

CAN STATE OVERSIGHT IMPROVE LOCAL PROPERTY ASSESSMENTS?

EVIDENCE FROM EDUCATION FINANCE REFORM IN KENTUCKY

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SUMMARY

In 1990, Kentucky state government intervened in county property value assessments.

1. Did state intervention impact county property value assessment?
2. Did state intervention impact per pupil district property tax and total revenues?

Use an event study methodology and find:

- County assessments increased 30%
- Weak evidence of an effect on revenues
- Decrease in state aid and positive spillovers

BACKGROUND

Kentucky Education Reform Act of 1990 (KERA)

State government had to assure enforcement of fair-market property valuation to get enough support

Lexington Herald Leader Headlines

“State Report Finds Disarray
in Property Tax System”

12/1/89

“Panel Urges Crackdown on
Assessors ”

12/5/89

“Property Tax ‘Mess’ Needs
Action. Governor Wants \$10
Million to Update Valuations ”

1/19/90

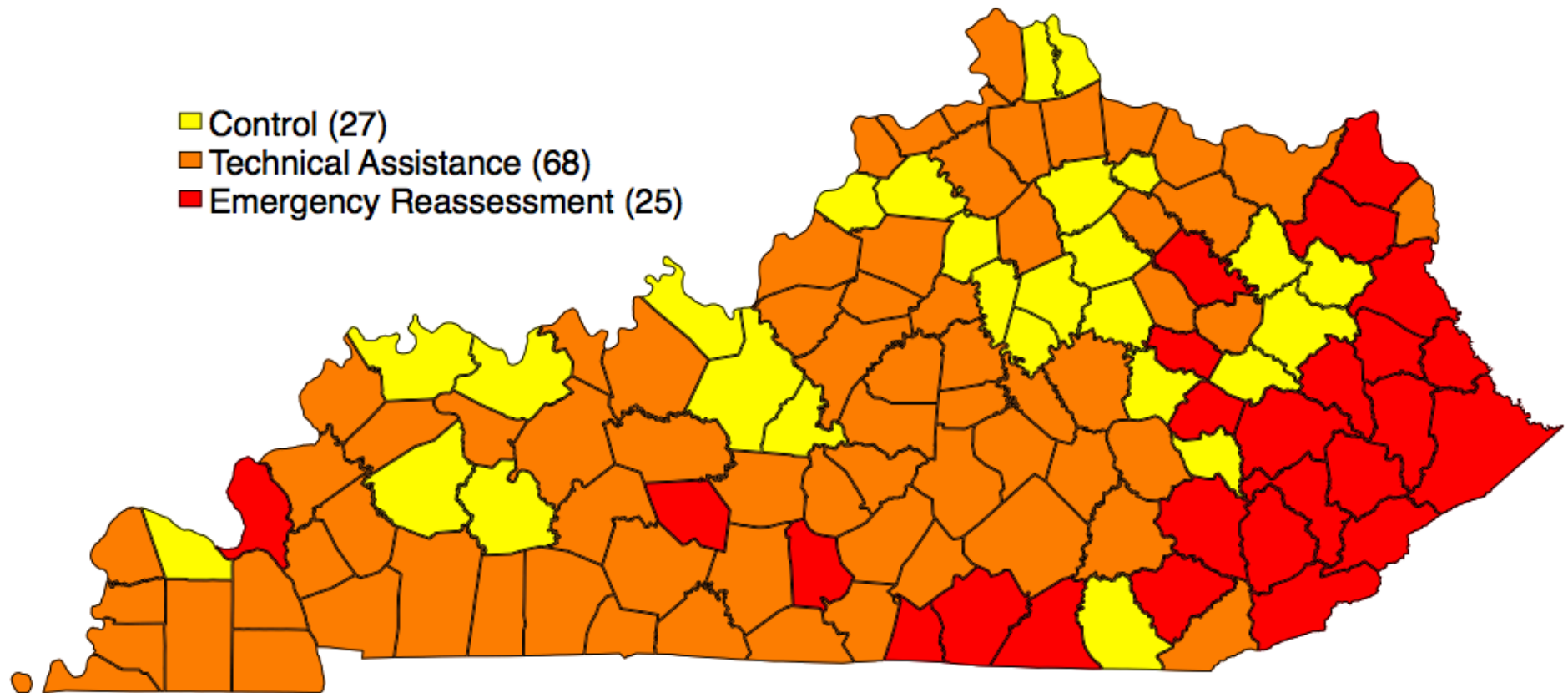
“State Taking Over PVA Offices
to Correct Assessments”

