Discussion – Assessing Assessors

Authors: Huaizhi Chen and Lauren Cohen

Discussant: Natee Amornsiripanitch*

*The views expressed in this presentation are solely those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia, the Federal Reserve Board, or the Federal Reserve System. Any errors or omissions are the responsibility of the author. No statements here should be treated as legal or investment advice.

What I like about the paper

- Figure 1 showing the relationship (or the lack there of) between property tax revenue and house price documents an important fact.
- Table 4 showing that property tax revenue responds more to income growth than to changes in house price is important evidence that property tax revenue is mainly a tool for the provision of public goods than as a wealth tax.
- Overall, the paper tries to shed light on an important topic – the political economy of property tax.

Overview of discussion

- Broadly, I believe the paper's conclusion that local governments have many tools to smooth property tax revenue and use them to do so.
- Comment area 1 – Using and understanding of property tax assessment data.
- Comment area 2 – Interpreting the results with knowledge of property tax administration.
- Comment area 3 – Methodological suggestions.

Table 5. Public Finance and Deviation from Market Values

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	% Diff Between Sale and Assessed Value				*% Sold 10% Below the Assessed Value*			
% Local Government Deficit	-0.996***	-0.953***	-0.418***	-0.311***	0.680***	0.689***	0.101**	0.103***
	(-10.04)	(-9.464)	(-3.564)	(-3.699)	(11.48)	(10.86)	(2.256)	(2.639)
Log Population		0.152*	0.115***	0.197*		0.0828*	-0.0130**	-0.00810
		(1.963)	(3.929)	(1.828)		(1.827)	(-2.283)	(-0.154)
Property Tax as % of Tax Revenue		-1.057***	0.0866	-0.590***		0.645***	0.0160	0.214***
		(-5.340)	(1.126)	(-3.847)		(5.461)	(0.524)	(3.448)
County Fixed Effect	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effect	No	No	Yes	Yes	No	No	Yes	Yes
Observations	5,582	4,973	5,017	4,973	5,582	4,973	5,017	4,973
Adjusted R-squared	0.418	0.427	0.215	0.573	0.213	0.216	0.551	0.706

- Were arm's length transactions used to compute Y?
- Drop non-disclosure states because transaction prices are imputed.
- Assessed value data is tricky.
- (A) Unclear whether you are observing the estimated market value or "adjusted" values.
- (B) Unclear whether you are observing pre- or post-exemption assessed values.
- Cannot rule out differential appeal behavior.
- Consider dropping analyses using "% Sold X% Below Assessed Value."

Table 6. Reassessment Tendency

	(1)	(2)	(3)	(4)	(5)
	% of Observed Properties Reassessed$_t$				
	All States			Capped States	Non-Capped
% Market Return$_t$	0.184***	0.215***	0.0719**	0.289***	0.124**
	(6.021)	(5.859)	(2.128)	(5.678)	(2.392)
% Market Return$_{t-1}$	0.209***	0.237***	0.0794**	0.262***	0.172***
	(6.509)	(6.139)	(2.412)	(4.804)	(3.170)
% Market Return$_{t-2}$	0.0142	0.0344	-0.0333	0.0512	-0.0104
	(0.444)	(0.935)	(-1.070)	(1.054)	(-0.196)
Time FE	No	Yes	Yes	Yes	Yes
County FE	No	No	Yes	No	No
Observations	6,813	6,679	6,679	3,445	3,368
Adjusted R-squared	0.008	0.473	0.485	0.027	0.014

- Does not account for differences in reassessment frequency and jurisdiction size → interpretation is tricky.
- Many counties operate on a fixed reassessment schedule → local governments have little choice in when to reassess.
- County is not always the smallest unit of reassessment.
- Ex1: Cook County IL divides the county into three districts, and one gets reassessed every year.
- Ex2: Many places in the northeast reassess at the town-level not county.
- Does not account for appeals.

Recommendations for Table 6

- Properly account for the fact that county is not always the level of reassessment.
- Zoom into places where reassessment cycles are not fixed.
- Discuss the results in a softer language because the analysis cannot account for differential appeal tendency and success rate.
- Add outcomes that capture upward reassessments.

