

Property Tax Protection and Municipal Bond Valuation

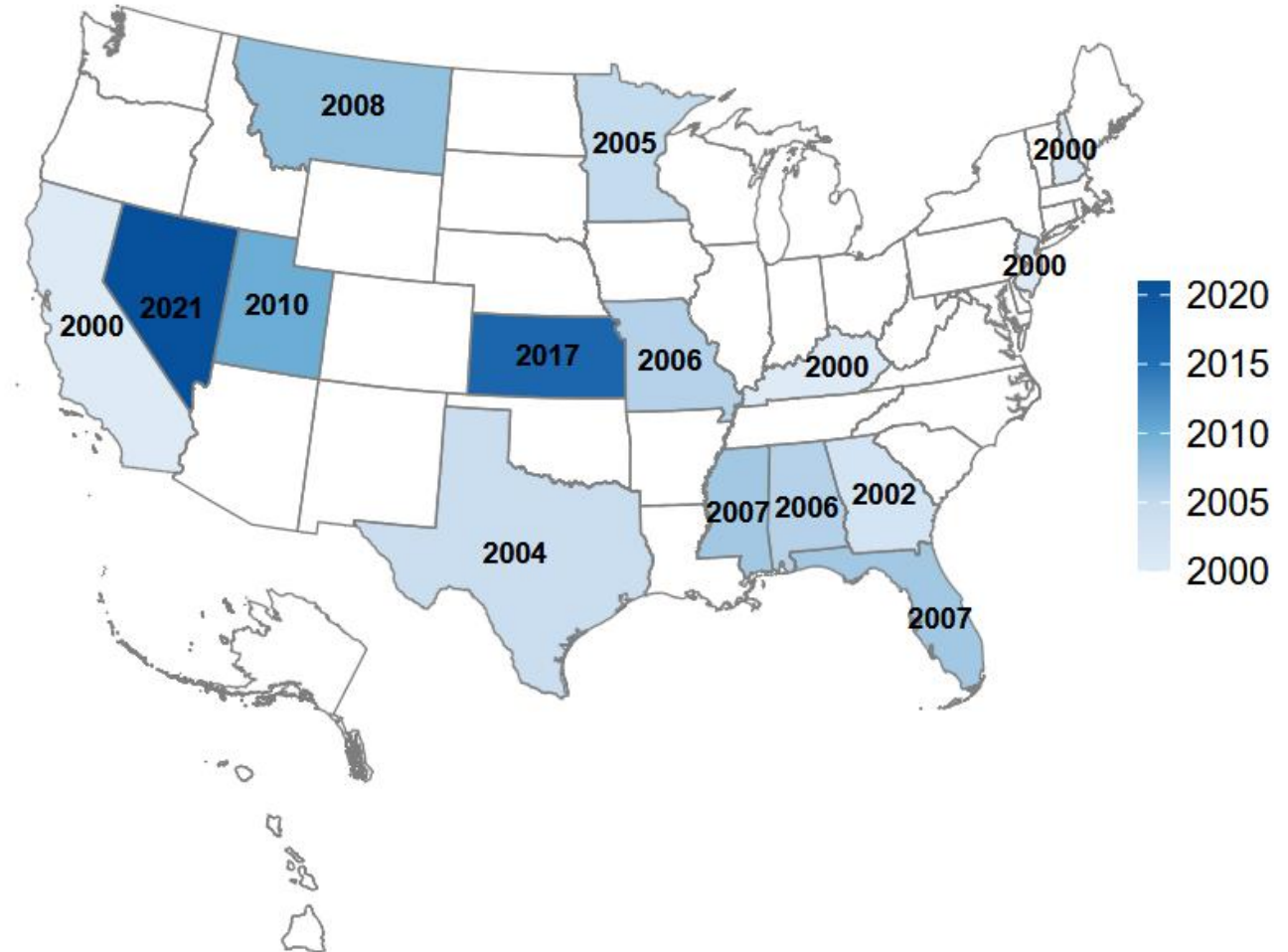
Yunjoo An, Indiana University

Discussion by Jess Cornaggia, Penn State University

15th annual Brookings Municipal Finance Conference

Are property taxes capitalized into municipal bond yields?

