

THE ARLINGTON STORY:

Real Estate Assessment Reform
As a Factor in the Self-Renewal of Cities*

By Lyle C. Bryant

The paper I prepared last year for the Robert Schalkenbach Foundation on Rosslyn: a Case Study in Urban Renewal, noted and considered the inter-relationships of three notable features of Arlington County, Virginia:

1. Its unusual real estate assessment system -- unusual because, on the basis of indexes of assessment inequality calculated from the only two nationwide surveys ever made (U.S. Census of Governments 1957 and 1962) the Arlington system ranks among the three best in the nation.
2. Its stubborn refusal to become entangled with the federal government's urban renewal program.
3. Its amazing Rosslyn redevelopment -- where, in the space of three or four years, a hundred-acre petty commercial, industrial and slum-housing area has been transformed into an exciting office building, hotel, and high-class apartment district (see Appendix A).

My focus this morning will be on feature number one. However, regarding feature number three let me make this important but often overlooked point: The Rosslyn spectacular is but one aspect of a process of urban renewal that has been going on continuously during the past 15 years or so, in dozens of

* A paper presented during the national convention of the American Society of Planning Officials at Philadelphia, Pennsylvania, April 18, 1966.

different areas scattered through Arlington County. A substantial volume of obsolete residences and commercial and industrial structures have been either remodeled or replaced by structures geared to current market demand. Such redevelopment or renewal has often been on a structure-by-structure basis; but frequently sizable areas, comprising many individual properties, were involved.

Here it is my object, within the limits of the time available, to give insights into the total social process involved over a 20-year time span in transforming a quite irrational arrangement for assessing real estate into a system that is in accord with the best available thinking about land economics; and to comment on the economic consequences.

I chose this topic after reading Dick Netzer's recently published Brookings Institution study, The Economics of the Property Tax. A very good book, generally speaking, but perhaps somewhat misleading. I particularly recommend his discussion of the resource allocational effects of site value taxation. Netzer is a first-rate economist. While he is critical of doctrinaire Georgists, those of the more creative variety will warm to much of what he says. For example:

"To be sure, heavier taxation of site values combined with lower taxation of improvements may not by itself produce all the salutary results often claimed, but it is difficult to find any flaws in the argument that the tax change will tend to work in this direction and therefore have favorable resource allocational effects."

If the Netzer book is misleading it is because the author seems so awestruck by the poor quality of administration of the real property tax in the United States. He quite properly emphasizes that without good administration it is absurd to expect advantages from differential taxation of site and improvement values. But when he discusses prospects for improving the administration of this tax, he is very pessimistic.

To what extent Netzer is justified in his pessimism I cannot say for sure. But this I can say: The question is one that the land planning fraternity is going to have to face if it expects to continue to be taken seriously. And I believe the Arlington story has something significant to say to this question -- despite the risks inherent in generalizations from a single case.

Beginnings: The story opens with a series of conversations occurring between 1946 and 1950. One of the earliest was with Max Wehrly, then assistant director, now director, of the Urban Land Institute. He can best be described as the leader of the nation's business-oriented land planners. In 1946 he was a member of the Arlington County Planning Commission. By raising the right questions he started things moving. As a new member of the Arlington County Civic Federation's Planning and Zoning Committee, I queried Max as to why things so seldom happened the way the planners said they should. He answered that somehow a way would have to be found to gear together changes in zoning with changes in real estate assessment. This started a quest for understanding of the interrelationships of taxation and land use.

An important group of conversations started shortly afterward at a convention of the American Civic and Planning Association in Washington. The key figure was the late Harold Bottenheim, editor of American City and author of Urban Land Policies (Washington 1939), a famous report of the Urbanism Committee of the National Resources Committee. This wise man taught us much about the interrelationships of taxation and land use. It was he who first brought our group to some understanding of how the persistence of blight and slums tends to be encouraged by the failure of local governments to tax land harboring obsolete improvements according to its full market value. It was he who first made us realize that the basic formula that was about to be adopted by Congress for urban redevelopment (federal subsidies for writing down the costs of properties purchased in project areas) was a prime example

of monstrous economic witlessness. He showed us how resort to the presumably "easy" way of buying off owners of slum properties in project areas at the false values made possible because local governments did not adopt and enforce housing codes and did not tax land according to its market value, would have toxic side effects -- being bound to bolster the hopes of slum property owners in other areas and thus force up their asking prices. This would make it more difficult for redevelopment ever to be effected by private enterprise. It was he who helped us realize that in our slum and blighted areas the real economic values were in sites and that if we could find a way of taxing those sites at their potential value we would be putting pressure on those who were merely sitting on their properties or exploiting them to lower their asking prices and let the land go to someone who would do something with it.