Table 7. School Referenda: Assessment Value vs. Market Value Response

Panel A: Response of Assessment Values to the Close Passing of Local Referenda

	(1)	(2)	(3)	(4)
	% Growth		% Reassessed Upward	
Passed Referendum	1.24**		5.77**	
	(2.510)		(2.312)	
# of Passed Referenda		0.913**		4.46**
		(2.366)		(2.282)
Year FE	Yes	Yes	Yes	Yes
Observations	5,522,044	5,522,044	5,522,044	5,522,044
Adjusted R-squared	0.177	0.177	0.328	0.327

- Why is there no county or tract fixed effect?
- Use stacked event study TWFE regression instead.
- Since referendum passage is often close (50-50), consider using RDD as a robustness check.

Panel B: Response of Market Values and Market Transactions to the Close Passing of Local Referenda

	(1)	(2)	(3)	(4)
	% Price Return		% Change in Transactions	
Passed Referendum	-0.604		-4.79*	
	(-0.431)		(-1.879)	
# of Passed Referenda		-0.511		-4.38**
		(-0.434)		(-2.188)
Year FE	Yes	Yes	Yes	Yes
Observations	578	578	578	578
Adjusted R-squared	0.042	0.042	0.333	0.333

- Comments/suggestions for 7A apply.
- Run the same regressions using property-level panel.
  - Columns 1-2: Use tract-level HPI from FHFA and sale price to infer/impute property-level market price movements.
  - Columns 3-4: Sale indicator for the entire tax roll.
- Table 3: Assessed values lag market prices → results in 7A may just be reflecting past movements of market prices, i.e., house prices (like stocks) are efficient in incorporating information.
- Run 7B using lagged market prices for robustness.

Table 11. Assessor Administration

	(1)	(2)	(3)	(4)	(5)	(6)
	% Change in Assessed Value		% Change in Tax Amount		Total Assessed Value	
Within County	-1.28***	-1.23***	-1.72***	-1.47***	-2,565	-4,353***
	(-5.596)	(-4.676)	(-4.877)	(-4.481)	(-0.316)	(-3.829)
Outside County	0.244	0.653	-3.89*	-3.42*	82,726**	3,248
	(0.133)	(0.353)	(-1.857)	(-1.776)	(2.511)	(0.568)
Prior Assessed Value		-6.70e-06***		-3.53e-06**		1.012***
		(-7.740)		(-2.511)		(128.1)
Square Footage		8.71e-03		1.39e-04		-30.64
		(0.939)		(0.00918)		(-1.221)
Other Hedonic Controls	No	Yes	No	Yes	No	Yes
County X Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,895,963	15,573,810	16,895,963	15,573,810	16,895,963	15,573,810
Adjusted R-squared	0.183	0.209	0.080	0.093	0.320	0.939

- Cannot rule out appeals → cannot interpret result as entirely being driven by rent seeking behavior.
- "Outside County" coefficients in columns 3-4 do not agree with story.
- Consider stacked event study TWFE regression around home ownership changes → effect should disappear when assessors are replaced by non-assessors.
- Helpful but still cannot rule out appeals interpretation.
- The economic magnitudes are small so the "rent seeking" interpretation seems too aggressive.

Table 12. Assessor Undervaluation and the Assessment Gap.

	(1)	(2)	(3)
	% Diff Between Sale and Assessed Value		
Assessor Property Undervaluation	-2.239**	-9.238***	-8.298***
	(2.095)	(3.159)	(2.978)
County FE	No	Yes	Yes
Year FE	No	No	Yes
Observations	135	102	102
Adjusted R-squared	0.010	0.875	0.881

- Authors argue that this correlation tells us that there is a strong link between assessor's discretion on their own property and the overall overassessment of properties in the jurisdiction.
- It could be the case that, in places where assessments are generally elevated (due to methodological choices?), assessors, knowing this, are more vigilant about appealing their own assessments.

Conclusion

- Very important paper – showing that property tax revenue and assessments do not typically reflect home values.
- Authors should be more careful in accounting for institutional details on property tax administration when executing empirical analyses and interpreting the results.
- Difficult to sell the political economy/rent seeking story.
- An easier path to publication may be to carefully document how certain tools are used to smooth tax revenue during different macroeconomic conditions and how that may have economic consequences (e.g., inequality and so on) on homeowners.