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Fiscal and Financial Issues for 21st Century Cities

Background And Overview

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EXECUTIVE SUMMARY

The Project on 21st Century City Governance will explore solutions for successful urban governance in today's complex world. Many cities face rapid urban growth, growing environmental concerns, a clamor from citizens for better local services, and other pressures, often in the face of tight resource constraints. This adds urgency to the imperatives of effectiveness and efficiency in local spending, and of growth-friendly, sustainable and equitable generation of local revenues. Successful solutions that tackle these imperatives tend to be multi-level, multi-channel, and multi-sectoral.

More and more, solutions to urban challenges involve creative approaches that circumvent the constraints of traditional governmental bureaucracies through greater collaboration with the private sector and civil society. Yet no amount of innovation can escape the need to tackle fiscal constraints and set up mechanisms that allow for a predictable flow of funding from national and regional governments to cities. Mapping these arrangements presents a daunting challenge for city leaders. The underlying decision-making structures and the merits of governance arrangements also need to

be assessed from a national perspective if the cities of the future are to be better and more effectively governed.

This first in a series of papers seeks to analyze the experiences of some relatively successful cities, initially in the United States and Europe, to identify how their governance and financing models contribute to their success, and to draw lessons applicable elsewhere. It briefly summarizes the relevant literature on intergovernmental fiscal relations,¹ and outlines some of the issues to be addressed in the case studies of the selected cities.

Although models of intergovernmental fiscal relations vary widely across countries and over time, reflecting a range of historical, institutional, and socio-political, as well as economic, factors, the literature has identified a number of principles that are important for the effective functioning of city governments.

These include, among others, governance arrangements that promote transparency and accountability of local officials to the electorate; effective mechanisms of cooperation with neighboring municipalities, and with higher levels of government;

¹ The paper also provides an extensive reference list, to facilitate further exploration of specific issues as needed.

clarity in the definition of local spending functions and an adequate degree of autonomy in carrying them out; the assignment of significant and appropriate own-revenue sources; the avoidance of unfunded mandates; predictability of transfers from other levels of government; and limits on borrowing that reflect the debt management and servicing capacity of each municipality. The background paper explores in some detail these principles, as well as challenges in applying them in practice.

In light of the lessons from the literature, it is proposed that the case studies of the selected European cities focus on the following broad issues:

- The nature and effectiveness of the arrangements for multi-level governance and coordination;
- The breadth and composition of spending responsibilities of the city government, and its degree of autonomy in carrying them out;

- The indicators of quality and efficiency of its main spending programs, and the insights they provide into the institutional characteristics and managerial techniques that contribute to their performance;
- The extent of revenue autonomy of the city, and the advantages and disadvantages of the main own-revenue sources, in particular the challenges in effectively administering local property taxes;
- The factors influencing the level and mix of intergovernmental transfers received by the city; and whether their characteristics and performance conform to the theoretical desiderata;
- The systems of control of the city's indebtedness, and an analysis of their effectiveness in preventing debt crises; and
- The city's experience to date with public-private partnerships (PPPs).

BACKGROUND PAPER

Against a background of growing urbanization, mounting demands for cities to provide better public services, and tightening resource constraints, the imperatives of better prioritizing local spending programs and improving their efficiency and effectiveness, as well as mobilizing resources to fund them in an as growth-friendly, equitable, and sustainable manner as possible, have acquired increased urgency. The Brookings Project on 21st Century City Governance aims to explore possible answers to these imperatives by analyzing in depth the experiences of selected cities that appear to have been more successful in addressing them, with an initial focus on U.S. and European cities.

This paper is intended to contribute to the project in two main ways:

- By providing a brief overview of what the literature on intergovernmental fiscal relations reveals about the factors that influence the fiscal health and sustainability, as well as the effectiveness, of city governments in carrying out their spending responsibilities (Section I); and
- By setting out the main questions that case studies for the selected cities will try to address, with a view to ascertaining to what extent practice does (or does not) conform to theory and, if not, why (Section II).

I. A BRIEF LITERATURE REVIEW

It is important to emphasize from the outset that models of intergovernmental fiscal relations vary widely across countries, reflecting a range of historical, institutional, socio-political, and economic factors. These include the unitary or federal nature of the country, power balances between the national and the sub-national governments, the size and geography of the country, its level of development, natural resource endowment, and social preferences for redistribution, to name just a few.

Even within Europe, models of intergovernmental fiscal relations range from cooperative ones in Germany and Austria, to highly decentralized in Switzerland, Belgium, and Scandinavia, highly centralized ones in the cases of Greece and Ireland, and evolving (sometimes under stress) in France, Italy, and Spain. Therefore, the specific national institutional context needs to be very much kept in mind when analyzing a given city's fiscal performance.

Nevertheless, the literature has identified a number of principles that are important for the effective functioning of local governments² in general and of cities in particular. The nature of, and rationale for these principles are the focus of this section of the paper.

1. Selected governance issues

Multi-level governance arrangements vary widely across countries. The fiscal federalism literature has identified clarity, accountability and intergovernmental coordination as key desirable attributes of such arrangements, but the interpretation of these attributes and their translation into practice are very country-specific.

For example, the legal status of cities (and of local governments more generally) differs across countries. In unitary ones, local governments report directly to the central government; in federal ones, frequently they are under state jurisdiction. In some countries (e.g., Brazil), they have a constitutional status of members of the federation, on a par with the states.

Clarity about the nature and extent of the legal powers of each level of government on decisions by the others is a necessary, albeit not sufficient, condition for political accountability of elected officials of all government levels. However, constitutional dictates in this area are frequently very general, and political disputes have prevented adequate clarification in lower-level legislation, opening scope for bargaining and even judicial litigation.

The greater the ambiguity about the legal framework of multi-level governance, the greater is the need for effective mechanisms of intergovernmental cooperation. The importance of such cooperation is heightened by the ongoing worldwide trend towards devolution of functions and responsibilities to the sub-national levels of government, since devolution increases the scope for both positive and negative externalities of sub-national policy decisions and actions.

Cooperation across and within levels of government may require participant governments to pursue policies that are different from those that would have been selected in the absence of cooperation.³ Therefore, to choose to participate in cooperation arrangements, governments must believe that the benefits of such arrangements outweigh the costs associated with the corresponding loss of decision-making autonomy.

² Local governments encompass, in addition to cities, different types of jurisdictions in different countries: counties, municipalities, communes, towns, districts, and in some countries multi-purpose metropolitan area authorities.