Suddenly it dawned on me that Mr. Buttenheim's neo-Georgist approach to urban renewal was essentially an application to this group of problems of the approach of my University of Chicago mentor, Henry Simons, in his Positive Program for Laissez Faire. My appetite having been whetted by this insight, I persuaded Mr. Buttenheim to put on paper his ideas about how a community like Arlington might go about creating the basic conditions necessary to allow renewal to occur continuously in response to the spontaneously generated pressures of market forces. Albert Dickens, an urban economist, reviewed the paper and suggested some other angles. So did Raymond Hengren, an expert in municipal finance.

A boiled-down summary of this group of conversations was published as Topics 44 and 45 in the 1950 edition of Suggested Research Topics in Business and Economics, a publication of the University Extension Service, United States Department of Commerce, of which I was then the editor (see Appendix B). For a decade and a half these brief statements, together with other writings of Mr. Buttenheim and of Mabel Walker have served as beacon lights for

thinking about what Arlington might do to facilitate continuous urban renewal thru the normal functioning of market forces.*

The third important set of conversations involved the Arlington Civic Federation's Revenue and Expenditures Committee, for which I volunteered soon after the conversations with Mr. Buttenheim had begun. Those of us who shared the understanding emanating from the Buttenheim-Walker school of urban renewalists agreed that a systematic assessment system would be a prerequisite for accomplishing the things Mr. Buttenheim envisioned. So the decision was made to focus on this. By state law reassessments were made at four-year intervals and could not be changed in the interim unless there was new construction. The time allotted for the quadrennial reassessment was insufficient to permit assessors to do good work. Many instances turned up of gross inequalities between assessments for different properties. And there was politics aplenty.

A single conversation with the late Wylie Kilpatrick early in 1947 was sufficient to put our Revenue and Expenditures Committee on the track of enough resources to keep us busy for months. It was Kilpatrick who put us in touch with Laszlo Ecker-Racz, a Treasury economist (currently Associate Director, Advisory Council on Intergovernmental Relations), who started a distinguished career in Arlington civic life as advisor to our committee. Kilpatrick also told us of a recent report on assessment practices in Virginia prepared by Dr. William H. Stauffer for the Virginia State Chamber of Commerce -- which provided much grist for the committee's mill during the critical years of 1947-1949. Also we learned from him about a program recently established in the State Department of Taxation to help localities in

* Dr. Mabel Walker's Urban Blight and Slums (Harvard University Press, 1938), along with the Buttenheim writings, has been relegated to Old Testament status since the publication (1960-62) of her Land Use and Local Finance (Tax Institute Inc., 457 Nassau Street, Princeton, N. J. \$2.00).

Virginia, whereby a crew of professionally-trained appraisers could be obtained on a reimbursable basis to set up a scientific system and reappraise all local real estate.

The timing of the ensuing campaign could hardly have been better. The school improvement movement, for which Arlington was to become nationally famous, was just getting under way, and many were asking where the money was to come from.

The Chairman of the Civic Federation's Revenues and Expenditures Committee, Florence Cannon, talked about the need to improve real estate assessments in her campaign for the County Board in 1947, and she won that election. Her successor in the committee chairmanship, Robert W. Cox, exploited the reassessment issue much more intensively, and this was a major factor in his winning the nomination and election to the County Board in 1949.