- Yes
- Yields on school bonds **decline** after states implement floors that limit the rate of decline in property tax rates that schools collect
- Yields on county GO bonds **increase** at the same time
- Counties are required to support schools when floors bind
- A zero-sum subsidy from counties to schools is priced intuitively



Does 1 minus 1 equal zero?

- If schools' gains are counties' losses, then:

School yield decrease

≈

County yield increase

	(1)	(2)
	School District Bond Yield Spreads	
	Coefficient	<i>t</i> -stat
$\beta(\text{Floor}_{st})$	-0.071**	(-2.217)
Issuer FE	Y	Y
Year FE	Y	Y
Bond Controls	Y	Y
Issuer Controls	Y	Y
<i>N</i>	697,366	

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- From Table A.3
 - Property tax revenue for counties = \$46.3M / year
 - Property tax revenue for schools = \$14.3M / year

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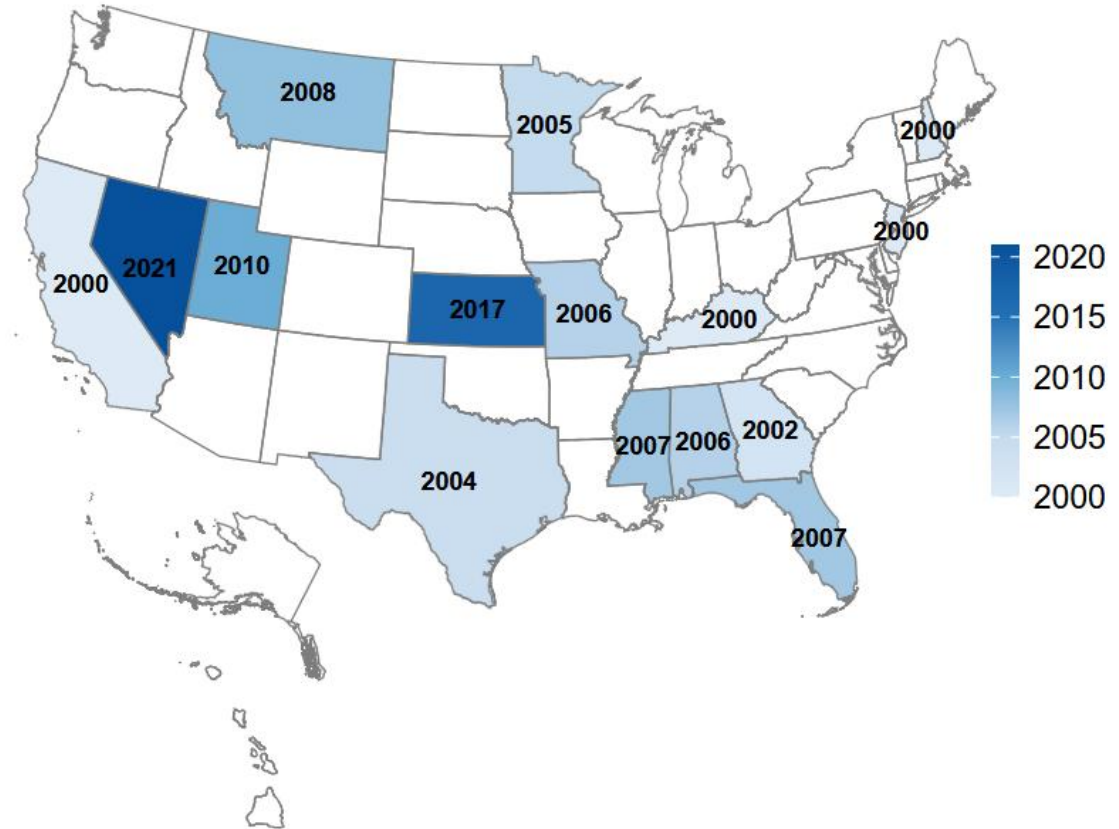
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Suggestion: Compute PV of interest savings on new issues (Garrett and Ivanov, JF, forth.)