³ Bakvis and Brown, 2010.

Potential gains from cooperation involve a reduction of adverse externalities/spillovers, and a fuller exploitation of positive externalities and synergies from participants' actions and policies, as well as of economies of scale. Intergovernmental fiscal cooperation can be beneficial in different aspects of policy, namely:

- Macro-fiscal management;
- The design and reform of intergovernmental fiscal arrangements;
- Sectoral policies, including service delivery; and
- Sub-national revenue and expenditure management.⁴

A further benefit of intergovernmental fiscal cooperation is that it facilitates the exchange of relevant information among participant governments, leading to a better understanding of respective objectives and constraints, as well as the identification of viable policy synergies and trade-offs that can be taken into account in the design and implementation of reform packages. This exchange of information and experiences also leads to the identification of good and bad practices by peers who face similar policy challenges.

Despite its potential benefits, intergovernmental fiscal cooperation typically faces significant political economy obstacles. An important one is the heterogeneity of sub-national governments as regards size, level of socio-economic development, production structure, etc., which can make it difficult to identify win-win policy options. Also, differences in political affiliations of the sub-national governments may hinder cooperation among them.

Given the number and diversity of local governments, it is especially challenging for them, including cities, to obtain adequate voice and representation in multi-level cooperation fora. Therefore, the most frequent mode of intergovernmental cooperation at the local level is horizontal, involving multi-purpose or sectoral fora, such as associations of different types of local governments, or inter-municipal consortia. Depending on their nature, such fora aim to facilitate consensus on issues of common interest for the participating governments, represent them in vertical (multi-level) fora, or promote synergies in the delivery of public services across municipal boundaries.

The governance of large metropolitan areas, which often span many local governments, poses special challenges, including ensuring adequate connectivity within the area and with the outside; dealing with environmental externalities; and avoiding excessive tax and regulatory competition (race to the bottom) and the concentration of poor in specific jurisdictions, to cite just a few.⁵

The choice of governance arrangements for metropolitan areas reflects trade-offs between the benefits of home rule (proximity and greater accountability of the smaller municipal governments to their electorate) and those of area-wide governance (reduction of externalities, better exploitation of synergies and economies of scale,⁶ and greater scope for redistributive policies within the area). Different countries choose different balances between these trade-offs, often reflecting historical traditions and political preferences more than economic considerations.

There are three possible stylized models of governance of metropolitan areas: jurisdictional

⁴ See Ter-Minassian and de Mello (2016) for details. This paper also includes a review and discussion of IFC arrangements in a range of advanced and emerging countries.

⁵ See Bahl, Linn and Wetzel, eds. (2013) for a comprehensive discussion of these challenges, particularly in emerging and developing countries.

⁶ A 2013 book by Lago-Penas and Martinez-Vazquez, eds. includes a number of papers that examine the scope for economies of scale in the delivery of public services and its implications for optimal size of local governments.

fragmentation; functional fragmentation; and metropolitan government.⁷ Under the first, each of the governments encompassed by a metropolitan area largely maintain autonomy in the provision of all or most public services in its jurisdiction. Under the second, the delivery of one or more types of area-wide public services is entrusted to a public company or a special district government, to ensure coordination and exploit economies of scale in the provision of those services. Under the third, most general public services are provided by an area-wide government, which overlays the constituent local governments.

In practice, country experiences lie along a continuum among the three models, including elements of two or even all three of them, in different balances. For example, most U.S. metropolitan areas, some Scandinavian ones, Paris, Mexico City, and São Paulo approximate a model of jurisdictional fragmentation. Most metropolitan areas have some elements of the functional fragmentation model (at least in the public transport area), but some (e.g., Vancouver) delegate a range of functions to an area-wide district authority. A number of metropolitan areas (e.g., Toronto, Madrid, London, Auckland, and Tokyo) are examples of the third model. Some of these latter areas, however, have a status of intermediate government level (state, province, or *comunidad autónoma*)

The more fragmented the governance model, the greater the need for mechanisms to promote cooperation among the municipal governments included in a metropolitan area. An analysis of the nature of such mechanisms and their effectiveness in the cities included in the Brookings 21st Century Cities Project should provide useful lessons in this respect.

2. Expenditure responsibilities

Traditional (first-generation) theories of fiscal federalism⁸ emphasized the potential efficiency gains from fiscal decentralization. Based on the key assumptions of benevolent governments, differences in preferences, and significant citizen mobility, theorists argued that expenditure functions should be assigned to the lowest level of government capable of internalizing the benefits from those functions (the subsidiarity principle). This would improve preference matching, because local governments can be expected to know their citizens' preferences better than the central government, and because citizens unsatisfied with their local government's performance can vote local officials out of office, or even move to a different locality ("vote with their feet").

The normative prescriptions of first-generation theories have been subject to a broad array of criticisms, especially over the past two decades. Second-generation theories⁹ have focused on political economy influences on decentralization processes, such as:

- Political motivations for decentralization and its timing, pace, and sequencing, that go well beyond a quest for efficiency gains in resource allocation. Such motivations may include helping keep countries together in the face of ethnic or other conflicts; reducing "excessive" powers of central government; and promoting "yardstick" competition among or within government levels;
- Representation failures in electoral processes, reflecting voters' information asymmetries and the power of economic elites to buy influence;¹⁰ and
- De facto limitations to citizens' mobility.

⁷ Bahl, Linn and Wetzel, eds. (2013).

⁸ See Tiebout, 1956, and Musgrave, 1959, among others.

⁹ See Quian and Weingast, 1997, Oates, 2005, and Weingast, 2009. Ahmad and Brosio (2006) provide an extensive review of such theories.

¹⁰ See e.g., Bardhan (2006).

Second-generation theories have also called attention to the influence of incentives, institutions, and capacity constraints on the extent of decentralization, and on its success in delivering the hoped-for efficiency gains.

Against this background, it is not surprising to find that there are substantial differences in the assignment of spending responsibilities to each (central, regional, and local) level of government among countries, even of similar levels of development. For example, among the OECD (Organization for Economic Co-operation and Development) countries for which consolidated data on local expenditures are available,¹¹ such expenditures as proportion of GDP average about 13 percent, but range between 3.3 percent in Greece and over 35 percent in Denmark. Within countries, typically larger cities and metropolitan areas are responsible for a broader range of functions than smaller or rural localities.