Highlights of the Movement: The movement to rationalize Arlington's real estate assessment system lasted a decade, if we count from the summer of 1947, when the opening guns were fired, until 1957, when a county ordinance was passed establishing annual assessments on a firm legal basis. However, it would be more meaningful to say that after the first few years of critical decisions, the system has been changing gradually, gaining steadily in strength. A blow-by-blow account appears in my earlier Rosslyn report and will not now be repeated.* Here are some salient points:

1. Early in 1950 leadership of the movement for reform of the assessment system passed to the Fiscal Affairs Committee created at that time by the County Board. The first chairman was Edmund D. Campbell, former

* See also two very scholarly official reports:

1. Assessment of Real Estate in Arlington County, Virginia, Office of the County Manager, May 1961. Preliminary Report (mimeographed).
2. Analysis of Assessment Ratio Data, Arlington County, Virginia, Office of the County Manager, November 1961 (mimeographed).

County Board member. Laszlo Ecker-Racz was an original member. The latter soon became (and continues to be) the County's most influential citizen in fiscal matters generally.

2. Fred A. Gosnell, Sr., as chairman of the Court-appointed Reassessment Board of 1950 and as first director of the Department of Real Estate Assessments, made contributions of crucial significance. A man of tremendous prestige, a former head of U. S. Census of Business, a former member of the County Board and the County's most highly respected real estate appraiser, Gosnell was able, especially in connection with the 1950 reassessment, to accomplish things that might not have been possible for a lesser person. Thus, advice of the State Department of Taxation to the contrary notwithstanding, Gosnell insisted that appraisals be based on current market values rather than on values for some date in the past to which prices might some day return. Also he established the principle that, insofar as state law allowed, vacant land and land occupied by obsolete structures would be appraised on the basis of their potential value (the highest and best use permitted under the zoning) -- this being the crucial ingredient of Harold Buttenheim's recipe for facilitating urban renewal via private enterprise. This aroused many substantial property owners and brought enough threats of law suits to cause the County Treasurer to shiver. However, Gosnell stood his ground. His most persuasive response to complaints was -- Will you sell it for that? -- with a flourish of the check-book. The volume of appeals did not turn out to be abnormally large.

3. Nor did the massive opposition from conservatives materialize as expected. In the final analysis the only formidable opposition came from elected officeholders whose prerogatives and patronage were threatened.

4. Inasmuch as those committed to a positive program for a laissez-faire approach to public-problem solving have always emphasized that good information is essential to effective market functioning, it deserves to be

noted that Arlington's assessment operation has demonstrated significant potentials for citizen education in the economics of land use. Both Fred Gosnell and Francis Austin, the present Director of the Department of Real Estate Assessments, have been as much land economists and economic educators as they have been real estate appraisers. Austin was one of the first two professional assessors sent into Arlington in 1948 by the State Department of Taxation, and in a sense he has been the mainstay of the operation from the beginning. He and Gosnell both discovered that conferences with the owners who came to protest increased assessments offered first-rate opportunities for economic education. Such owners can be shown in a concrete way that they have a responsibility to the community, either to put their land to uses that are appropriate in view of current market pressures or to sell them to others who will. Tax pressures are a very good way of making this responsibility manifest and of making owners responsive to the kind of economic education that is essential if the real estate market is to function in a socially beneficial rather than a socially deleterious way.

5. In this paper I have mostly emphasized Arlington's accomplishments, of which we naturally are very proud. But, honestly, I don't think that Arlington has gone nearly as far as it might in developing the potentialities that are suggested by its experience so far. I am hopeful we will be able to go much, much farther in demonstrating the potentialities of a positive program for laissez-faire in land use control -- in rearranging matters so that spontaneously generated market forces will tend increasingly to support and not frustrate community goals. In short, that we will be able to incorporate the insights of economics more fully into our system. A project is now being discussed which looks to initiating an experiment in federal-local cooperation to explore such potentialities thoroughly. It would involve the Arlington County government and the Federal Urban Renewal Administration and would utilize funds

available under the Community Renewal Program authorization. A breathtaking departure, perhaps, both for the Urban Renewal Administration and for Arlington County. However, I can report that the responses from both sides have been encouraging. If this ever comes to pass, it will in a sense be a further unfolding of the proposal Harold Bittenheim wrote for us back in 1950 (see Appendix B).