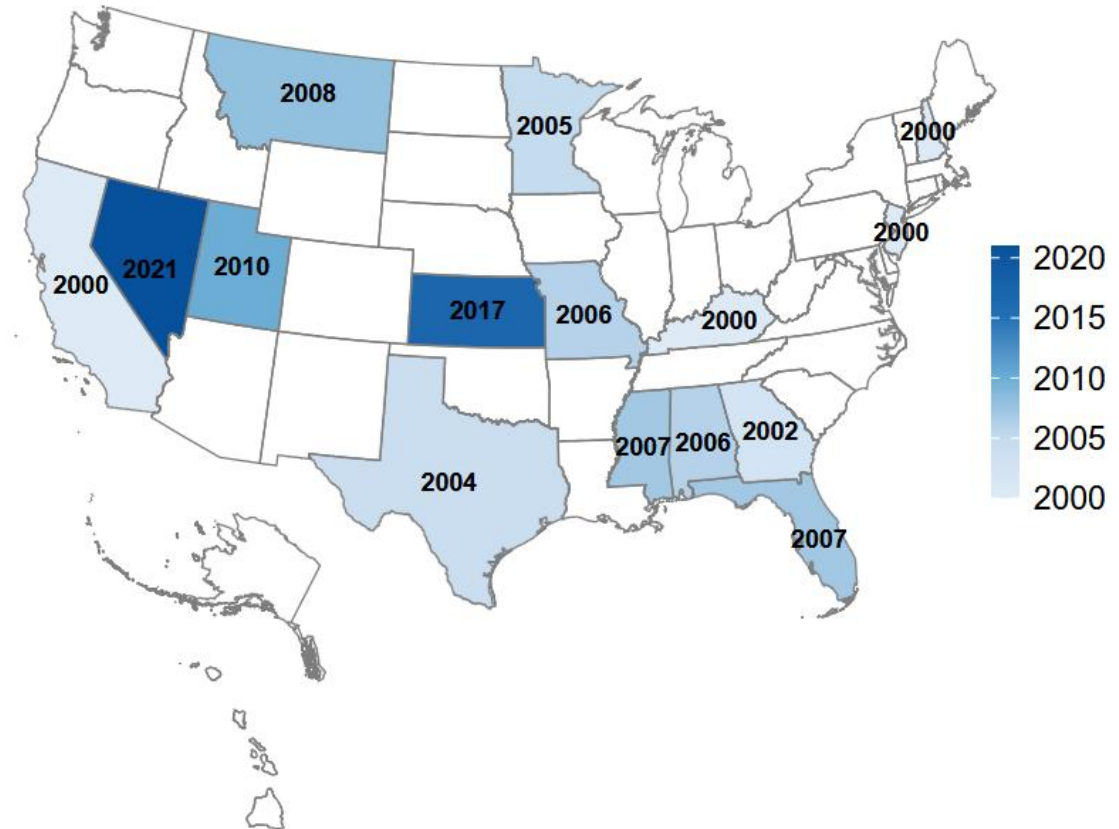
How are the data sourced for early years?

- Paper's sample is 2000 – 2022
- Trade data are from MSRB, which started on WRDS in 2005
- Are 2000 – 2004 data sourced directly from MSRB, à la Schwert (2017)?



