19.8 percent between 2010 and 2020. Credit: alohadave via iStock/Getty Images Plus.

The average lot size in Pasco is twice the average lot size in the western United States. Recent amendments to the city's municipal code include one that allows more flexibility and smaller lots. Credit: www.joelane.com.

Creating opportunities for missing middle housing offers numerous benefits. For starters, missing middle housing can accommodate developers who would like to build properties other than detached single-family homes, and residents who would like to live in a smaller unit. It can also increase the availability of affordable housing, says Andersen. "Depending on the style, the homes may share walls or wood frames or exteriors, which not only reduces the cost of building missing middle housing but also helps to keep down the price of existing housing by providing affordable alternatives. Additionally, missing middle units can help tip a neighborhood into a level that it can support a bus line or a small commercial hub with a little corner grocery store, a coffee shop, something like that, which makes for a more walkable community and is also good for local economic development and social interactions."

Missing middle housing usually includes two to twelve units, and can be built in a neighborhood of single-family homes without seeming out of place or altering the feel of the area.

While not everyone in Pasco supports the idea of denser housing, Gonzalez is confident that the community benefits from at least having the option to build it. "Our community is growing very quickly. People are moving here in their twenties and maybe they don't want to buy a home, and we also have people who are older and want to age here. They can't do that if the only option is to buy a detached single-family home," he says. "That's why we need a lot of everything—detached homes, townhomes, apartments—because, as a municipality, we have to plan for the needs of the community, and not just for preferences. Sure, there may be a preference for a big house on a large lot, but that should not preclude us from removing barriers and restrictive policies to make other forms of housing more attainable."

In addition to accommodating missing middle housing, the Pasco City Council passed a second code amendment that allows for "lot size averaging," which allows individual lots in a multiparcel housing development to fall below the city's minimum lot size requirements as long as the project's average lot size can meet the requirement. In Pasco, where residential lots tend to be quite large—an average of 13,068 square feet, compared to 6,345 square feet in the western United States and 8,177 square feet nationally—allowing for smaller lots is a smart idea, says Andersen.

"When you're talking about lot sizes, you're effectively telling residents that in order to live here you have to purchase or rent a certain amount of land," says Andersen. "When the lot sizes are as large as Pasco's, that's a lot of land, and that cost can be a barrier to entry." Larger lots also typically mean increased infrastructure costs. According to research by the Victoria Transport Policy Institute, urban sprawl can increase the cost of providing public services and infrastructure by 10 percent to 40 percent (Litman 2015). As Andersen explains, that can lead to increased housing costs.

The code amendments are also designed to encourage the creation of housing that increases access to hospitals, schools, major transportation routes, parks, and other critical services by allowing for slightly more flexibility. As Gonzalez explains, the emphasis on access stems from the fact that transportation costs are high in Pasco. According to the Center for Neighborhood Technology's Housing and Transportation Affordability Index, Pasco residents spend 24 percent of their income on transportation and have the third-largest transportation costs as a percentage of total household costs among the state's 20 largest cities (CNT 2022). By increasing access, the planning staff hopes to reduce transportation costs, in turn reducing overall household costs.

To further reduce barriers to creating more housing, the Pasco City Council passed a third code amendment that authorizes the creation of Accessory Dwelling Units (ADUs) on all residential parcels that contain a single-family home. The amendment allows the ADU to be either attached—to a garage, for example—or freestanding, does not include a minimum parking requirement, and does not require the owner of the ADU to occupy the primary residence. While there is a maximum allowable size—the smaller of either 1,000 square feet or 55 percent of the primary dwelling—there is no minimum size requirement, nor are there design requirements beyond ensuring that the ADU complements the home.

"We don't want to overburden people or unnecessarily complicate the process," explains Gonzalez. "That's why we ultimately decided not to require parking. If we did, there would be many fewer lots that could feasibly have an ADU because the only place to put parking would be in the front yard. We wanted to avoid a situation in which our policies technically allow something, but in practice make it almost impossible to do."

Pasco residents at an affordable courtyard apartment complex built for agricultural workers in 2015. New zoning policies will allow more developments like this to be built. Credit: Matt Banderas.

Pursuing a Balanced, Comprehensive Strategy

Pasco's rezoning efforts are just one of the steps the city is taking to address housing affordability. The city also offers a down payment assistance program to first-time homebuyers, is working to identify opportunities to partner with local and regional stakeholders to better address housing needs, and is about to undertake a Housing Action Plan. Officials in Pasco are also exploring tax incentives and taking advantage of House Bill 1406, a revenue-sharing program for local governments that allows a percentage of local sales and use taxes to be credited against the state sales tax for housing investments.

Still, Pasco aims to do more, says Gonzalez: "There was a lot of focus in the workshop on taking a balanced housing approach that addresses all the different aspects of our housing needs. We aspire toward it, but we aren't there yet."

That idea of a balanced and comprehensive strategy is critical to effectively tackling housing issues, says Ingrid Gould Ellen, a professor of Urban Policy and Planning at New York University and the faculty director for the Furman Center.

"There is no magic bullet to solve a jurisdiction's housing challenges," says Ellen, who coauthored *Through the Roof: What Communities Can Do About the High Cost of Rental Housing in America*, a Lincoln Institute Policy Focus Report (Ellen, Lubell, and Willis 2021). "Housing problems are complex and usually touch on a lot of different functions and policies that implicate different parts of local government, including the housing department, the planning department, and the buildings and finance departments."

Given the multifaceted nature of housing shortages, Ellen encourages local governments to adopt comprehensive strategies that use the full set of tools available to the various departments. As she explains, "localities that do not adopt a comprehensive approach run the risk of creating well-intentioned, well-designed housing plans that could be thwarted by, say, zoning codes that don't allow for certain types of construction, or a tax code that disincentivizes the development of rental housing when it is rental housing you're trying to promote through subsidies." In taking a more comprehensive approach, local governments can take full advantage of their entire suite of resources, and can also align agencies that may otherwise remain siloed and at risk of unintentionally undermining each other.

In addition to a housing plan that is comprehensive, Ellen advocates for one that is balanced, by which she means a plan that addresses a range of housing issues rather than a single barrier. "Partially, that's a political issue," she explains. "If you focus on a range of goals, then you are more likely to gain political acceptance and support." She says a balanced plan is more likely to succeed by recognizing and addressing the multidimensional nature of housing challenges.

In *Through the Roof*, Ellen and her coauthors Jeffrey Lubell and Mark A. Willis provide a framework for a balanced and comprehensive housing strategy that centers on advancing four broad goals (see figure 1).

"This four-part framework for a balanced and comprehensive housing strategy groups individual policies into broader categories, so communities can assess where there are gaps in their local housing strategy and work to close them."

"This four-part framework for a balanced and comprehensive housing strategy groups individual policies into broader categories, so communities can assess where there are gaps in their local housing strategy and work to close them," says Adam Langley, associate director of U.S. and Canadian programs at the Lincoln Institute. "The number of local housing programs and their scope often matters less than ensuring that a community has implemented at least one tool to address each part of the framework—that's why it's so important to consider comprehensiveness."

This framework is central to Local Housing Solutions, a joint initiative of the Furman Center and Abt Associates that provides actionable resources and step-by-step guidance to help cities develop, implement, and monitor housing strategies. With an emphasis on affordability and equity, the program is specifically targeted to local governments, both because their role is frequently overlooked in discussions of housing challenges, and because of their significant and unique power to address housing problems.