7/25/90

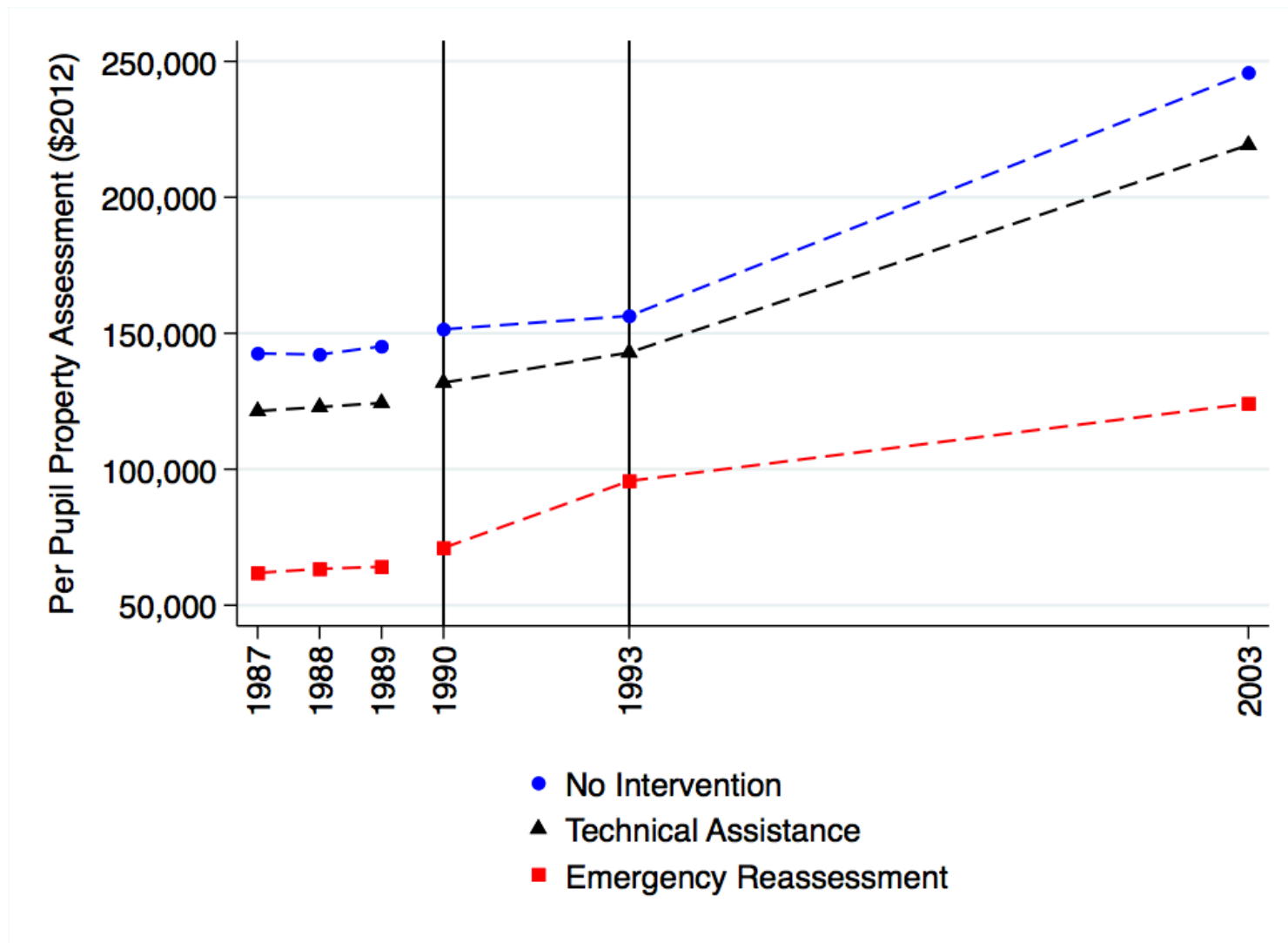
PROPERTY ASSESSMENT INTERVENTION

- Dept. of Revenue divided counties into 3 groups
 1. No intervention
 2. Technical Assistance (TA)
 3. Emergency Re-assessment (ER)
- Any PVA could be removed from office
- Intervention began in 1990 and concluded in 1993

PROPERTY ASSESSMENT INTERVENTION



RAW TRENDS IN PROPERTY VALUE ASSESSMENTS



EVENT STUDY MODEL

Property Assessments

$$y_{ct} = \beta_0 + \beta_1(ER_c \times \theta_t) + \beta_2(TA_c \times \theta_t) + \beta_3(y_{c1990} \times Post1990_t) + \beta_4 X_{ct} + \delta_c + \theta_t + \epsilon_{ct}$$