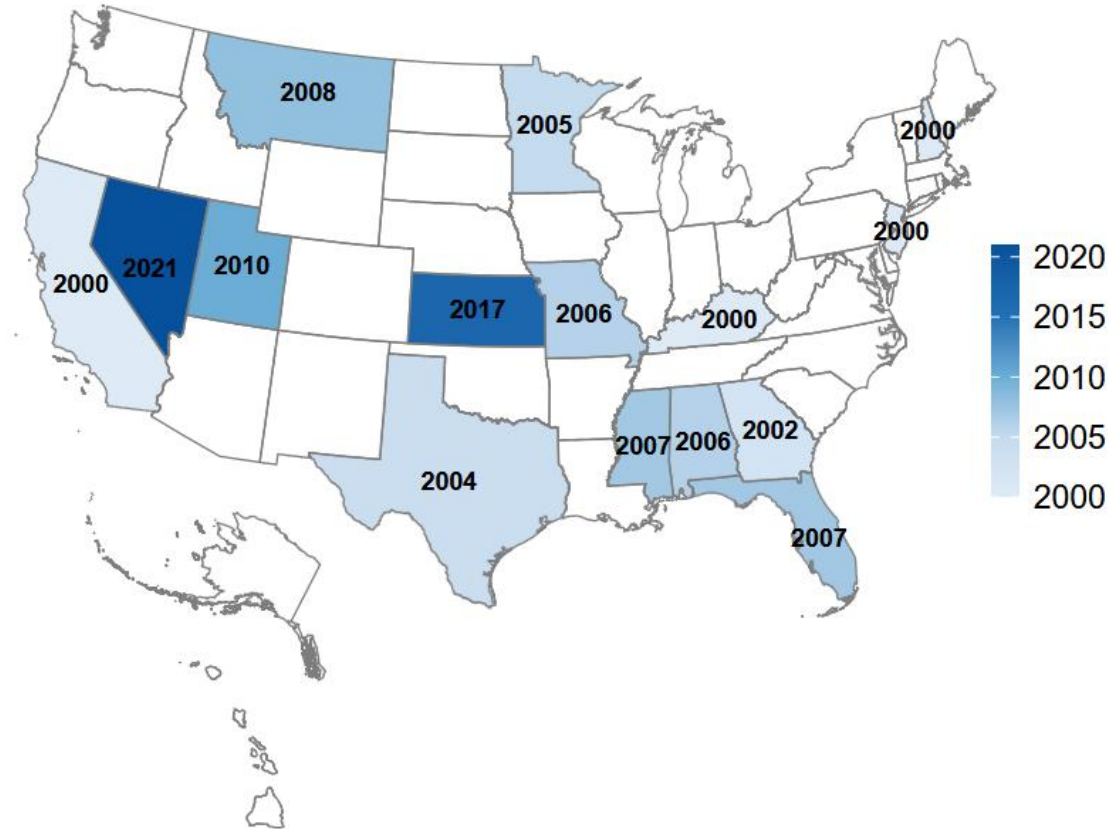
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- **Why this matters:** 4 of 15 states treated in 2000
 - KY, NH, NJ, and CA, the largest issuers in the sample
 - These “always-treated” states contribute no variation
 - 3 others are treated in 2005 or before



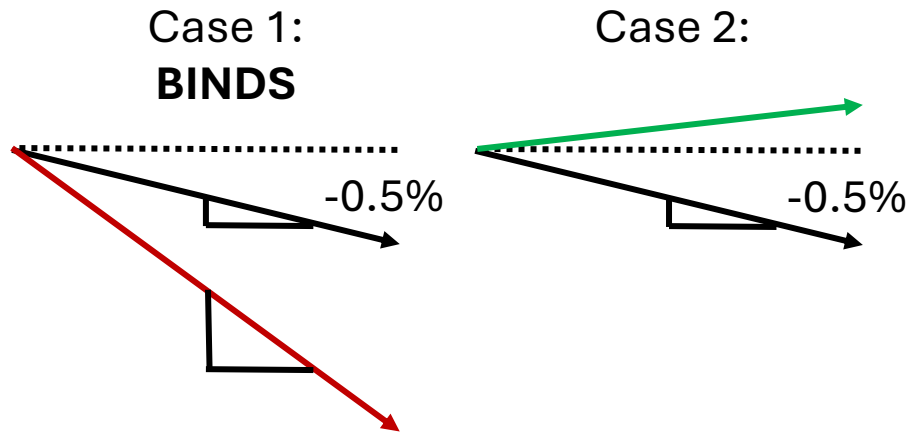
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- **Suggestion: Clarify which states drive the results**