"While all levels of government are important, local governments are particularly well-positioned

Figure 1
LocalHousingSolutions.org Policy Framework

Category	Policies
Create and Preserve Dedicated Affordable Housing Units	**a.** Establish Incentives or Requirements for Affordable Housing **b.** Generate Revenue for Affordable Housing **c.** Support Affordable Housing through Subsidies **d.** Preserve Existing Affordable Housing **e.** Expand the Availability of Affordable Housing in Resource-Rich Areas **f.** Create Durable Affordable Homeownership Opportunities **g.** Facilitate the Acquisition or Identification of Land for Affordable Housing
Reduce Barriers to New Supply	**a.** Reduce Development Costs and Barriers **b.** Create Incentives for New Development
Help Households Access and Afford Private Market Homes	**a.** Provide Tenant-Based Rental Assistance **b.** Promote Mobility for Housing Choice Voucher Holders **c.** Reduce Barriers to Homeownership **d.** Reduce Energy Use and Costs **e.** Combat Housing Discrimination
Protect Against Displacement and Poor Housing Conditions	**a.** Enhance Renters' Housing Stability **b.** Enhance Homeowners' Housing Stability **c.** Improve Quality of Both New and Existing Housing **d.** Ensure the Ongoing Viability of Unsubsidized Affordable Rental Properties

HOUSING AFFORDABILITY INITIATIVES AT THE LINCOLN INSTITUTE

In 2020, the Lincoln Institute embarked on several new housing-related projects, recognizing the importance of land policy in the housing affordability debate and its implications for reducing poverty and inequality, which is one of the Lincoln Institute's six core goals. As part of this work, a cross-departmental team issued a call for research proposals, seeking to better understand barriers to implementing housing solutions at the scale needed to effectively address the U.S. housing affordability crisis and strategies to overcome those barriers. The commissioned papers cover a diverse set of topics and geographies, from case studies of U.S. political coalitions built to advance housing affordability to an exploration of the impact and applications of France's fair-share housing law. These papers are available at www.lincolninst.edu/research-data/research/overcoming-barriers-housing-affordability-research. The Lincoln Institute partnered with the NYU Furman Center and Abt Associates on the 2021 Housing Solutions Workshop described in this article, and hopes to offer another iteration of the workshop. The team will also undertake new research on state and local policies to improve housing markets.

Credit: benedek via iStock/Getty Images Plus.

to quarterback their local housing strategies," Ellen explains, citing the local nature of the housing market and the power local governments have over the most critical tools affecting housing policy, including land use, building codes, permitting, and, at least to some degree, property taxes. "Even though the majority of the funding is coming from the federal government, and to a lesser degree the state government, it's not just spending that matters. Those key decisions over how much housing can be built, what kind of housing can be built, and who can live where are really important and happen at the local level."

The Furman Center launched the Housing Solutions Workshop to support local governments as they make those decisions. In addition to Pasco, the 2021 cohort included teams of five to six senior leaders from Bethlehem, Pennsylvania; the City of Bozeman and Gallatin County, Montana; Huntsville, Alabama; and the City and County of Kalamazoo, Michigan.

"In the workshop, our delegation kept finding ourselves talking about the fact that we have all these great policies, yet our development standards don't get us there," Gonzalez says. "The more we talked—and continue to talk—about it, the more I understand the importance of focusing on the implementation piece, which is the most difficult part. It's especially true in a place like Pasco, where we have had years of rapid growth, years of not producing enough housing, and years of not having the right regulatory structure in place. I'm seeing now that we really have to dive into our objectives and measurements and strategies. We have to ask ourselves if our strategies are feasible. Are they practical and relevant for Pasco or are we just copying and pasting a policy from another city?"

For Gonzalez, that shift in focus toward implementation is exemplified in the city's recent passage of the three code amendments. "We didn't make any mandates. We aren't requiring property owners to build these types of housing. We are just making it an option, whereas two weeks ago it wasn't an option. And by doing so, not only do we save builders and residents from the headache of not being able to do what they want

to do, but we also streamline the permitting process, which is often a significant barrier, because we've made it so that there's no longer a need to rezone the property. So it better aligns our comprehensive plan with our development standards."

"Those key decisions over how much housing can be built, what kind of housing can be built, and who can live where are really important and happen at the local level."

Gonzalez knows that the recently adopted code amendments are not a panacea, and that Pasco has more to do to ensure that it is providing affordable housing options for all. And he is excited to continue with that work. In the coming year, he hopes to work with the Pasco City Council to reconsider existing development standards, including height and lot coverage, in order to identify opportunities to create a more modern, and more flexible, code. He also hopes to look into the policies that govern nonconforming properties—those that comply with earlier standards but not current ones—in an effort to ensure that policies are applied "based on health and safety, and not aesthetics." He'd like to work more closely with neighboring cities Kennewick and Richland, which are experiencing similar shortages of affordable housing. And he wants to investigate density bonuses and tax exemptions for multifamily developments, among other things.

"There is an urgency to the work," he explains. "Fifteen years ago, when our comprehensive plan was adopted, there was no such thing as Uber or apps or on-demand pizza delivery. We have to change our policies so that they make sense for today's residents, and for future residents. I think our community members deserve that."

Loren Berlin is a writer and communications consultant specializing in housing and economic opportunity. Read more about her at www.lorenberlin.com.

Policies that create incentives for new development can be part of a comprehensive and balanced local housing strategy. Credit: Sundry Photography via Getty Images.

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INVESTING IN APPALACHIA

How Collaboration and Capital Are Building a More Resilient Region

By Alena Klimas

SONYA COMES IS a grandmother and a longtime resident of eastern Kentucky who never imagined owning her own home. She was divorced and renting a family member's house when she learned about the Hope Building program. Run by the Housing Development Alliance (HDA), a nonprofit affordable housing developer in her area, Hope builds affordable homes and provides construction training for people in recovery.

Today, Comes is a homeowner who "couldn't be happier" with her house, which sits on land in Perry County, Kentucky, that has been transformed from an abandoned trailer park into a growing rural neighborhood outside of Hazard, the county seat. "I believe the Hope project has affected the community in a great way," she adds.

Launched in 2019, Hope Building is part of a broader effort by HDA to fix the broken local housing market in the four-county area it serves. Over the years, HDA has grown with support from key partners including Fahe, a regional community development financial institution (CDFI) with a focus on affordable housing; Mountain Association, a CDFI focused on Appalachian Kentucky; the Appalachian Impact Fund of the Foundation for Appalachian Kentucky; and the Appalachian Regional Commission (ARC), a state-federal economic development partnership created in the 1960s. Now HDA is poised to expand the Hope program, proving the viability of the model while addressing critical needs related to housing availability, workforce development, and substance abuse recovery. But the organization needs to line up flexible, creatively secured loan capital to supplement its existing funding. If all goes according to plan, a new venture called Invest Appalachia will help HDA do just that.

A regional social investment fund that grew out of a series of convenings with funders, researchers, entrepreneurs, and others in 2016 and 2017, Invest Appalachia is designed to help fill critical investment gaps in Central Appalachia. In places like Perry County, where the median household income is $33,640, it intends to provide the kind of flexible, forgiving investments and blended capital that larger funders aren't always able or willing to make, by partnering with regional networks and attracting new impact capital primarily from outside the region.

The creation of an enabling environment for capital in Perry County, which has become something of a hub of community development, is no accident, says Sara Morgan, chief investment officer of Fahe and treasurer of the board of Invest Appalachia: "Good financing comes at the end of a long trajectory of work and planning."

Perry County hasn't always been an obvious target for investors—then again, neither has most of Appalachia. The cross-sector projects and innovative capital stacks springing up around the region have been informed by the experience of regional community development actors and networks during the past three decades. Together, they have worked to establish a new investment ecosystem in Central Appalachia, one committed to the long-term vision of building an inclusive, sustainable economy after decades of disinvestment in this region and its people.

Together, they have worked to establish a new investment ecosystem, one committed to the long-term vision of building an inclusive, sustainable economy after decades of disinvestment in this region and its people.

Credits (top to bottom): Rural Action (1), Housing Development Alliance (2), Foundation for Appalachian Kentucky (3, 4), Invest Appalachia (5). Background map: FrankRamspott via iStock.

The Roots of Resilience

Appalachia reaches from southern New York into Mississippi and Alabama, largely following the contours of the mountain range that gives the region its name. Central Appalachia is the heart of the region, comprising sections of southeastern Ohio, eastern Kentucky, West Virginia, southwestern Virginia, eastern Tennessee, and western North Carolina. Significant swaths of its culture and economy have long been tied to the rise and fall of the coal industry.

In 1964, when President Johnson declared a national War on Poverty, Appalachia was the campaign's poster child, providing the backdrop for press footage of the "poverty tours" he undertook to drive home his message. Johnson wasn't the first president to recognize and attempt to address the major economic disparities between Appalachian states and their neighbors, but he formalized investments in solutions ranging from housing to hot lunches with the creation of ARC in 1965. ARC was tasked with overseeing the economic development of 423 counties across 13 mountainous states.