There are also large differences in the composition of local spending. Most local governments are responsible for local transportation, sanitation, street lighting, parks and other recreational facilities, and some social assistance programs. Their roles in education and health, however, vary significantly across countries and over time.¹² Accordingly, the shares of different functions in local spending show a large variance even among advanced countries.¹³

Moreover, such shares record the level of expenditures carried out by local governments, but tell us little about the autonomy of local governments in deciding the composition of their budget, and the design and implementation of specific spending

programs. Higher-level governments can strongly influence these decisions through regulation and conditional grants.¹⁴ A 2009 study by the OECD¹⁵ developed a number of indicators of sub-national spending autonomy in various functional areas, and concluded that such autonomy is more limited than expenditure shares would suggest, especially in the education area.

While, for the reasons mentioned above, the fiscal federalism literature eschews normative prescriptions about the desirable degree of effective devolution of spending responsibilities to sub-national (including local) governments, it emphasizes the importance of clarity in the assignment of spending powers in each functional area. In particular, it should be specified in appropriately high-level legislation which level of government can override decisions by the other(s) in areas of concurrent responsibilities, and under what circumstances it can do so.

Such clarity is a necessary condition for political accountability of elected officials. Simply put, citizens should know which level of government is responsible for the adequacy and quality of the public services provided to them. However, clarity alone is not sufficient because, to hold elected officials accountable, citizens need adequate information about the use of public resources entrusted to those officials, including information about the effectiveness and efficiency of spending programs, and about their fiscal sustainability over time.¹⁶

Unfortunately, especially in developing countries, many local governments, in particular small ones, lack adequate public financial management (PFM)¹⁷ capacity, in terms of both skills and

¹¹ See the OECD's Fiscal Federalism Network website (www.oecd.org). Among the countries for which such consolidated data are not currently available are Australia, Japan, New Zealand and the United States.

¹² There has been a move to re-centralize primary and secondary education in some countries in recent years (e.g., Mexico and Chile).

¹³ McMillan (2008).

¹⁴ See Devarajan, Khemani and Shah (2009) for a discussion of the politics and consequences of such "partial decentralization."

¹⁵ Bach, Blochiger and Wallau (2009).

¹⁶ Ahmad (2015).

¹⁷ PFM encompasses budget preparation and execution, cash and debt management, accounting, reporting and dissemination of a government's fiscal operations.

systems. As a result, the quality and transparency of fiscal operations leaves much to be desired.¹⁸ This is even more the case as regards indicators of effectiveness and efficiency of specific local spending programs.¹⁹ Moreover, frequently civic society is not developed enough to act as a watchdog and an educator of the public at large in this area.

Nevertheless, there is evidence that these deficiencies are less widespread in relatively large cities, and that in fact the quality of public management and delivery of services in some of them is as good as or better than at higher levels of government.²⁰ The present project, focusing on a number of successful cities, should provide an opportunity to identify both indicators of quality and efficiency of their spending, and insights into institutional characteristics and managerial techniques that contribute to their good performance.

3. Own revenues²¹

The literature on fiscal decentralization has traditionally emphasized the benefits of assigning significant own-revenue sources to sub-national governments on both macroeconomic and efficiency grounds. Potential macroeconomic benefits include: the creation of additional fiscal space for the provision of sub-national public goods and services; the promotion of sub-national fiscal responsibility;²² and a reduction of volatility and uncertainty for sub-national budgets. Potential efficiency gains include a closer reflection of local preferences in the level and structure of taxation, and increased political accountability of sub-national budget authorities to their electorates.

The literature also recognizes significant economic, institutional, and political obstacles to sub-national own-revenue mobilization. The economic obstacles include the following:

- The greater mobility of potential tax bases (goods and factors of production) within the national territory than across national borders. This increases the scope for tax evasion and for predatory tax competition among sub-national jurisdictions; and
- The generally uneven distribution of the tax bases across the national territory. As a consequence, sole reliance on own revenues would result in excessive disparities in the ability of individual sub-national governments to finance the provision of common minimum standards of public services in important areas such as health, education, and basic infrastructures. However, differences in tax capacities can be at least partly compensated for by a well-designed system of intergovernmental equalization transfers (see sub-section 4 below).

The institutional obstacles to sub-national own-revenue mobilization include:

- The fact that central tax administrations are better positioned than sub-national ones to exploit economies of scale in the collection and enforcement of taxes. They also tend to be better equipped in terms of financial and human resources. Moreover, capacities to effectively administer own taxes tend to vary substantially among sub-national

¹⁸ Sud and Yilmaz (2013) note that a major reason for the lack of capacity at the local level is inadequacy of the civil service, which tends to be less prestigious and less well paid than at the central government level.

¹⁹ There is a substantial literature about the nature and desirable characteristics of performance indicators of spending programs. See e.g., Robinson (2007) and (2013), Esfahani (2005), Hatry (2005), and Garcia Lopez and Garcia Moreno (2011).

²⁰ See World Bank (2009) and Bahl, Linn and Wetzel (2013).

²¹ Own revenues refer here to those for which sub-national governments enjoy substantive autonomy in deciding at least the rate structure. Accordingly, revenues shared with higher levels of government on an origin or other basis are not considered own revenues, but transfers.

²² There is considerable empirical evidence that the lack of significant revenue autonomy softens the sub-national budget constraint. See e.g., Eyrard and Lusinyan (2011), Escalano and others (2012), and Asatryan and others (2012).

governments, often compounding the above-mentioned differences in tax bases. Also, compliance costs for taxpayers (especially those operating in multiple sub-national jurisdictions) are magnified by the existence of differences in sub-national tax legislations and tax administration procedures.

Finally, there are important political economy constraints to revenue decentralization:

- Central governments tend to prefer maintaining control of the main tax bases, both to facilitate the conduct of revenue-based stabilization policies and to influence sub-national spending decisions; and
- Sub-national governments often prefer to rely on transfers (especially unconditional ones) to avoid the political cost of raising own revenues.

The balance between the benefits and costs of revenue decentralization varies both across countries and over time, reflecting a host of changing economic, institutional, and political conditions. As a result, it is difficult to find robust empirical explanations of the degree of revenue decentralization. It does not appear to be clearly correlated with the (federal or unitary) form of government;²³ the level of development;²⁴ the composition of GDP; the degree of dependence on revenues from non-renewable natural resources;²⁵ or even the degree of decentralized spending.²⁶ Moreover, revenue decentralization has not always followed a monotonic trend, as some countries have gone through phases of decentralization and re-centralization, reflecting shifting power balances among

government levels and/or macroeconomic management imperatives.