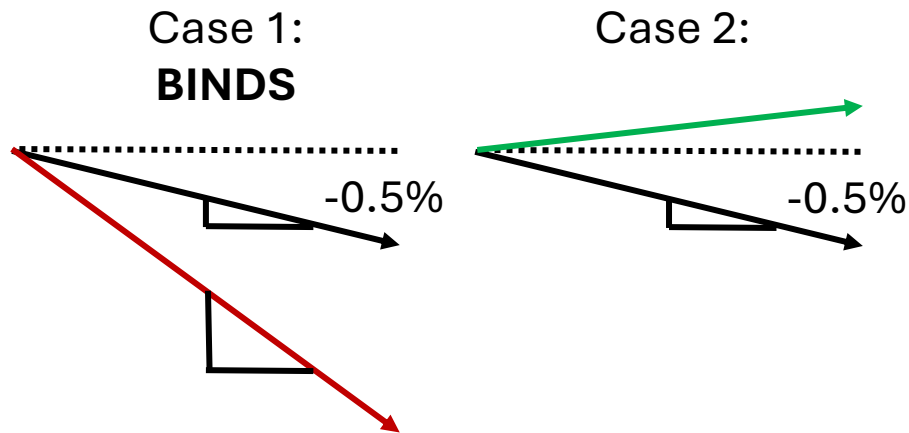
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- Suggestion:**
 - Identify when the floor binds (data work)
 - Test whether results are stronger for Case 1 events



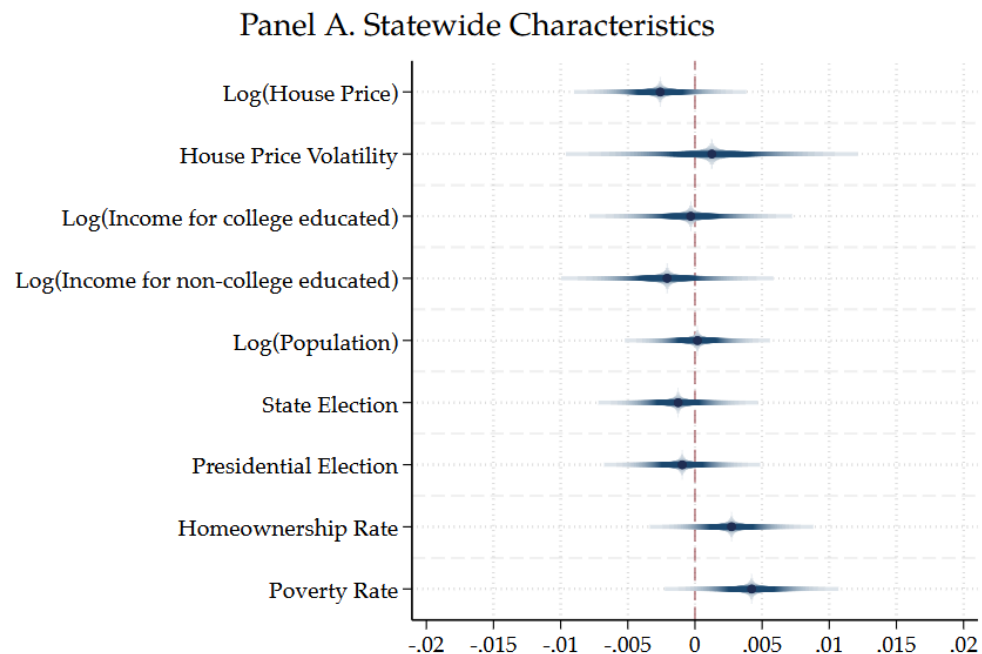
What else happens when floors are installed?