Lady Bird Johnson (center) visits a family in a rural area near Jackson, Kentucky, in 1964 as part of the "poverty tours" designed to garner support for President Johnson's War on Poverty. Credit: Lyndon Baines Johnson Presidential Library and Museum via National Archives.

Since then, ARC has made 28,000 targeted investments and invested more than $4.5 billion. That funding has been matched by over $10 billion in other federal, state, and local funding. Those investments have made a significant difference on the ground, supporting projects like the Hope Building program, but the commission cannot singlehandedly support the region, nor was it designed to.

With the collapse of major industries—coal, manufacturing, and natural gas—throughout the last three decades, Appalachians left with only remnants of extractive economies had no choice but to build internally to survive, restarting local economies nearly from scratch. The retreat of major industry coincided with the disappearance of community banks; more than 80 percent exited the market, mostly merging with larger banks. Reduction in local bank ownership, from 80 percent to 20 percent in rural areas, has led to larger government institutions, like ARC and the U.S. Department of Agriculture (USDA), working with CDFIs to fill the gaps (Edelman 2015).

Even when funding has been available, it hasn't always been clear what to fund. In Appalachia, supply chain issues and investment logic devoid of social considerations have long hurt the people who live there. Since there are no buyers for high-end, healthy products, for instance, the local markets won't sell any. There is no profitable consumer base for broadband, so why invest the time and resources into bringing it to rural, mountainous areas? This type of market calculation has long left the region in a vicious cycle of vulnerability.

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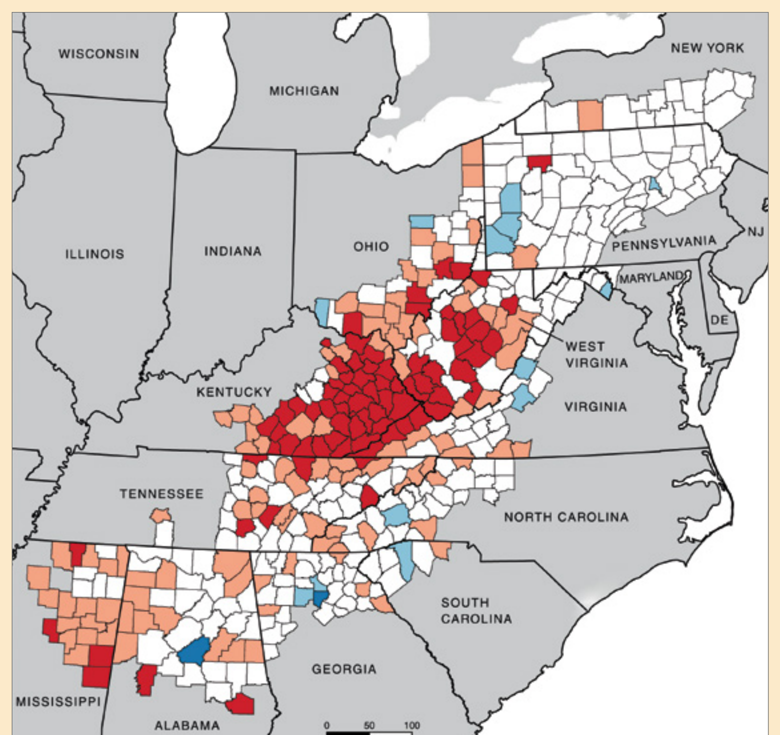
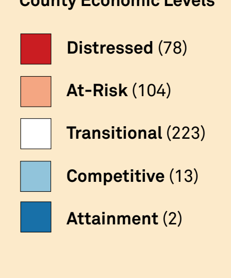


REBUILDING A REGION



Central Appalachia is the most economically distressed part of the broader region. Credit: Appalachian Regional Commission, June 2020. Effective October 1, 2020, through September 30, 2021. Data sources: Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2016–2018. Income data: U.S. Bureau of Economic Analysis, REIS, 2018. Poverty Data: U.S. Census Bureau, American Community Survey, 2014–2018.

Andrew Crosson, founding CEO of Invest Appalachia, points to the region's reputation as a "risky" place for investment and the lack of capital as "the end product of a series of decisions that investors, policy makers, and economic forces have made that result in those communities being disinvested." Current efforts in the region, he says, "are making up for generations of lack of wealth-building opportunity, which will require more credit enhancements [and] more technical assistance . . . market-rate capital won't solve the issue of broken or underdeveloped markets on its own."

In the 1990s, a group of regional nonprofits created the Central Appalachian Network (CAN) to develop common analysis, scale projects across the states, and work together on longstanding issues. Initially focused on the region's food systems, the network expanded its scope to address a broader array of community development strategies, including clean energy, tourism, workforce development, and waste reduction. Twenty years after the creation of that network, the philanthropic community followed suit. The direct effects of the 2008 financial crisis meant funder investments were down, dipping as much as 10.5 percent nationally during the peak of the Great Recession (Schlegel 2020). In Appalachia, funders began to collaborate more closely, cofund where possible, and share analysis to help shield the region from these economic impacts. Informal gatherings led to the formation of the Appalachia Funders Network (AFN), which aligned its investment efforts with CAN and its priorities.

Crosson began working with CAN and the budding AFN in 2012. With support from the Ford Foundation, ARC, and the USDA, CAN managed a collaborative initiative with several regional nonprofits to create a robust local and regional food system. Over time, this regional alignment illustrated the impact of high-level collaboration: In 2018, nearly $3 million in value chain investments contributed to around $20 million in

annual revenue and 1,608 jobs for local farms and food businesses.

But after nearly a decade of collaboration between funders and practitioners, both networks realized that traditional philanthropy and government grants could not address the scale of Appalachia's economic obstacles. Community lenders and the Federal Reserve banks were becoming increasingly involved in the funders network and working to develop a pipeline of investment-ready deals. Fahe alone claimed a "cumulative impact of over a billion dollars . . . serving more than 616,694 people," and other CDFIs were working hard to provide loans and financial advisory services to businesses and nonprofits. But the Central Appalachian region needed more investment capital, and new types of capital, to achieve the scale of revitalization needed.

This recognition sparked the years of stakeholder conversations that led to the creation of Invest Appalachia. That groundwork included participating in the Connect Capital program run by the Center for Community Investment at the Lincoln Institute (CCI), which set up the organization to be adaptable to regional needs and nationally competitive in fundraising (see sidebar). That experience was critical to Invest Appalachia's design, Crosson says, and helped secure the $2.5 million ARC POWER grant that provided initial seed capital and operating funds. Due to the deep network organizing and collaboration that had been occurring in the region, Invest Appalachia had investment-worthy projects to pitch as it began the hard work of raising the flexible capital it needs to start making an impact on the ground.

With a focus on the role of capital and the ability of individuals, businesses, and communities to access that capital, Invest Appalachia is "taking the pieces that work well and supercharging them, helping them reach further into underserved communities and helping the existing dollars go further," Crosson said.

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In 2016, the Appalachia Funders Network convened a group of funders, CDFIs, community development practitioners, and other regional stakeholders in Charleston, West Virginia, to develop a shared vision for a regional community investment system. The event yielded a shared analysis of gaps and bottlenecks in the system, and established the core values and elements of a new entity that would become Invest Appalachia. Credit: Courtesy of Invest Appalachia.

Andrew Crosson, founding CEO of Invest Appalachia (front left), rafting on West Virginia's New River with regional community development colleagues. Some of Invest Appalachia's investments will help local businesses and communities benefit from the region's booming outdoor recreation tourism industry. Credit: Courtesy of Central Appalachian Network.

INVEST APPALACHIA AND CONNECT CAPITAL

In 2018, the Center for Community Investment at the Lincoln Institute (CCI) launched Connect Capital to help communities attract and deploy capital at scale to address their needs. The first cohort consisted of six teams, including a group of community development practitioners and other leaders from Central Appalachia. That team included Sara Morgan, chief investment officer of Fahe; Deb Markley, vice president of Locus Impact Investing; Andrew Crosson, who would become the founding CEO of Invest Appalachia; and several other CDFI and philanthropic leaders.

Connect Capital provided training in CCI's capital absorption framework—a set of organizing principles that helps groups identify shared priorities, create a pipeline of investable projects, and strengthen the enabling environment of policies and practices that makes investment possible. Morgan, Markley, and Crosson said the training on pipeline development—an approach that encourages moving away from a model of scarcity and competition for resources toward a collaborative model—was critical for the region, and for the development of Invest Appalachia. Participating in Connect Capital catalyzed the launch of the new entity and equipped it with the tools to succeed.