There is a vast literature discussing the criteria that should guide the assignment of specific forms of revenues to sub-national governments.²⁷ Theoretical considerations, as well as lessons from country experiences, suggest that desirable characteristics of sub-national taxes include: relatively low mobility of the tax base; avoidance of distortions and risks of adverse spillovers on other jurisdictions (e.g., tax exporting, or predatory tax competition); a relatively even distribution of the tax base across the national territory; significant revenue-raising potential; low sensitivity to cyclical fluctuations and other exogenous shocks; relative ease of administration; and low compliance costs.

No revenue source meets all these criteria, as can be seen from Table 1, which uses a matrix to score (as high, medium, or low) the conformity of each potential sub-national own-revenue source (personal (PIT) or corporate (CIT) income taxes; surcharges on national income taxes; retail sales tax (RST); turnover taxes; a value-added tax (VAT); a subtraction VAT-type business tax; excises; property taxes; royalties from natural resources; and user fees and charges) with the above-mentioned desirability criteria (with the caveat that specific economic or institutional circumstances may affect scoring in individual countries).²⁸ Therefore, the composition of sub-national own revenues in individual countries tends to reflect the evolving trade-offs that each country makes in light of its relevant economic, social, political, and institutional circumstances.

²³ A number of unitary countries are more decentralized than some of the large federations.

²⁴ The degree of revenue decentralization varies significantly among OECD countries (see Blochliger and Nettley (2015)), as well as among major emerging and low-income countries (Fedelino and Ter-Minassian (2010)).

²⁵ See Brosio (2006).

²⁶ Vertical gaps, and relatedly the level of intergovernmental transfers, vary greatly both across countries and over time.

²⁷ Among the best summaries of this literature are Ambrosanio and Bordignon (2015), and Bird (2010).

²⁸ For a detailed explanation of the scores, see Chapter 1 of Fretes and Ter-Minassian, eds. (2015).

Table 1: Scoring of potential sub-national revenue sources by different criteria

Revenue Source/Features	Revenue potential	Mobility of tax base	Potential efficiency costs	Sensitivity to cycle	Even distribution of tax base	Costs of admin.	Compliance costs	Visibility	Political Acceptability
PIT	V	L	L	M/H	L/M	H	M/H	H	M/L
PIT surcharge	V	L	L	M/H	L/M	L	L	M	M
CIT	M	H	H	H	L	H	H/M	H	M
RST	M	M	L	M	M	M/H	L/M	M	M
Turnover taxes	H	L	H	M/H	M	M	M	M/L	H
VAT	H	M	H	M/H	L	H	H	M	M
Business VAT	M	M/H	M/H	M/H	L	M	M	M	M
Excises	M	M	M/H	M	L	M	L	L	M/H
Property taxes	V	L	L	L	L	H	M	H	L
“Green” taxes and fees	L	L	L	L	M	H	M	H	M
Royalties	H	L	L	H	L	M	M	H	H
User fees	M	L/M	L	L	M	M	M	H	M

H: high; M: medium; L: low; V: varying

The variety of own-revenue sources tends to be greater at the intermediate than at local level of government. Most cities use various forms of property taxes and user fees. Some use local RSTs (often piggybacking on state-level ones), and fewer use local income taxes (often as surcharges on state or central government taxes).

There is a large literature on the advantages and disadvantages of recurrent real estate taxes.²⁹ Such taxes are generally viewed as a good example of benefit taxation, as property values tend to reflect the level and quality of the local public services.³⁰ They are also levied on an immobile factor of production, and are relatively more stable over economic cycles than most other taxes. However, these taxes are costly to administer, given the need to build and maintain current the property cadasters. In many developing countries, such costs are

an important determinant of the low yield of the taxes (generally well below 1 percent of GDP in aggregate).

Even in advanced countries, where their revenues average over 2 percent of GDP, real estate taxes often face stronger taxpayer resistance than other forms of taxation. This reflects the relatively high visibility of the tax; widespread perceptions of inequities in valuation; and the fact that property values are not always correlated with the income of their owners, resulting in liquidity constraints, exacerbated by the lumpy nature of their collection. Also, taxes on property transfers are seen as reducing the liquidity of real estate markets.

Faced with such resistance, cities worldwide have been experimenting in recent decades with innovations in property taxation, aimed at

²⁹ See e.g., Bahl, Martinez Vazquez and Youngman (2010); Sjöquist and Stephenson (2010); Bonet, Muñoz and Pineda Mannheim (2015). The database of the OECD Fiscal Federalism Network contains a summary description of the main characteristics of recurrent real estate taxes in OECD countries. McCluskey and Franzen (2013) provide a comprehensive discussion of challenges in the design and administration of property taxes in metropolitan areas.

³⁰ See Ahmad, Brosio and Poschl (2015).

capturing increases in property values stemming from local infrastructure improvements. Examples of these innovations (generically dubbed betterment levies) are development impact fees (one-time levies assessed on developers during the permit approval process), and the setting up of tax increment financing (TIF) districts.³¹ Although comprehensive studies of their effectiveness are not yet available, these innovations are generally seen as a promising instrument to improve the acceptability and yield of property taxation.

Local RSTs are more loosely linked to benefits than residence-based local income taxes. They aim to capture the benefit provided by cities to non-residents that commute regularly to the city for work or business. Their main disadvantages are the regressivity inherent to consumption taxes and the difficulty administering them in countries (mainly developing) characterized by very fragmented retail sectors and high degrees of informality. Local RSTs are also very susceptible to horizontal competition among neighboring jurisdictions.

Although in principle personal income taxes on residents should be good candidates, especially for cities that have a relatively large potential tax base, their scope is frequently limited by both vertical and horizontal tax competition. Piggybacking can substantially reduce their costs of administration, but constrains the autonomy of the city in defining the base of the tax.

A promising, but still largely underdeveloped, source of own revenues are green taxes and fees (e.g., congestion charges, effluent charges, etc.). These are desirable on efficiency and environmental sustainability grounds, but are costly to administer and, depending on the ideological bent of local politicians and their constituency, are frequently contentious. Local taxes on gasoline are

constrained by the scope for cross-border shopping in neighboring localities. Property taxes on vehicles are extensively used by cities worldwide, but they cannot be considered green taxes, since they are levied on the value of the vehicle, and therefore can discourage the acquisition of more recent, energy efficient models.