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 - do states pick property tax protections instead of other reforms (grants, equalization plans, etc.)?
 - don't more states use this tool?
 - was 2000-2010 the popular adoption time?



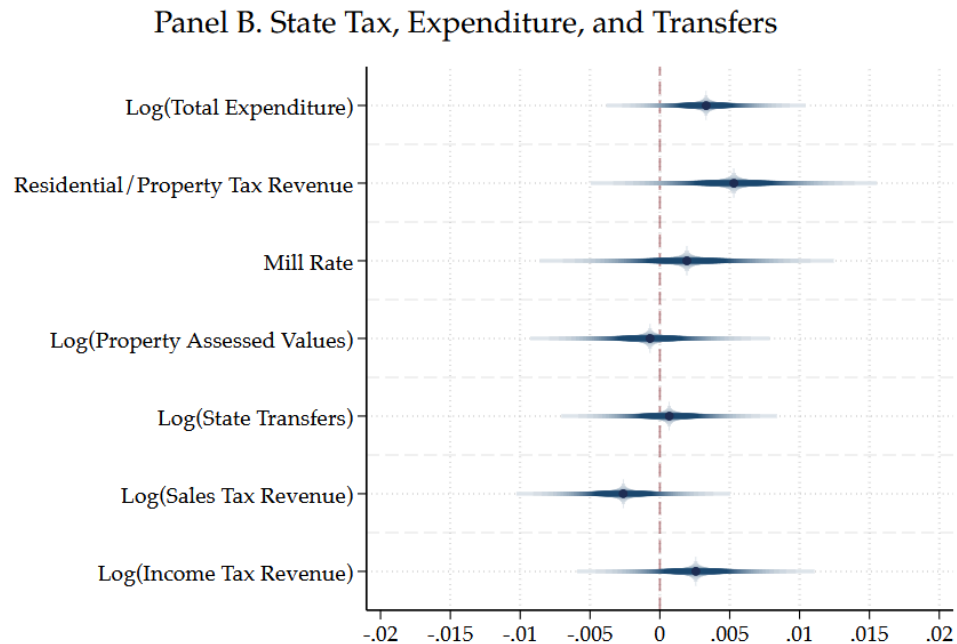
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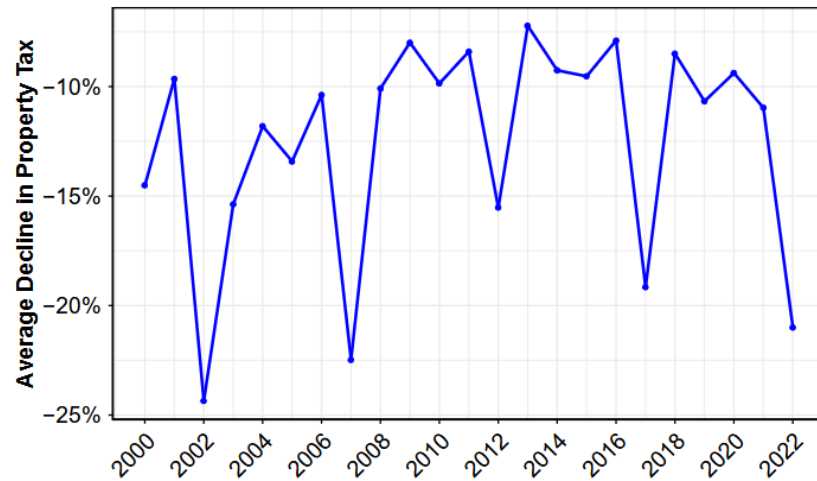
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- Paper shows many characteristics do *not* explain adoption
- So, what *does* explain adoption?
 - **Suggestion: Explain the adoption, and then discuss whether it is a credible threat to identification**