As a multistate investment group tackling issues like economic development, the Central Appalachia team was unlike other participants, says Omar Carrillo Tinajero, director of innovation and learning at CCI, who ran the Connect Capital program. Tinajero was impressed with the team's dedication to democratic decision making and to creating a partnership built on trust, he says, noting that the capacity communities need to be ready to absorb capital flows from the strength of relationships. Struck by how expansive the investment pipelines had to be, CCI supported the team as they identified the large-scale deals that now make up the majority of Invest Appalachia's planned first round of investments.

To learn more about CCI and its current programs, visit www.centerforcommunityinvestment.org.

Capital Ideas

Invest Appalachia launched with four major sectoral priorities: clean energy, creative placemaking, community health, and food and agriculture. These priorities were identified through a multiyear collaborative research and design phase involving a variety of regional stakeholders, including members of CAN and AFN, CDFIs, public agencies, and community development groups. The fund's investment strategy will be guided by a board of 14 diverse stakeholders, and a Community Advisory Council and Investment Committee will oversee the deployment of funds, drive sector priorities, and define and measure goals and impact.

The Hope Building program, which has provided a path to affordable homeownership for Sonya Comes and others, offers an example of how Invest Appalachia would add to capital stacks across the region in the area of community health. A potential investment in Hope could leverage millions in total investment from the Housing Development Alliance, ARC, Fahe, and the Appalachian Impact Fund housed at the Foundation for Appalachian Kentucky. Invest Appalachia can support existing investors by helping to meet the need for flexible and subordinate loan capital in these types of

innovative investments, “de-risking” partially secured debt through credit enhancements like loan loss reserves. This would make it possible for HDA to create more jobs, build more homes, and leverage more financing.

Morgan, who noted that Fahe has invested in HDA for over 20 years, sees affordable housing as “a driver for economic recovery” and hopes Invest Appalachia can access resources that can bring this project, and others like it, to scale.

Invest Appalachia aims to play this kind of role in projects ranging from downtown revitalization to solar energy installations (see sidebar page 31). Crosson is currently conducting a capital drive with the backing of Richmond, Virginia-based Locus Impact Investing, the fund’s investment manager, and says the fund is on track to close its first round of capital raise by the end of the second quarter in 2022. The total target for the Invest Appalachia Fund, an LLC affiliate managed by the nonprofit, is $40 million by early 2023, which will be invested over a seven-year period. This repayable investment will be complemented by a catalytic capital pool of philanthropic funds that will support inclusive pipeline development and help investment-worthy projects become investment-ready.

The catalytic capital pool will provide flexible, grant-like funds that help projects seeking investment to address capacity, collateral, or risk issues that are preventing them from accessing repayable capital. As Crosson wrote in a recent *Nonprofit Quarterly* article, “Without credit enhancements, subsidies, and other flexible non-extractive capital to accelerate and de-risk projects, large-scale investment will not reach the underserved residents of low-wealth places like Appalachia” (Crosson 2021). Meanwhile, the Invest Appalachia Fund, LLC, will be a source of repayable investment in the form of large, flexible loans deployed alongside and in support of other regional investment partners like CDFIs. This fund intentionally takes on more risk than most lenders, in order to leverage capital into difficult-to-invest projects. Due to its blended structure, it will be able to absorb this risk and still return capital and concessionary (below-market) returns to investors.

The catalytic capital pool will provide flexible, grant-like funds that help projects seeking investment address issues of capacity, collateral, or risk . . . . Meanwhile, the Invest Appalachia Fund will be a source of repayable investment in the form of large, flexible loans deployed alongside and in support of other regional investment partners.

The Hope Building program provides workforce training for people in recovery and builds homes for local communities in the four-county area of Kentucky served by the Housing Development Alliance. Credit: Shannon D. Gabbard, Hope Building program director.

Downtown revitalization efforts in Hazard, Kentucky, and other communities in Central Appalachia are helping the region build a more sustainable, inclusive economy. Credit: Courtesy of Perry County, Kentucky, Chamber of Commerce.

Crosson says Locus Impact Investing was a natural fit to serve as the fund's investment manager, because of its track record in creative financing and its roots in the region. Deb Markley, VP of Locus, has been working in the region for more than three decades. Markley characterized Invest Appalachia as an "essential, trusted partner" and said she believes Crosson has the right kinds of networks and trust to overcome the challenges inherent in a resource-scarce rural region, where new or ambitious community development efforts sometimes encounter historically informed skepticism or resistance.

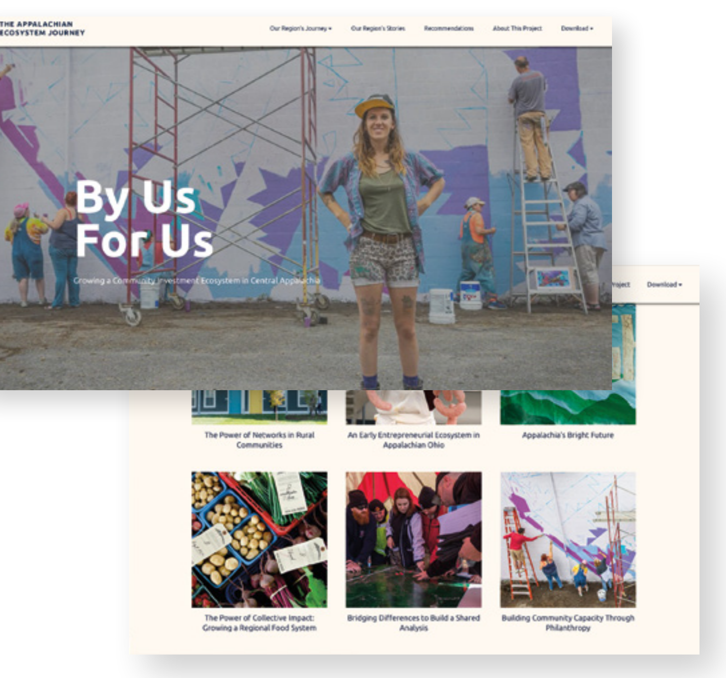
"For too long, Appalachia has been defined by what it lacks," Markley wrote in an article on the Locus website (Markley 2021). "By lifting up investment opportunities and supporting locally rooted practitioners and financial institutions, Invest Appalachia is reflecting a new narrative about the region to outside investors—presenting Central Appalachia as a place of opportunity and vision. As an innovator in the community capital space, Invest Appalachia is proof positive that rural regions can and do nurture creativity and provide lessons for other parts of the country."

Raising over $50 million in capital is no small task, but many regional stakeholders are hopeful that Invest Appalachia will succeed on the national stage. The fund is pitching a message of opportunity to investors and national foundations rather than reinforcing and uplifting stereotypical images of Appalachian poverty. As a result, Invest Appalachia is beginning to attract investors ready to make a long-term commitment to transform the region.

A Culture of Collaboration

National investors are consistently surprised at the diversity of projects and level of collaboration and trust among Appalachian lenders, Crosson says. They wonder how a persistently poor, economically marginalized, chronically underinvested region has built a community investment ecosystem with the capacity to absorb and deploy catalytic capital for transformative change. They've asked some version of that question so much, in fact, that the Appalachian Investment Ecosystem Initiative (AIEI), a coalition that includes Invest Appalachia, Locus, Fahe, regional CDFI partner Community Capital, and others, created an online resource called "By Us For Us: The Appalachian Ecosystem Journey" to chronicle the region's movement and capacity building and to highlight regional success stories (AIEI 2021).

Coauthored by former Mary Reynolds Babcock Foundation Deputy Director Sandra Mikush, this regional chronicle is designed to provide context and recommendations for funders as they seek to support under-resourced communities. It also provides a potential roadmap for other rural areas where regional networks and partnerships are coalescing, such as the Delta and rural Texas.



While stakeholders in Central Appalachia have made significant progress in building a thriving, functional investment ecosystem, they still face obstacles to long-term economic success. Policy makers in many Appalachian states tend to favor tax cuts for corporations—a stance likely to attract more parasitic boom-and-bust industries—rather than seeking to make deep investments in and create incentives for local businesses. And that demeaning national narrative about the region's people lingers: that they are uninvestable, and unwilling or unable to work hard to change their situations. Invest Appalachia's messages to national investors and planned investments in the longtime work of communities will help combat these narratives and, in concert with many partners, pave the way for reimagining what is possible for the region.