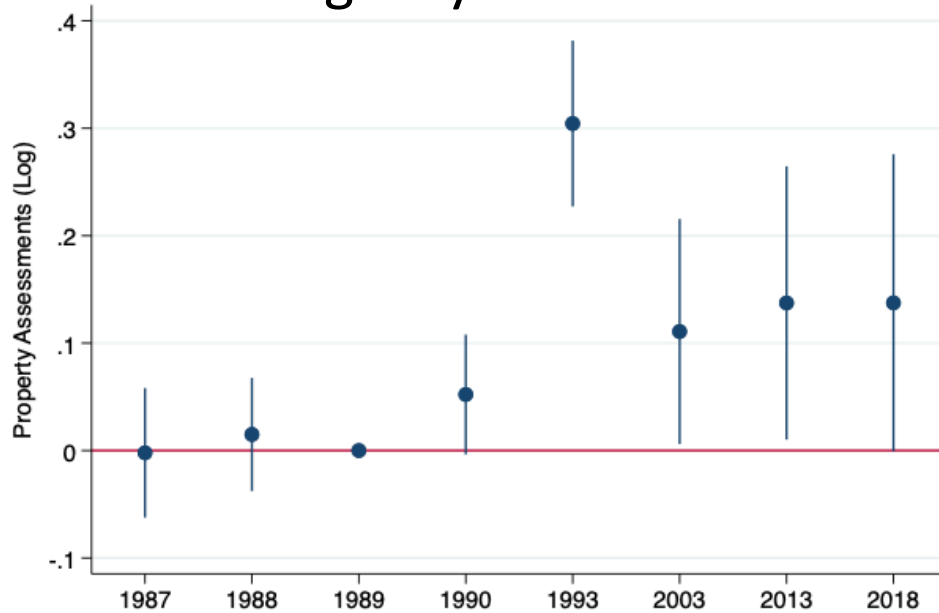
District Revenues

$$y_{it} = \gamma_0 + \gamma_1(ER_i \times \theta_t) + \gamma_2(TA_i \times \theta_t) + \gamma_3(MHV_{i1990} \times Post1990_t) + \gamma_4 X_{it} + \delta_i + \theta_t + u_{it}$$

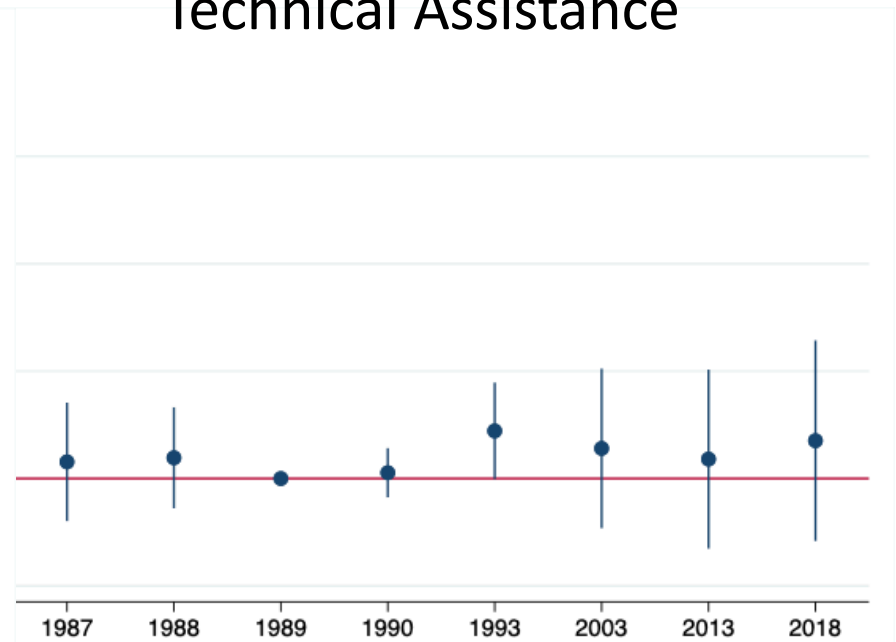
Controls: median household income; poverty and unemployment rate; percent population black, senior, homeowner; housing stock; population-enrollment