User fees appear to be a still relatively unexploited source of revenue for local governments. OECD data indicate that they range from around 0.6 percent of total local revenues in Greece and Israel to nearly 10 percent in Finland, but cluster in the range of 2 percent to 5 percent in most other OECD countries. User fees score very well on the benefit principle, but not necessarily on the ability-to-pay one. As a matter of fact, they can be regressive. Their high degree of visibility increases political accountability for the use of the resources they generate, but also social resistance to significant discrete hikes in them.

Another innovative deployment of user fees involves setting up business improvement districts (BIDs), which are local organizations into which local business and property owners pay additional mandatory fees or taxes to help fund improved public services in the area. Such innovations have been instrumental in promoting the redevelopment of downtown or other deteriorated areas in a number of cities.

The case studies proposed for the Brookings 21st Century Cities Project should offer valuable opportunities to analyze the own-revenues composition of successful cities, including their use of innovative instruments; assess their effectiveness in overcoming obstacles to efficient and equitable revenue mobilization; and draw lessons useful elsewhere.

³¹ Burge (2010) and Brooks and Meltzer (2010) provide extensive discussions of development impact fees and TIFs, respectively. See also Sjoquist and Stephenson (2010) for a comparison of these instruments with other local revenue sources.

4. Intergovernmental transfers

Intergovernmental transfers represent an important source of revenue for most sub-national governments worldwide, although their weight in total revenues varies widely across and within countries, as well as over time.³² Transfers can fulfill different objectives: Filling the gaps between sub-national expenditure responsibilities and own revenues (vertical imbalances); reducing horizontal imbalances by equalizing the capacity of different sub-national governments to provide the services of their responsibility at an average level of own-revenue effort and spending efficiency (equalization transfers); helping fund sub-national expenditures (e.g., in health and education) that have spillover effects on other sub-national jurisdictions, or expenditures that are regarded as national (or state) priorities by the donor government; or finally, fulfilling political goals.

Intergovernmental transfers take many different forms, with features that make them best suited to one or other of the objectives above. The main types of transfers are:

- **Various types of revenue sharing.** These may encompass one or more specific revenue sources of the higher-level government, or be a percentage of its general revenue. Typically these transfers are determined by formula (which may be subject to periodic revisions, or even altered unilaterally by the transferring government). Revenue-sharing arrangements are common worldwide, with the exception of the U.S., but their weight in total transfers varies widely. These transfers mainly aim to fill vertical imbalances, but in many countries their horizontal distribution formula is also shaped by
- **Equalization transfers.** Properly designed equalization transfers should take into account both relative revenue-raising capacities and spending needs and differential costs of provision of public services of the different sub-national governments in a particular country. This is only feasible in countries with well-developed databases, and is quite resource intensive.³⁴ Therefore, many countries only try to equalize revenue capacities (e.g., Canada) or spending needs (e.g., South Africa), or use proxies of either variable. Most equalization transfer arrangements are vertical (i.e., based on transfers from higher-level governments) but a few countries (e.g., Germany and Chile) use horizontal ones.³⁵
- **Conditional transfers (grants).** These are earmarked to specific purposes of varying scope. Bloc transfers are used to fund spending programs in broad functional areas (e.g., education, or health), while special-purpose transfers are limited to financing specific spending programs. Conditional transfers are most appropriate to fund sub-national spending with spillovers, in which case they are frequently accompanied by matching requirements.

redistribution objectives. Revenue-sharing arrangements have the advantages of being relatively transparent and minimizing discretionality, but at the cost of transmitting cyclical fluctuations in national revenues to the sub-national budgets. This, in conjunction with borrowing constraints, tends to result in pro-cyclicality of the sub-national finances.³³ To minimize such pro-cyclicality, it would be desirable to base the transfers on cyclically adjusted revenues or on a moving average of past revenues.

³² There is a vast literature on intergovernmental transfers. See, e.g., Ahmad (1997); Ahmad and Brosio, eds. (2006) and (2015); Bergvall and others (2006), and Broadway and Shah (2007).

³³ See e.g., Bohn and Inman (1996), Fatas and Mihov (2006) and Ter-Minassian and Fedelino (2010).

³⁴ Australia has the most comprehensive equalization scheme, funded by the proceeds of the national VAT, and administered by the Commonwealth Grants Commission. See Ahmad and Searle (2006). Some European countries (especially Scandinavian ones) also use comprehensive equalization transfers.

³⁵ For thorough discussions of the complexities of designing sound equalization transfers, see Wilson (2007) and Reschovsky (2007).

They may also be used to help relatively poorer sub-national governments meet minimum national standards in the provision of important social services. To minimize their intrusiveness, conditionality should apply to the results (outputs or outcomes) of the spending programs, not their input mix. It is also important that these transfers have a clear legal foundation, setting out their characteristics and conditions, to minimize uncertainty for the receiving governments.

- **Capital transfers.** These are used to finance (or co-finance) sub-national investment spending (in areas such as housing, other social infrastructures, transportation, and other productive infrastructures). These may be formula-based, often privileging objectives of regional development, or project-based (with varying degrees of conditionality regarding the selection and execution of the projects).
- **Discretionary ad-hoc transfers.** These are often motivated by political considerations, including to bailout sub-national jurisdictions in difficulty. They are a major source of soft budget constraint,³⁶ and as such their use should be minimized.

Specifically as regards intergovernmental transfers to cities, the available empirical evidence suggests that both the level and composition of per-capita transfers received vary widely, with no clear relation to size, population density, and local fiscal capacities and spending needs.³⁷ The case studies in the Brookings 21st Century Cities Project will offer an opportunity to analyze which factors influence the level and mix of transfers received by each of the cities studied; and whether their characteristics and performance conform to the theoretical considerations summarized above.