In *Decolonizing Wealth*, author and social justice philanthropy advocate Edgar Villanueva describes the need to fight a separation worldview and cultivate integration in order to achieve balance (Villanueva 2018). That philosophy is guiding the effort to build a more inclusive, sustainable, and resilient economy in Central Appalachia. "If we are going to turn the needle on Appalachia, we need to work together," said Morgan of Fahe. "It is my hope that Invest Appalachia will raise resources that we are not able to access because it is a new type of vehicle, and I know Invest Appalachia will bring consistent capital that will help us develop a pipeline of deals to coinvest on. The resources will go further together."

Alena Klimas specializes in philanthropic engagement and writes about economic development and culture in Appalachia. She has collaborated with many organizations and initiatives in the region through her past work with the Appalachia Funders Network and Rural Support Partners, a mission-based management consulting firm. Klimas grew up in West Virginia and currently lives in Asheville, North Carolina.

Building a more robust local and regional food system is a priority for funders and practitioners in Central Appalachia. Credit: Rural Action.

FROM SOLAR POWER TO SMALL FARMS: PRIORITY PROJECTS

Invest Appalachia will focus on four key areas of investment:

Clean Energy, including renewable energy, energy efficiency, clean manufacturing, abandoned mine land reclamation, energy democracy, and green buildings. Emerging priorities include a partnership with the Appalachian Solar Finance Fund, leveraging $1.5 million in SFF grants to provide over $500,000 in credit enhancements and $8 million in repayable financing for medium-scale solar development in the region.

Community Health, including health care, housing, education and childcare, built environment, and behavioral health. Likely opportunities include affordable housing projects like HDA's Hope Building, as well as flexible financing to help get community health facilities up and running to provide substance abuse recovery, primary care, and more. Many of these projects are capital-intensive, requiring loan amounts in the millions for construction and working capital.

Creative Placemaking, including downtown revitalization, commercial real estate, public spaces, tourism and recreation, and arts and culture. Early priorities include leveraging investment for renovations and real estate projects that can anchor downtown revitalizations, as well as local infrastructure to help businesses capitalize on the rapidly expanding outdoor recreation tourism industry. Brick-and-mortar projects require a blend of capital, including subordinated loans of up to $2 million that Invest Appalachia is positioned to make.

Food and Agriculture, including local food systems, small farms, healthy food access, nontimber forest products, and farmland conservation. Potential projects include support for food hubs and intermediaries in need of flexible working capital or infrastructure financing in the $200,000 to $1 million range, as well as subsidized loan funds to support beginning and disadvantaged farmers.

Learn more at www.investappalachia.org.

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PUBLIC SCHOOLS

A Comparison of Education Funding Models in Three U.S. States

AND THE PROPERTY TAX

By Daphne Kenyon, Bethany Paquin, and Semida Munteanu

This article is excerpted from a forthcoming Lincoln Institute Policy Focus Report, *Rethinking the Property Tax–School Funding Dilemma*, and from a Lincoln Institute working paper, "Effects of Reducing the Role of the Local Property Tax in Funding K–12 Education." To learn more about Lincoln Institute publications, visit **www.lincolninst.edu/publications.**

THE MASSIVE SHUTDOWN of K–12 schools sparked by the COVID-19 pandemic has no precedent in U.S. history. By the end of the 2019–2020 school year, at least 50.8 million public school students had been affected by school closures (*Education Week* 2020). Although schools closed during the 1918 influenza pandemic, fewer children attended school then and schools were not as integral to daily life (Sawchuk 2020). This time, almost overnight, the national education system shifted dramatically. Teachers were required to adapt lessons to virtual meeting platforms. The forced rapid transition to online methods led to learning loss or unfinished learning for many students. The pandemic exacerbated existing disparities and created new challenges for students of color, English language learners, and students with disabilities.

The pandemic also sparked a temporary shift in national education funding as the country experienced one of the deepest economic downturns in its history. Vigorous federal fiscal policy helped make it the shortest recession in the country's history as well, and as part of this economic rescue effort, Congress funneled hundreds of billions of dollars to education.

These funds came via the March 2020 CARES Act; a second infusion sent to state and local governments in December 2020; and the American Rescue Plan Act of March 2021, which contained another $350 billion for state and local governments plus about $130 billion specifically for K–12 education. Altogether in the first year of the pandemic, the federal government provided an unprecedented amount of aid for public K–12 education, equivalent to about $4,000 per student (Griffith 2021).

The property tax has been the single largest source of local revenue for schools in the United States, reflecting a strong culture of local control and a preference for local provision.

Although this lessened the fiscal impact of the pandemic in the near term, it did not permanently alter the federal government's traditionally modest role in funding K–12 education. Public schools are typically supported by a combination of state aid and local funding. The property tax has been the single largest source of local revenue for schools in the United States, reflecting a strong culture of local control and a preference for local provision.

Credit: Jeffrey Coolidge via Getty Images.

An Ideal Local Funding Source

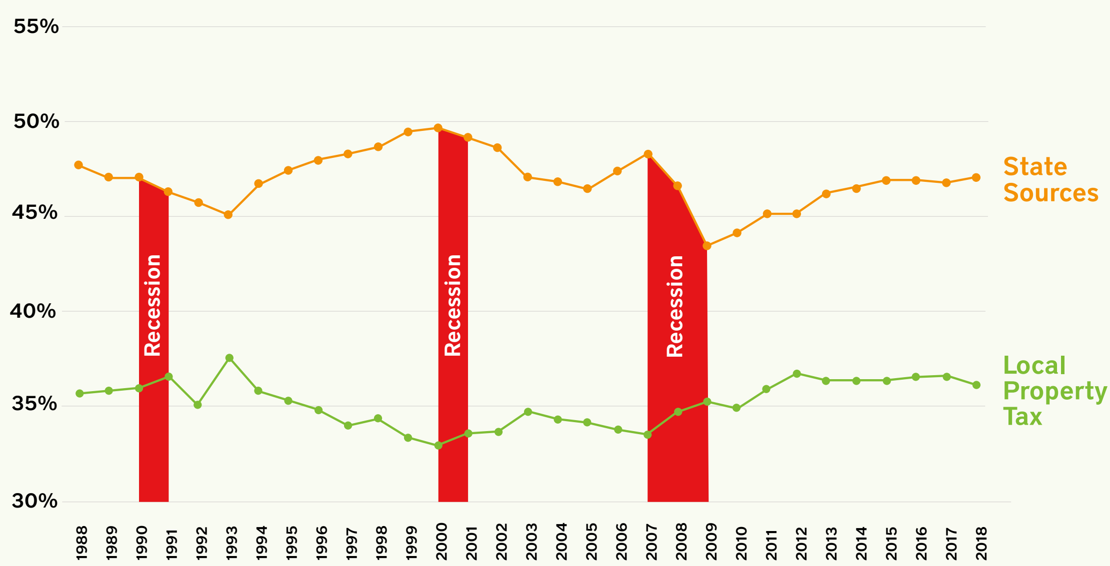
Property taxation and school funding are closely linked in the United States. In 2018–2019, public education revenue totaled $771 billion. Nearly half (47 percent) came from state governments, slightly less than half (45 percent) from local government sources, and a modest share (8 percent) from the federal government. Of the local revenue, about 36 percent came from property taxes. The remaining 8.9 percent was generated from other taxes; fees and charges for things like school lunches and athletic events; and contributions from individuals, organizations, or businesses.

In many ways, the property tax is an ideal local tax for funding public education. In a well-structured property tax system, without complex or confusing property tax limitations, the tax is both visible and transparent. Voters considering a local expenditure, such as for a new elementary school, will have clear information on benefits and costs. The property tax base is immobile; by contrast, shoppers can easily avoid a local sales tax by driving a few miles and businesses can avoid liability for local income taxes by relocating office headquarters.

The property tax is also a stable tax, as evidenced by its performance relative to the sales tax and income tax each time the economy falls into a recession. Since state governments rely predominantly on sales and income taxes, states often cut aid to schools in recessions in order to balance their budgets. This means that in most

Figure 1

State Aid and Local Property Tax as a Share of United States K–12 Education Revenues, FY1989–FY2019



Source: Calculations using data from the National Public Education Financial Survey/National Center for Education Statistics.

recessions public schools increase their reliance on property tax revenues to make up for declining state school aid (see figure 1).