RESULTS: PROPERTY ASSESSMENT

Emergency Reassessment

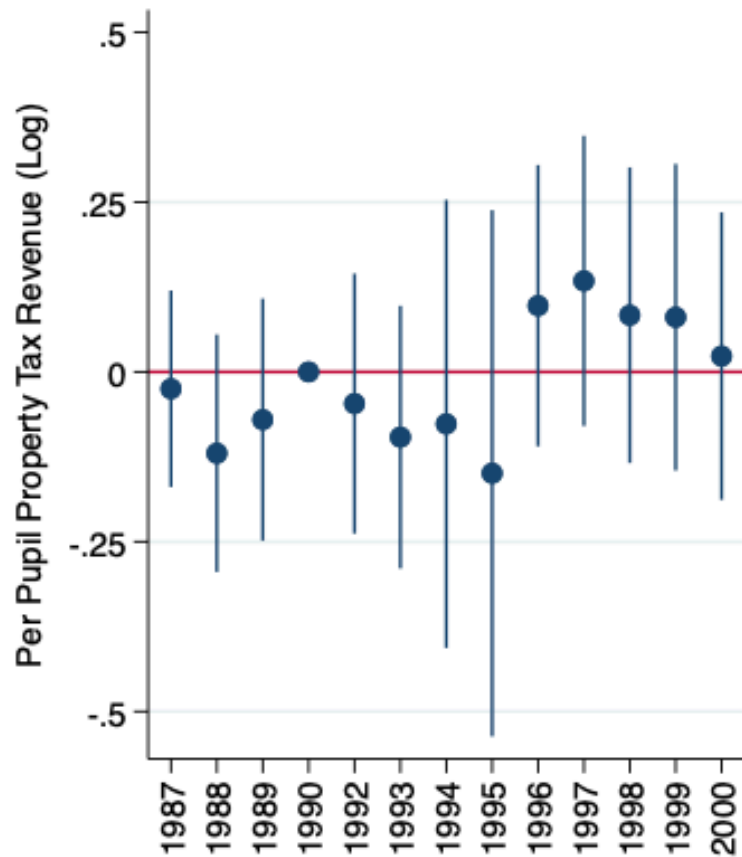


Technical Assistance

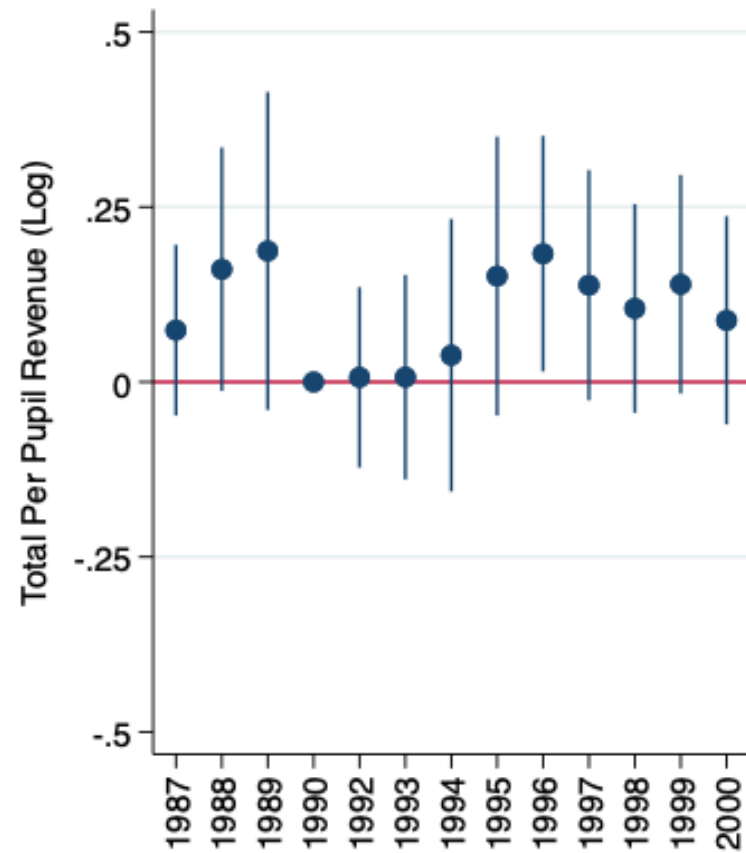


RESULTS: EMERGENCY REASSESSMENT REVENUES

Property Tax Revenues

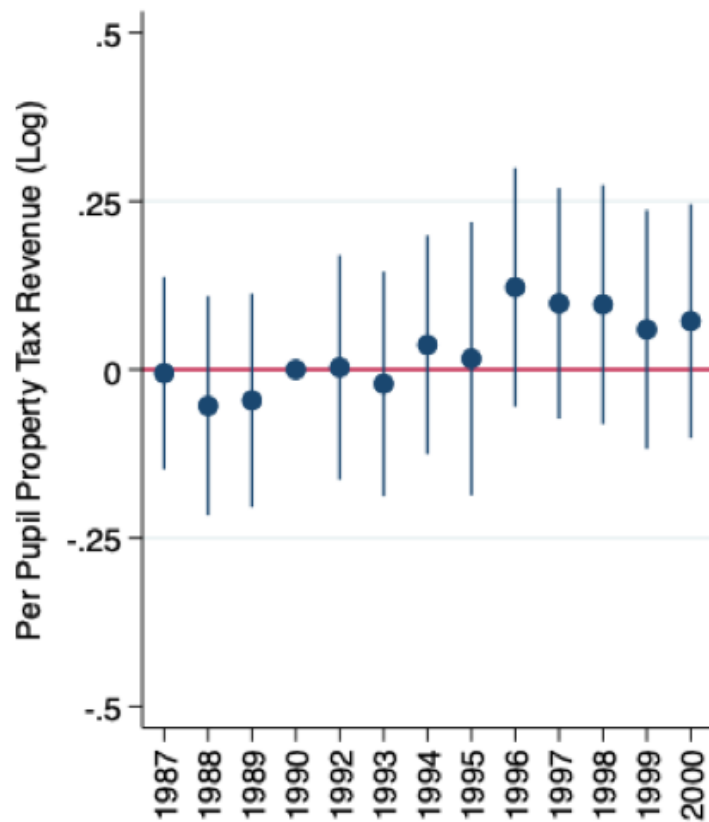


Total Revenues

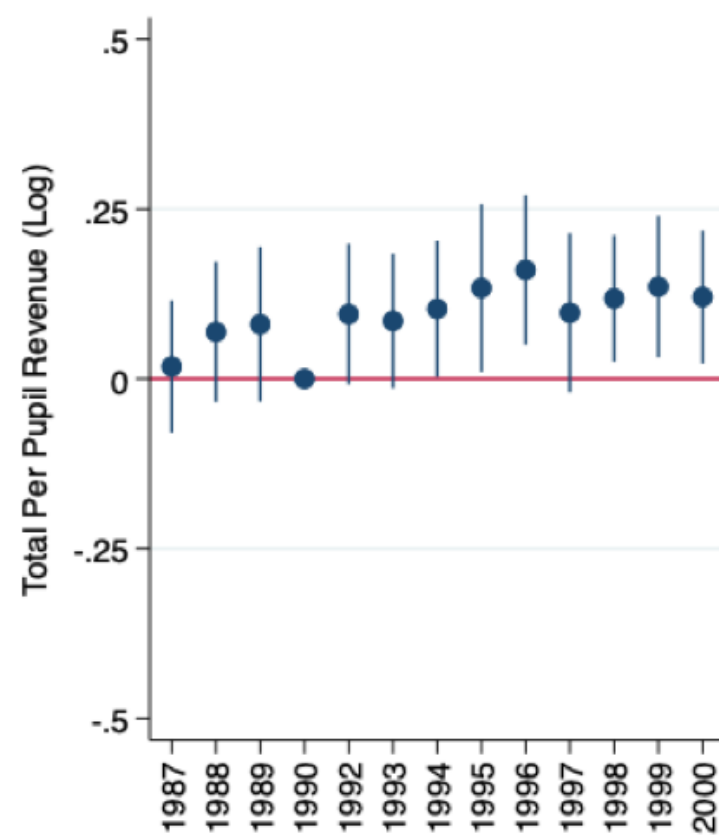


RESULTS: TECHNICAL ASSISTANCE REVENUES

Property Tax Revenues



Total Revenues



IMPACT ON STATE AID


- Used the coefficients from the event study analysis to estimate counterfactual assessments for the treated districts.
- Estimated state aid based on the counterfactual assessments.

COUNTERFACTUAL VS ACTUAL STATE AID

	Counterfactual SEEK Funding, Per-Pupil	Actual SEEK Funding, Per- Pupil	Difference in \$	Percent Difference
<i>Emergency Reassessment</i>				
1991	\$3,968	\$3,949	\$19	0.5%
1994	\$3,938	\$3,782	\$155	3.9%
2004	\$4,150	\$3,866	\$284	6.8%
2014	\$4,640	\$4,112	\$527	11.4%
<i>Technical Assistance</i>				
1991	\$3,697	\$3,692	\$6	0.2%
1994	\$3,483	\$3,452	\$31	0.9%
2004	\$3,651	\$3,582	\$69	1.9%
2014	\$3,830	\$3,720	\$110	2.9%

POLICY IMPLICATIONS

- Rural areas may be prone to underassessment
- Using state average assessments to equalize potentially generates externalities
- Evidence that centralized oversight can mitigate incentives to under-assess and capture of locally elected assessors



Thank you.
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