5. Sub-national borrowing and fiscal sustainability

Sub-national governments worldwide are responsible for substantial shares of investment in social and productive infrastructures, which cannot be financed solely with recurrent revenues, given their lumpiness and the fact that they provide benefits to future, as well as current, taxpayers. As a result, debt financing of sub-national (including cities') investments has been historically, and continues to be, quite widespread. This financing takes different forms, ranging from bank borrowing to general or earmarked bond issues, and to foreign borrowing, either directly or through the central government (or with the latter's guarantee). More recently, intermediate and local governments, especially in advanced countries, have begun to utilize more complex, and frequently rather opaque, borrowing instruments, including through special purpose vehicles (SPVs).³⁸

While there are benefits—in terms of fiscal space, intergenerational equity, and the development of domestic capital markets—from sub-national borrowing for investment, there are also risks that unfettered recourse to debt financing may lead to sub-national fiscal stress and even debt crises. As a matter of fact, there is a substantial and prolonged history of sub-national debt crises, not only in emerging and developing countries, but also in advanced ones.³⁹

Such crises have painful effects, in terms of disruption of public services, for the citizens of the sub-national jurisdiction involved, and can also generate adverse spillovers on other sub-national governments (increases in borrowing costs, or temporary difficulties in market access) and even on the national government (sometimes precipitating a national debt crisis, or at least increasing the cost of sovereign borrowing).⁴⁰

³⁶ See Rao (2006) and Vigneault (2007).

³⁷ See Slack (2007) for a summary of available empirical studies.

³⁸ See Chapman (2010) for a discussion of such instruments used by cities in the U.S.; and Wong (2013) for an analysis of experiences with SPVs in China.

³⁹ See Canuto and Liu, eds. (2007).

⁴⁰ This was, for example, the case in Brazil and Argentina in the late 1990s.

For these reasons, most countries have sought to put in place more or less restrictive frameworks to regulate sub-national borrowing. These frameworks vary significantly in their details, but can be grouped into three broad categories:⁴¹

Sole or primary reliance on the discipline of financial markets. To be effective in ensuring the sustainability of sub-national borrowing, this approach requires a number of demanding preconditions, including: a consistent record of no bailouts of sub-national governments in financial difficulty by higher-level governments; well-developed, competitive financial markets; no privileged channels of access by sub-national governments to credit; adequate information on the sub-national borrowers' accounts, including on contingent and future long-term liabilities; and early responsiveness of sub-national politicians to market signals. Since these conditions are rarely met in practice, market discipline alone has often proven ineffective in preventing sub-national fiscal stress and crises.⁴²

- **Discretionary arrangements**, whereby the sub-national borrowing limits are either negotiated between the higher and lower levels of government, or imposed by the former. These types of arrangements open significant scope for political bargaining and ultimately for soft budget constraints.
- **Rule-based controls**. These have become increasingly popular in recent decades, as witnessed by the very rapid growth of the number of countries that have adopted one or more sub-national fiscal rules.⁴³
- The most frequent combination of rules is one of budget balance and debt limits, but many countries are adopting expenditure rules as well (see Table 2).

Table 2: Sub-national fiscal rules in the OECD

Sub-Central Government	Budget Balance Rule	Expenditure Limit	Taxation Limit	Borrowing Constraint
Australia state	X	X	X	X
Australia local			X	X
Austria state	X			
Austria local	X			
Belgium state	X		X	
Belgium local	X		X	X
Canada state	X			
Canada local	X		X	X
Chile			X	X
Czech Republic	X		X	
Denmark	X	X	X	X
Estonia	X			X
Finland	X		X	
Germany state	X			X
Germany local	X			X
Ireland	X			X
Italy state		X	X	X
Italy local	X		X	X
Korea	X			X
Mexico state				X
Mexico local				X
New Zealand	X		X	X
Norway	X		X	X
Poland	X			X
Slovak Republic	X			X
Slovenia	X		X	X
Spain state	X			X
Spain local	X	X		X
Sweden	X			
Switzerland state	X			X
Switzerland local	X		X	
Turkey			X	X

⁴¹ See Ter-Minassian and Craig (1997) and Ter-Minassian (2015) for a more detailed discussion of the pros and cons of the different models.

⁴² The most successful example of full reliance on market discipline is considered to be that of the Canadian provinces. Even in their cases, however, market discipline has not obviated the need for abrupt adjustments in provincial budgets, especially during commodity price cycles.

⁴³ See Sutherland and others (2006), and Schaechter and others (2012).

It must be recognized that, while preferable to unfettered borrowing and to discretionary controls, fiscal rules are not a magic bullet for ensuring adequate fiscal discipline. Their effectiveness depends on a number of factors, in particular: the extent of

political and social support for them; the robustness of their legal basis; the soundness of their design; the state of the sub-national public financial management (PFM) systems; and the firmness of their enforcement (see Box 1).

Box 1: Main challenges in designing and implementing effective sub-national fiscal rules

- **Design issues**

- **Self- or centrally-imposed rules?**

Rules that are self-adopted by sub-national governments may enjoy greater “ownership” than those imposed by higher-level ones, but may not ensure a sustainable aggregate sub-national fiscal balance or debt.

- **Coverage**

To ensure adequate sub-national fiscal discipline, the fiscal rules must cover all operations of the sub-national governments, including those of their enterprises, agencies, or special-purpose vehicles.

- **Nature of targets/limits**

Rules targeting the overall fiscal balance may not accommodate an adequate level of sub-national investment. However, rules targeting the current fiscal balance (**golden rule**) are not sufficient to ensure fiscal sustainability. They need to be combined with rules limiting the size of the sub-national debt relative to revenues.

- **Degree of flexibility**

Fiscal rules should provide adequate flexibility to:

- Avoid fiscal pro-cyclicality. This is increasingly done at the central government level by targeting the cyclically adjusted (or structural) fiscal balance. But, the technical difficulties of estimating structural balances in real time are even greater at the sub-national than at the central government level; and
 - Accommodate unpredictable exogenous shocks (e.g., the fiscal impact of natural disasters). This can be done through well-specified escape clauses.

- **Implementation issues**

- The state of sub-national PFM systems is of crucial importance. Key ingredients are:

- Adequate capacity to forecast revenues and non-discretionary expenditures. This is especially difficult when sub-national governments depend heavily on discretionary transfers ;
 - Sub-national information systems that generate sufficiently comprehensive, reliable, and timely data on the budget execution to allow the adoption of corrective measures before the rules are violated;
 - Sound accounting and reporting systems that ensure adequate transparency of sub-national fiscal operations.

- To be effective, the rules must be supported by appropriate enforcement mechanisms:

- Clear, non-discretionary, and firmly applied sanctions for non-compliance; and
 - Requirements that violations of the rule should be corrected within a pre-specified period.