But the property tax as a source of school funding has not been without controversy. In the 1970s, public recognition that disparities in the relative size of local tax bases can lead to differences in the level and quality of public services ignited a national debate about the importance of equal access to educational opportunity. As the single largest source of local revenue, the property tax became the main target in this debate, giving rise to proposals that sought to reduce schools' reliance on local property taxes and increase the state share of education spending to mitigate educational disparities. Between 1976 and 1981, the local property tax share of national education revenues declined from approximately 40 percent to 35 percent (McGuire, Papke, and Reschovsky 2015). But in the three decades since, the role of the local property tax in school funding has remained remarkably stable, never deviating much from that 35 percent.

In recent years, increased public concern about rising inequality has amplified the debate about ensuring equal access to educational opportunities and adequate funding to address the needs of all students, especially those in traditionally disadvantaged groups. Some suggest that an increase in state aid would accomplish this goal, but there are conflicting results in the literature as to whether centralizing school funding by substituting state aid for local property tax increases or decreases per-pupil spending and equity. With the pandemic forcing a reconsideration of school funding formulas, including those based on enrollment (see sidebar), the following excerpted case studies of Michigan, California, and Massachusetts offer examples that may be helpful to places considering the best way to provide an adequate and equitable education for all. Massachusetts relies heavily on the property tax to fund schools, while California and Michigan rely heavily on state aid (see table 1, page 36).

Public school enrollment declined during the COVID-19 pandemic. Credit: miljko via Getty Images.

SCHOOL ENROLLMENT AND FUNDING FORMULAS

When the pandemic thrust students across the country into remote and hybrid learning, many public schools lost enrollment. For the 2020–2021 school year, enrollment was down 3 percent nationwide compared to 2019–2020. Declines were uneven across states and student groups, with the largest drops among pre-K and kindergarten students and among low-income students and students of color (NCES 2021). Since state aid for public schools is linked to the number of students attending or enrolled, a slump in attendance or enrollment can reduce that revenue. In response to these enrollment declines, many states adopted short-term policies to hold school districts harmless. Delaware and Minnesota, for example, provided extra state funding for declining districts. Many states, including New Hampshire and California, used prepandemic enrollment to calculate state aid (Dewitt 2021; Fensterwald 2021). Texas announced hold-harmless funding to districts that lost attendance if they maintained or increased in-person enrollment, in an effort to bolster in-person learning. All of these provisions are temporary, and states are waiting to see if enrollment will recover in 2022–2023. If it doesn't, the data suggest that reduced funding for schools with the highest enrollment declines will disproportionately affect Black and low-income households (Musaddiq et al. 2021). These fiscal and equity concerns are causing educators to rethink the measurement of attendance and enrollment, and its link to funding.

Table 1
School Funding and Spending: Comparing States

	California	Massachusetts	Michigan
Percent of K–12 revenue from the property tax (FY 2019)	27%	52%	27%
Percent of K–12 revenue from state aid (FY 2019)	58%	39%	60%
Per-pupil school spending (state rank) (FY 2020)	$14,053 (16)	$18,269 (8)	$13,072 (19)
Is per-pupil spending adequate in high poverty districts? (Baker et al.)	Severely inadequate	Above adequate	Severely inadequate
Growth in real per-pupil school spending, 1970–2018 (in 2019–2020 dollars)	$7,454 131%	$13,616 253%	$6,387 111%
Strength of state-imposed property tax limits	Very restrictive	Modestly restrictive	Very restrictive

Sources: U.S. Census, National Center for Education Statistics, Wen et al. (2018), Baker et al. (2021).

Michigan: A Tax Swap

Michigan voters passed a proposal in 1994 that reduced reliance on the local property tax, shifting much of the state's school funding to the sales tax and other taxes while restructuring state aid to schools. Research suggests this shift led to increased spending in the short term that improved some educational outcomes, but also resulted in a distribution of funds that did not reach the students who most need support.

Michigan voters had considered and defeated a series of proposals to restructure property taxes and school funding before approving Proposal A in 1994, which reduced reliance on the property tax and raised the sales tax to pay for that property tax relief. This "tax swap" greatly increased state education aid in the year of implementation and for some years after, changed the basic state aid formula, and changed the way state education aid is targeted.

The state raised the sales tax from 4 to 6 percent, depositing the revenue into the School Aid Fund. It obtained additional revenue from the income tax, real estate transfer tax, tobacco taxes, liquor taxes, the lottery, and a new state government property tax known as the State Education Tax. Local property taxes levied for school operating costs, which had averaged a rate of 3.4 percent before Proposal A, were eliminated; the state mandated a 1.8 percent local property tax rate on nonhomestead property, and all property became subject to the 0.6 percent State Education Property Tax.

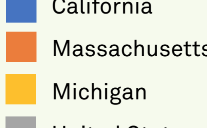
State aid under Proposal A explicitly targeted low-spending districts. Increases in state funding were phased in over time, with substantial increases for low-spending districts, without reducing the funding of initially high-spending districts. In addition, school districts were allowed only limited options for supplementing education spending (Courant and Loeb 1997).

Because Michigan's tax swap was enacted so long ago, we can observe the impacts of three recessions on state aid and local property tax funding. During the 1990–1991 and 2000–2001 recessions, reliance on state aid decreased while reliance on the local property tax increased. In the Great Recession, reliance on state aid decreased and reliance on the local property tax decreased slightly. The fact that the property tax was less effective as a backstop in the Great Recession is likely due to uniquely restrictive property tax limits in the state. Michigan's property tax is subject to all three main types of property tax limits: rate, levy, and assessment. In addition, one provision of the levy limit is particularly restrictive: not only does it require reductions in tax rates when the property tax base grows rapidly ("Headlee rollbacks"), but unlike most state levy limits, it prohibits increased tax rates without an override vote when the property tax base grows slowly or declines. This had a very constraining effect on property tax revenues during the Great Recession, when property values declined (Lincoln Institute 2020).

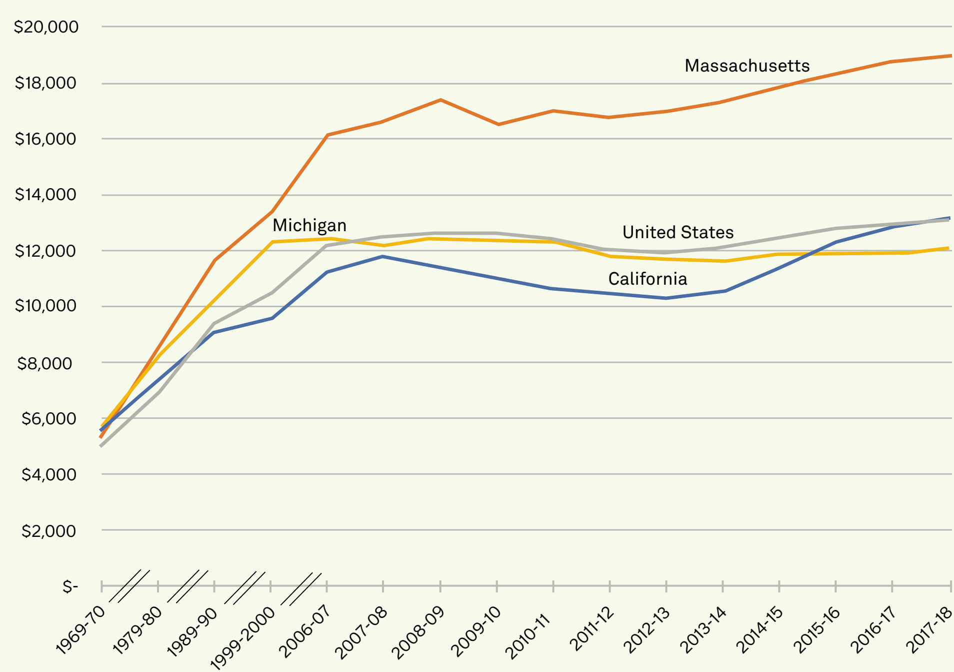
Although real per-pupil education revenue increased at a faster rate just after passage of Proposal A, beginning with the recession of 2000–2001, real state aid declined for many years, leading to slower growth or declines in total real per-pupil revenue and in educational expenditures per pupil (see figure 2). An empirical study to analyze the impacts of Proposal A on revenue and spending in K–12 education concludes that "the reform increases the level of school revenue and spending at the state level only in the first two years of the reform; the reform eventually decreases it two years after and onwards" (Choi 2017, 4).