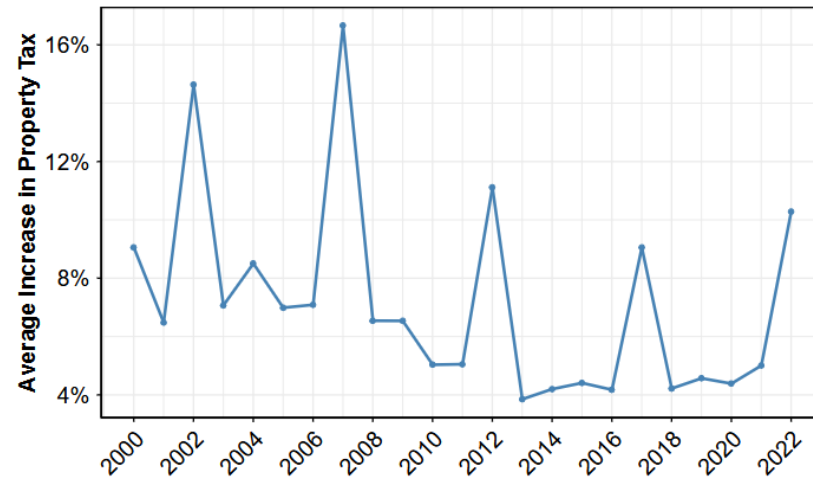
Smoothing rough spots in the data

- Appendix figures A.3 and A.4 show volatility in declines and increases in property tax rates:

Panel B. Average decline rate of property tax



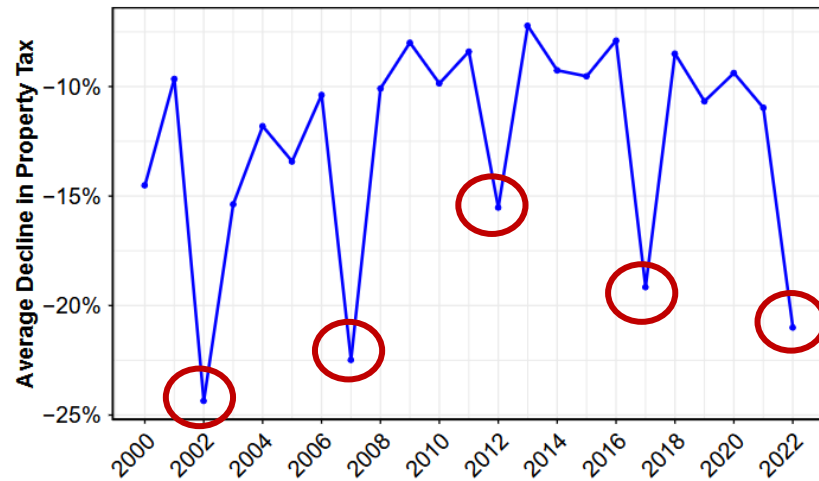
Panel B. Average increase rate of property tax