In light of the difficulties of designing and implementing effective systems of controls of sub-national borrowing, and of the above-mentioned adverse consequences of sub-national fiscal crises, there is also a long history of bailouts of sub-national governments in difficulty by higher-level governments. These can take different forms: discretionary gap-filling budgetary transfers or loans; the assumption and restructuring of the sub-national debt by the central government (typically involving a reduction of its net present value); or even outright forgiveness of the debt.

Sub-national bailouts are costly, not only because they entail additional financial burdens for the central government and, when large, can jeopardize the latter's creditworthiness and medium-term fiscal sustainability, but also because they give rise to moral hazard and thus further soften the sub-national budget constraint. The degree of such moral hazard depends on their frequency and the severity of the conditions attached to them. Bailouts involving a temporary takeover of the sub-national government in question by higher level authorities, the dismissal and possibly penalization of the sub-national officials involved, and a firm enforcement of often painful fiscal adjustment measures, are less likely to provide incentives to other sub-national governments for fiscal irresponsibility. International experience regarding bailout conditionality ranges from little to none (e.g., in Argentina), to some but weakly enforced (e.g., in pre-1996 bailouts in Brazil and in Mexico), and to a firmly enforced one (as in the municipal bailouts in the U.S. and the 1996-7 one in Brazil).

Also crucial in determining the extent of moral hazard created by a bailout is whether or not it is accompanied by strengthened preventive measures, in particular institutional reforms such as the adoption or strengthening of sub-national fiscal rules, measures to increase the transparency and reliability of sub-national budget information, and steps to reduce discretionality in intergovernmental fiscal arrangements.

⁴⁴ See Liu and Waibel (2010) for details.

An approach to preventing the need for bailouts that is gaining increasing popularity is the adoption of formal ex-ante frameworks for sub-national debt resolution that set out pre-specified rules for the allocation of default costs. The U.S. has such a framework for local governments (the so-called Chapter IX). So does Hungary, which enacted a Municipal Bankruptcy Act in 1996. South Africa did so in 2003.

Specifically, formal insolvency frameworks aim to clarify how, in the event of a sub-national default, the debt will be restructured in an orderly manner; which essential public services will be maintained and how; and what structural adjustment measures must be undertaken by the defaulting jurisdiction to restore its solvency.

If appropriately designed and implemented, such frameworks can provide a number of benefits by:

- Helping reduce disruption in the provision of public services, and the related political pressures for bailouts;
- Facilitating orderly workouts, minimizing problems stemming from holdout creditors;
- Facilitating the eventual return of defaulting jurisdictions to credit markets; and
- Helping prevent both sub-national governments' and lenders' expectations of bailouts, thus effectively hardening sub-national soft budget constraints.

The design of insolvency frameworks must balance the protection of creditor rights with that of core functions of the sub-national governments involved. It should also create sufficient political costs for leaders of defaulting jurisdictions to minimize moral hazard. Such frameworks require consideration and definition of many complex issues,⁴⁴ including:

- The role of the judiciary. While Chapter IX in the U.S. and Hungary's legal insolvency mechanism deal with insolvency through the courts, South Africa's legal framework is a hybrid, envisaging administrative intervention in the early stages of debt distress, followed by judicial intervention if the latter degenerates into insolvency;
- Who can file for bankruptcy? The class of eligible filers differs across countries;⁴⁵
- The specific triggering procedures;
- The creditors' majority required to bail-in holdouts;
- The order of priority of claims (typically wage or pension arrears, followed by secured credits, and lastly unsecured ones);
- Conditionality. This also varies across countries, with the U.S. Chapter IX being relatively stricter in this respect.⁴⁶

The design of insolvency frameworks must take into account, among other things, relevant characteristics of a country's legal system (including the constitutional status of sub-national governments and their relations with the higher level government(s)); the state of the judicial system; and the size and capacity of the jurisdictions involved. Highly complex frameworks can result in prohibitive legal costs for smaller jurisdictions. On the other hand, they can also encourage both municipalities in difficulty and their creditors to seek extra-judicial resolution mechanisms such as arbitration.

The case studies for the Brookings 21st Century Cities Project are likely to present a variety of arrangements for the prevention, and possibly for an orderly

resolution, of debt difficulties in the respective cities. As such, they should provide valuable insights into how the challenges briefly illustrated above are being met within the specific economic and institutional context of the country, and offer lessons for other cities in comparable environments.

6. Public-private partnerships

Faced with very large demands for infrastructure in an environment of tight budget constraints, many governments at both the national and the sub-national levels have made increasing use of public-private partnerships (PPPs) in recent decades. Country experiences suggest that PPPs are best suited for economic infrastructure, such as highways and ports. However, in some countries (e.g., U.K.) they have also been used successfully for certain social infrastructures, such as hospitals, schools, and prisons.

PPPs are contracts for the construction, operation, and maintenance of infrastructures, which combine a fixed-price/no-payments-in-progress component with a long-term service one. The contractor of a productive or social infrastructure project is paid after construction through service payments over the life of the contract. The asset may be owned by the government from the outset, or by the contractor until the end of the contract.

The main reason for a government to choose a PPP over conventional procurement (design-and-construct contracts) should be the efficiency gains that can be obtained through a well-designed and implemented PPP.⁴⁷ These gains include:

⁴⁵ In the United States, only the municipality in distress can file for bankruptcy under Chapter IX, conditional on being insolvent, having worked or attempted to work out a plan to deal with its debts, and having been authorized by the state to file for bankruptcy. In South Africa, any creditor can file a claim against the municipality. Similarly, in Hungary, a creditor can petition the court if a municipality is in arrears for more than 60 days.

⁴⁶ Chapter IX is designed to carry a strong stigma for the distressed municipality, to minimize moral hazard. In addition to the financial costs, there are significant political ones. State laws in the United States for distressed municipalities commonly provide for a transfer of control over municipal affairs.

⁴⁷ For more detailed discussions of the attributes of sound PPPs, see Schwarz, Corbacho and Funke (2008), European Investment Bank (2010), and OECD (2008) and (2012).