Importantly, a tax swap may not create a more equitable school finance system. The school finance restructuring in Proposal A did

Figure 2
Current Expenditure Per Pupil in Constant 2019–2020 Dollars: California, Massachusetts, Michigan, and United States, 1970–2018



Source: National Center for Education Statistics.



Credit: Prostock-Studio via Getty Images.

reduce the disparities in school spending per pupil among school districts (Wassmer and Fisher 1996). This equalization was primarily accomplished by using state aid to raise per-pupil spending of the lowest-spending districts and placing some restrictions on spending on the highest-spending districts. But Michigan's Proposal A was not designed to target aid to the children or the school districts most in need. It targeted additional school aid to previously low-spending school districts, which tended to be middle-income and rural.

An evaluation of the equity and adequacy of school funding systems across the United States concluded that resources in Michigan's highest poverty districts are severely inadequate (Baker et al. 2021). Thirty-seven percent of students attend districts with spending below the amount required to achieve U.S. average test scores.

The recovery from the COVID recession, along with the massive influx of federal funds for education, may yet enable a turnaround in Michigan's K–12 education system. In her 2022 State of the State address, Governor Gretchen Whitmer said her next budget would include the largest state education funding increase in more than 20 years (Egan 2022).

California: Shifting Control

California's school finance narrative illustrates the tension between school funding equity goals and property tax reduction goals, providing a cautionary tale of the danger of diminishing local funding and the unintended consequences of assessment limits. In its pursuit of educational equity, California shifted funding away from local governments at the cost of local control. In taxpayers' quest to control property tax increases, they traded horizontal equity for predictability.

Prior to 1979, California school districts raised over half of their revenue locally and school districts exercised control over their budgets and property tax rates. School finance litigation that began in the early 1970s drove legislation that began to erode this local control, shifting authority for property tax revenue distribution to the state in an attempt to equalize school district revenues. This series of cases, known as *Serrano v. Priest*, was motivated by concerns that the disparities in wealth among school districts created by dependence on local property taxes discriminated against the poor and violated California's equal protection clause.

During the same period, dramatic growth in property tax values without an offsetting decrease in property tax rates incited a tax revolt that culminated in the passage of Proposition 13 in 1978. This citizen-initiated constitutional amendment fundamentally changed the nature of property tax assessments and imposed strict limits on growth in assessed values and property tax rates. Among other things, Proposition 13 limited growth in assessed values to 2 percent per year and capped cumulative property tax rates at 1 percent of assessed value. Combined with the assessment limit, the rate limit provided certainty to taxpayers about how much property taxes could increase in the future—but stripped local governments and school districts of their ability to control spending levels and budgets. Proposition 13 also instituted acquisition value assessment, under which properties are

reassessed only when sold. This provides a strong incentive for taxpayers to remain in their homes and contributes to the state's housing affordability crisis.

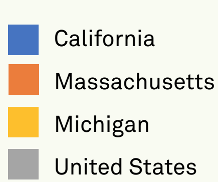
Proposition 13 also prevented local governments and school districts from exceeding the limits in order to raise funds for local priorities, except for voter-approved bond measures. It required a two-thirds majority vote by both houses of the California legislature to increase any state tax and required a two-thirds majority vote of the electorate for local governments to impose special taxes.

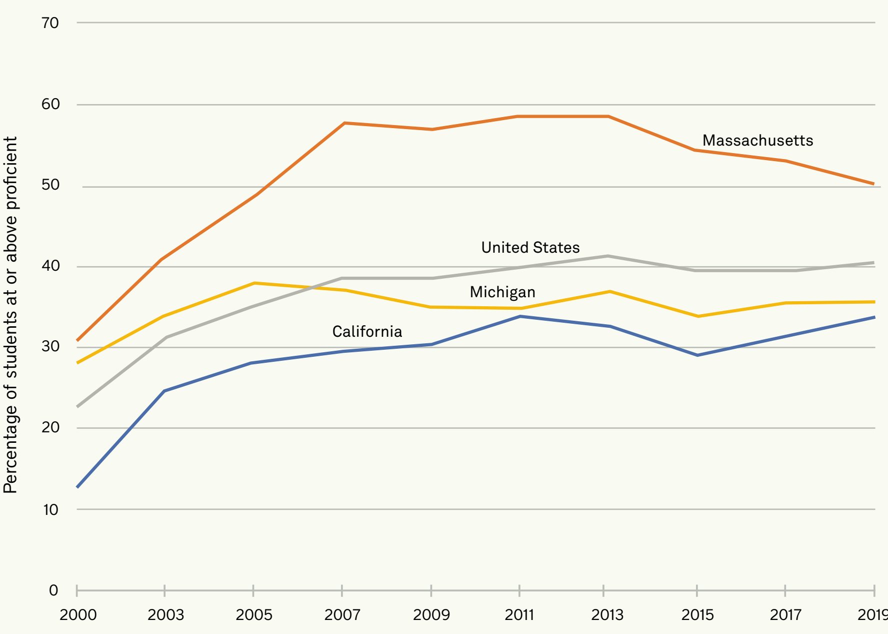
In 1978, school district tax collections accounted for 50 percent of school district revenue; in 1979, they made up only a quarter of total revenue. The state aid share of school district revenue, supported mostly by state income taxes, climbed from 36 percent in 1978 to 58 percent in 1979.

In 1986, the California Court of Appeal held that the state's centralized school finance system complied with the state constitution. The court found 93 percent of California students were in districts with wealth-related spending differences of less than $100 per pupil as prescribed by the courts in 1976. While the reforms satisfied the court, making per-pupil spending more consistent among school districts has not definitively improved or equalized educational outcomes.

Together, the court rulings and Proposition 13 altered the school finance landscape in California and inspired a wave of property tax revolts and school finance litigation across the United States. The school finance reforms in California successfully constrained revenues, but at the cost of local control and to the detriment of education quality. School districts lost control over their primary revenue source, per-pupil spending fell below the national average (see figure 2), and academic achievement and public school enrollment declined (Brunner and Sonstelie 2006; Downes and Schoeman 1998).

Figure 3
Grade 4 Math Proficiency: California, Massachusetts, Michigan, and United States, 2000–2019





Source: Nation's Report Card/National Assessment of Educational Progress.

California's test scores continue to suffer. National Assessment of Educational Progress (NAEP) scores for California show that its students continue to perform below the national average, although the gaps have narrowed since 2013, when California enacted the Local Control Funding Formula (LCFF) school finance reforms (see figure 3). Among other reforms, the LCFF targets aid to high-need districts through concentration grants and gives districts more discretion over how they spend state funds.

One analysis suggests that California's reforms played a major role in the rapid decline in public school enrollment in the 1970s and a partial role in the rapid growth in private school enrollment during the same period (Downes and Schoeman 1998).

Persistent efforts to amend the state constitution to eliminate acquisition value assessment for nonresidential property provide evidence of long-term dissatisfaction with Proposition 13 among some Californians. Referred to as a "split roll," such proposals are often debated but rarely make it to the ballot. Voters narrowly defeated one such proposal, Proposition 15, in November 2020. Proposition 15 would have returned certain commercial and industrial real property to market-value assessment while preserving acquisition value assessment for residential properties and most small businesses.

Credit: skynesher via Getty Images.

Massachusetts: Targeted Aid

Massachusetts' case indicates that targeting state aid to the school districts that need it most and linking accountability standards to increased school aid can produce strong academic results. The state was also able to reduce reliance on the property tax while improving its property tax system. However, recent years show that even strong school finance systems can backtrack and should be reevaluated periodically.

In 1980, Massachusetts enacted a property tax limit known as Proposition 2½. The two most important components of Proposition 2½ limit the level and growth of property taxes: they may not exceed 2.5 percent of the value of all assessed value in a municipality, and tax revenues may not increase more than 2.5 percent per year. Because K–12 schools are part of city and town governments in the state and not independent governments, as in some states, Proposition 2½ directly affects schools.