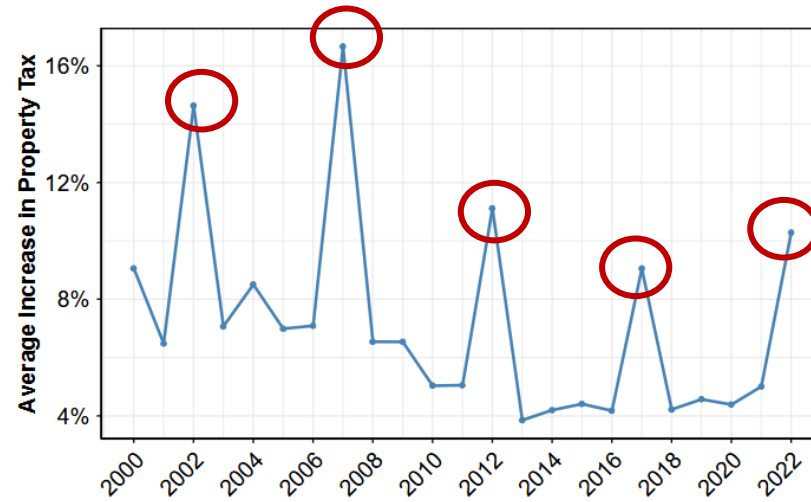
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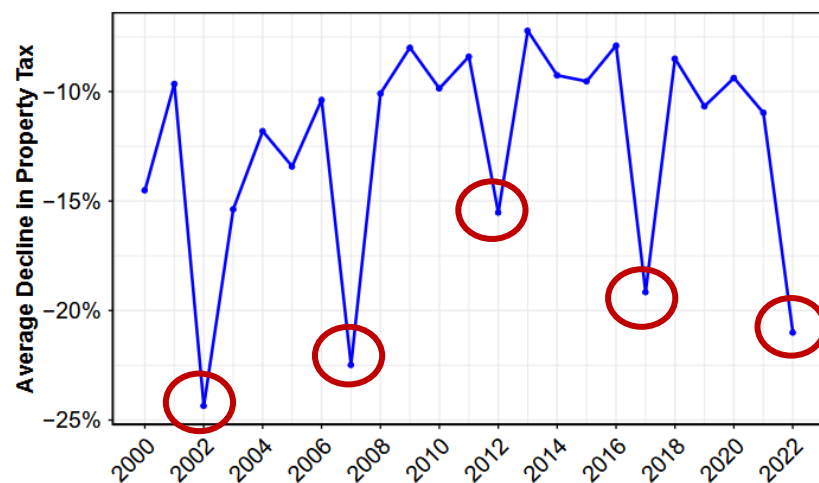
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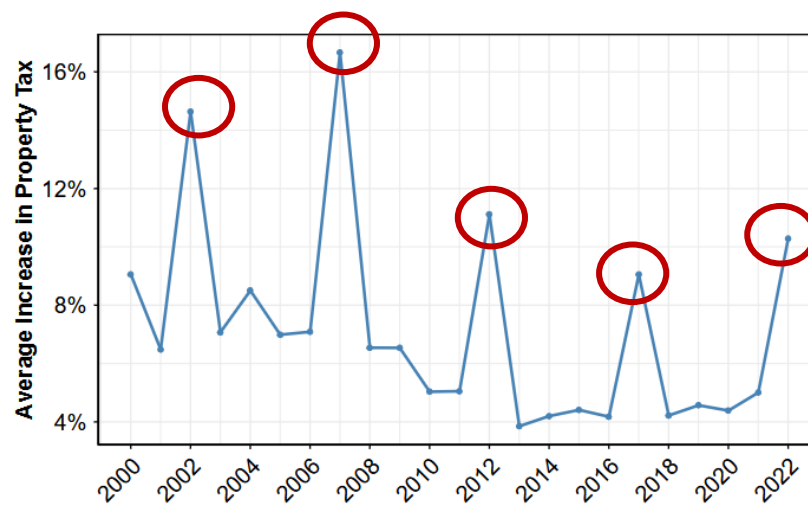
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Panel B. Average increase rate of property tax



- Suggestion: Interpolate missing years' data, or use a constant sample of represented issuers**



Conclusion: With a coat of polish, this paper can make a significant contribution



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1. Sanity check for magnitudes
2. Which states drive the results?
3. Focus on floors that bind
4. Explain adoption
5. Interpolate or use a constant sample



The background of the slide is a close-up photograph of a wooden floor with a herringbone or parquet pattern. The wood is a warm, medium-brown color with visible grain and some darker staining or knots. The pattern consists of rectangular blocks of wood arranged in a repeating V-shape.

Thank you

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