- A reduction of whole-of-life costs for the project: A contractor who carries both the risks of construction of the project and of performance in the delivery of the subsequent services has the right incentive to optimize construction costs, so as to minimize the subsequent operation and maintenance costs of the project, consistent with the pre-specified performance standards;
- Minimizing the risk of cost overruns and delays: since no progress payments are made during construction, and the service payments are determined at the outset, the contractor has an incentive to avoid delays and cost escalation during construction;
- Greater certainty and transparency of whole-of-life costs for the project;
- Contrary to widespread belief, financing considerations should not be important, since in general the public sector can borrow at lower rates than the private sector.
- Appropriate administrative structures within the government, including skilled sectoral staff dedicated to overseeing the design and implementation of PPPs, and a “gateway” analysis and review process by the government’s unit responsible for the budget (the ministry of finance or its sub-national equivalent);
- Systematic use of sound cost-benefit analysis of proposed projects, to ensure adequate rates of economic and social return; and of public sector comparators, to inform the choice between PPPs and direct public procurement;
- Preparation of clear, unambiguous contracts, to help reduce the risk of lengthy and costly renegotiations;⁴⁸
- Open, competitive, and transparent procedures for bidding and awarding of contracts. The awarding of contracts should be based on quality and reliability, not just pricing considerations;
- A predictable and non-discriminatory regulatory environment.

PPPs, however, have disadvantages too, in particular high project preparation and contracting costs, and difficulties in pre-specifying appropriate performance standards. It is therefore very important that governments undertaking PPPs have well-developed institutional capacities and appropriate processes to handle such projects, including:

- A clear and sound legal framework, establishing the basic requirements for PPPs and mechanisms for dispute resolution and cancellation of contracts, including stepping-in rights;
- Strong political commitment, good governance, and a well-functioning judicial system (needed to assure investors that contracts will be honored);

Unfortunately, these requisites are not always met, especially in sub-national governments, a fact that explains the heterogeneous record of performance of PPPs to date (including cost overruns and frequent contract renegotiations).

Crucial to the success of PPPs is an appropriate sharing of risks between the public and the private partners. In principle, each type of risk should be allocated to the partner who is best able to bear it. In practice, it is not always easy to determine such an optimal allocation. Generally, the public partner bears any risks related with the legal framework and regulatory (e.g., environmental) constraints, and the private partner the construction and performance risks.

⁴⁸ Contracts should define in detail: the features and quality of PPP outputs; the allocation of risks; the rules for dealing with unforeseen events; step-in rights in the event of default of private partner; and conflict resolution mechanisms.

Country practices vary with respect to the allocation of risks related to the demand for the services of the asset—if the public sector is the sole originator of such demand (e.g., in the case of school or prison facilities), it should bear the full risk. In other cases (e.g., a toll highway) the risk may be shared between the public and private partners.

An appropriate accounting treatment of PPP transactions is important to avoid that these arrangements are undertaken to minimize recorded public deficits and debt, rather than to exploit their potential for efficiency gains. Specifically, the net

present value of future service payments should be recorded as a government liability when the contract is signed; the face value of guarantees provided by the government (national or sub-national) to the private partner should be included in the relevant budget annex on fiscal risks; and adequate provision should be made in the budget for the expected value of calls on such guarantees.⁴⁹

The case studies in the project should provide useful insights into the experiences of the selected cities with PPPs, their main characteristics, and factors influencing their performance to date.

⁴⁹ See Hemming and others (2006).

MAIN ISSUES TO BE ADDRESSED BY THE CASE STUDIES

This section briefly outlines the main issues that, in the light of the literature review above, could be covered in the proposed case studies of European cities. These questions will need to be expanded in detailed questionnaires to be prepared for each city to be visited, and sent to the local authorities in advance of the visit.

- **Governance**

- The legal status of the city vis-à-vis higher levels of government (central and, if relevant, intermediate) and other local governments in the same metropolitan area;
- The structure of the city government; division of responsibilities between the Executive, Legislative and Judicial branches; relations with autonomous public entities and enterprises;
- Arrangements for intergovernmental cooperation, both vertical and horizontal: modalities, obstacles, perceived effectiveness;
- Main features of the local civil service (number, statute, skills, labor relations);
- Relations with civil society.

- **Expenditures**

- Functions for which the city is responsible, distinguishing between areas of exclusive and concurrent responsibility with other levels of government. Extent of overriding power of higher level(s) of government in areas of shared responsibility;
- Level and composition of budgetary expenditures;
- Main features and challenges of the city's budget preparation, execution,

monitoring, accounting and reporting processes;

- Procurement systems and practices;
- Main indicators and processes utilized to assess the effectiveness and efficiency of city's spending programs. Dissemination of such indicators;
- Extent of civic engagement in the budget process;
- Role of autonomous public entities and enterprises in the delivery of public services;
- Main priorities for maintenance and new investments in productive and social infrastructures;
- Processes for selection, preparation, bidding, monitoring and evaluation of directly procured public investments;
- The city's experience with PPPs: criteria for choice between PPPs and direct procurement, and for allocation of project risks; institutional framework for PPPs; evidence so far of their benefits and costs. Accounting of PPPs and related future obligations, and contingent liabilities;
- The city's role in, and strategy for, promoting private investment in production and innovation.

- **Own revenues**

- Level and composition of own tax and non-tax revenues;
- Main characteristics of local property taxes: coverage of the base; rate structure; valuation and periodic reassessment methods; payment methods; enforcement and dispute resolution mechanisms; extent of taxpayers' aversion to these taxes. Use of various types of betterment levies, and assessment of their effectiveness;

- Other taxes levied by the city: characteristics and main perceived advantages and disadvantages;
- Use of tax incentives and assessment of their effectiveness;
- User fees: extent, pros and cons, distributional impact;
- Main features of, and challenges for, the local revenue administration.
- **Intergovernmental transfers**
 - Level and composition of transfers received by the city;
 - Perceived overall adequacy, in light of revenue capacity and spending needs;
 - Perceived advantages and disadvantages of the different types. Any evidence on their distributional impact;
 - Nature of conditionality of grants received; systems and indicators for the monitoring of fulfillment of the conditionality;
 - Criteria and systems for the allocation of capital grants by higher-level governments. Capacity of the city to effectively compete for such grants.
- **Debt and asset management**
 - The legal framework for city borrowing: fiscal rules; debt or debt service limits; need for authorization by higher levels of government or by legislative branch or by voters. Perceived benefits and costs of the framework;
 - Level and composition of city's debt. Availability of information on contingent liabilities, other fiscal risks, and long-term liabilities. For example, relating to civil servants' pensions and health care;
 - Institutional set-up and main guiding criteria for the management of the city's debt, and of financial and other assets;
 - Experience with use of innovative financial mechanisms, including SPVs;
 - Existing frameworks for resolution of debt difficulties, if any. Perceived benefits and costs of adopting such frameworks.

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