One might expect that reducing reliance on the property tax in a state that does not allow local governments to levy either sales or income taxes might heavily constrain local government revenues. But local governments were lucky in the timing of the enactment of Proposition 2½. The tax limitation came into force at the beginning of a period of significant economic growth in the state popularly termed the "Massachusetts Miracle." This enabled the state to increase aid to localities, which cushioned the tax limitation's impact.

Also important is the fact that Proposition 2½ was not a constitutional amendment, but a piece of legislation that could be modified by the legislature—and was. Altogether, Proposition 2½ had "a smaller impact than either its supporters had hoped or its detractors had feared" (Cutler, Elmendorf, and Zeckhauser 1997). Although not perfect, Proposition 2½ is less restrictive and less distortionary than many property tax limits in other states (Wen et al. 2018).

During the 1980s, the state also reformed its property tax system by moving to assessing properties at full market value. Before this reform, most properties, especially residential ones, were assessed at far less than market value, with high-income properties receiving preferential treatment. Proposition 2½ created an incentive to move to the full value because of the 2.5 percent cap on the property tax levy.

As the state was coming out of a deep recession in the early 1990s, the quality of its public schools had caused broad dissatisfaction. The Massachusetts Business Alliance for Education published *Every Child a Winner* in 1991, calling for "high standards, accountability for performance, and equitable distribution of resources among school districts" (MBAE 1991). The highest court was considering an equity lawsuit that had been filed in 1978, and the state Board of Education published a report highlighting some schools' shortcomings (Chester 2014).

In 1993, a pivotal year, the state legislature passed the Massachusetts Education Reform Act (MERA) and the state's highest court ruled in *McDuffy* that the state was not meeting its constitutional duty to provide an adequate education for all students. MERA had a number of important components, including a large increase in state aid for education (from $1.6 billion in 1993 to $4 billion in 2002), and a new school funding formula targeted to districts that needed it most. Another component of MERA was curriculum standards and accountability. In 1998, the MCAS (Massachusetts Comprehensive Assessment System) was administered for the first time to measure student achievement.

In a second school funding lawsuit, *Hancock v. Driscoll*, settled in 2005, the Supreme Judicial Court concluded that "a system mired in failure has given way to one that, although far from perfect, shows a steady trajectory of progress" (Costrell 2005, 23). One measure of Massachusetts' achievement is the improvement of state scores on NAEP tests (see figure 3, page 39).

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Although the original intention was to reevaluate and, if need be, revise the state's school funding formula periodically, that did not happen. Furthermore, after several years of growth in state school aid, cuts came in 2004, then again in 2009 after the onset of the Great Recession.

In 2015, a Foundation Budget Review Commission was established to review the state's school aid system (Ouellette 2018). The commission concluded that local governments were bearing a disproportionate share of the cost of educating children and that several elements of the foundation aid program, such as the way health insurance costs were taken into account, were outdated.

In 2019, the legislature passed and Governor Charlie Baker signed the Student Opportunity Act (SOA), which provides $1.5 billion in additional school aid better targeted to low-income students. This revised school aid system was designed to be phased in over seven years. In 2020, the state delayed the funding increases because of pandemic-related economic uncertainty. However, in 2021, the legislature fully funded the act for the first time (Martin 2021).

Finding the Right Combination

Neither state aid nor the property tax on its own can provide adequate, stable, and equitable school funding. But the right combination can provide all three. Just as weaving requires lengthwise and crosswise threads (the warp and woof), so a sound school finance system requires a well-designed property tax and well-designed state school aid.

The *system* of state and local funding should provide sufficient funding so that all children, no matter their race, ethnicity, or income, can receive an adequate education. When designed properly, state aid can ensure that all school districts can provide an adequate education and weaken the link between per-pupil property tax wealth and per-pupil education funding—without sacrificing the benefits that come from a stable property tax base and local control of public schools.

Daphne Kenyon is a resident fellow in tax policy at the Lincoln Institute. **Bethany Paquin** is a senior research analyst at the Lincoln Institute. **Semida Munteanu** is associate director, valuation and land markets at the Lincoln Institute.

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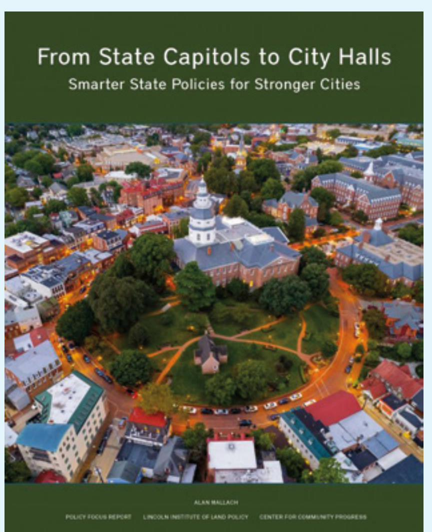

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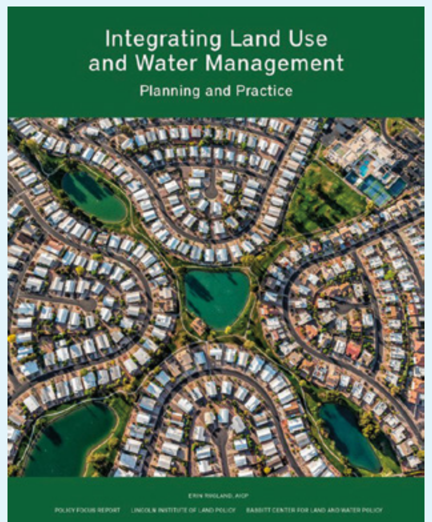

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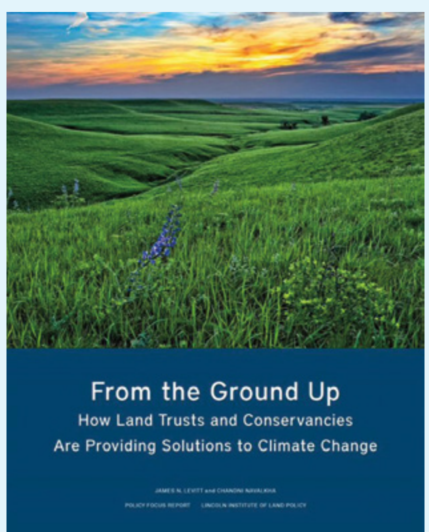

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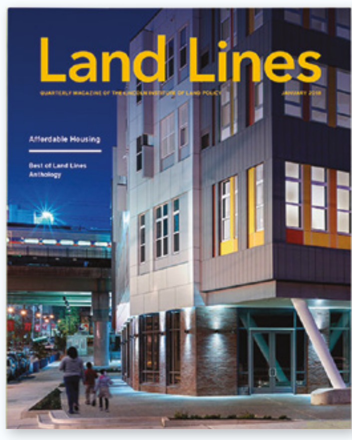

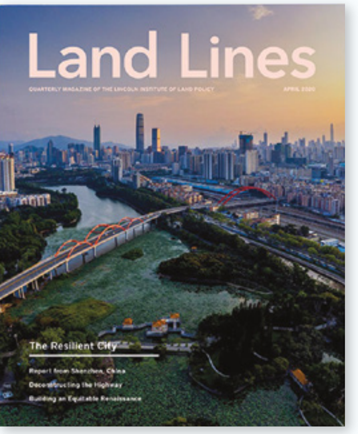

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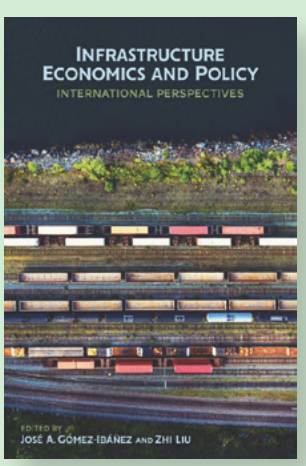

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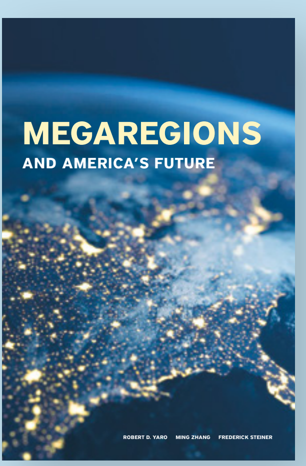

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