6. It is interesting that Arlington's pioneering in real estate assessment improvement in the late 1940's was rather quickly followed by corresponding improvements in other political jurisdictions of the National Capital Region. According to a now widely accepted standard of excellence* even the District of Columbia and Prince Georges County, which had the highest ratios of the National Capital area both fall just barely within the limits of "good." An index of 12 or less is superior; and in 1962 Montgomery County, Maryland, and the Virginia jurisdictions of Fairfax County and Alexandria, as well as Arlington, all fall within or nearly within that limit.

7. While Arlington has not moved ahead as far as I would like, the County has gone a long way in the direction Bittenheim envisioned and in the process has made many discoveries he did not envision. It is particularly refreshing to observe the extent to which our real estate and land-planning departments (as well as other agencies, such as highways and code inspections) have grown together over the years. Increasingly they are becoming mutually supportive and conscious of being parts of a cohesive system for controlling land use. This, plus the fact that an unusual kind of business-government teamwork has developed, is what most impressed the outside experts who attended the December 7 conference on Rosslyn that the Schalkenbach Foundation sponsored.

* Quoting Netzer: "a jurisdiction does a good job, if in the 1957 or 1962 census assessment-sales ratio studies for single family non-farmhouses, the average deviation from the median assessment ratio is no more than 20 per cent of the median ratio."

8. It would be a mistake to claim that the reform of real estate assessments was mainly responsible for the Rosslyn achievement -- just as it would be a mistake to make such a claim for the remarkable site-plan approval system devised by Richard Arms, Arlington Director of Planning; for the unusual operation with the State Highway Department in which Clifton Stoneburner, Chief of the Arlington Highway Division, was instrumental; or for the important contributions to the economic education of the County Board and County Planning staff by George Smith; or for the imaginatively conciliatory politics of such County Board members as Leo Urbanske, Jr. and Ernest Wilt; or for the Gosnell firm's creative approaches to real estate brokerage; or for the courageous entrepreneurship of the Brakefield-Westreich group; or for Barnes Lawson's novel approach to the attorney's art. Still, there is a sense in which the reform of real estate assessments was more fundamental than any of these other factors. It was a radical reform in the sense that it went directly to the root of the crucial matter of basic economic incentives.

Thus it served to prevent the toxic side effects that irrational real estate assessments systems are generating daily in the real estate markets of the great bulk of American cities -- thereby bedeviling the massive efforts of those cities to "renew" themselves. Having taken appropriate steps fifteen or twenty years ago to rid itself of what in most places is a built-in source of pernicious poisons, Arlington has found it easier for teamwork between business people and local government to develop -- and this in turn has facilitated cooperation of the different segments of local government.

Conclusion: Emphasize real estate assessment reform! This is the message that comes through loud and clear from the Arlington story.

Once assessment administration has been straightened out, once there is an assessor who understands the economics of land use and an assessment system that reflects the logic of economics, other things that contribute to

socially beneficial land use should begin to fall into place. Not that assessment rationalization is a cure-all. The main point is that the toxic side effects of an irrational assessment system throw all sorts of things out of kilter.

Let us beware of misplaced emphasis! Take the Pennsylvania cities of Pittsburgh and Scranton, which long ago adopted "graded" tax plans aimed at shifting taxes from improvements to land. Or take the 48 third-class cities in that State that have legislative authority for a graded tax. In one of them, Erie, a campaign to secure the adoption of such a plan has lately been much in the news. However, according to the U.S. Census of Governments reports, for 1962 Erie's index of assessment inequality was 32.6, Pittsburgh's 23.4 and Scranton's 39.5 compared with 10.8 for Arlington. This leads one to wonder if the reformers may not have put the cart ahead of the horse. If the results have been disappointing the explanation may perhaps be found in the misplaced emphasis. While these people have managed to get the laws changed, the substance of what they were after appears to have eluded them. In contrast, Arlington has achieved much of the substance of what the Pennsylvanians have aspired to without corresponding changes in the laws. Working within the framework of existing legislation, Arlington's assessors have managed successfully, in areas of obsolete land uses, to increase appreciably the relative burden of taxation on land as compared with improvements, simply by appraising the land as near to its potential value as the law has allowed. Having gone as far as we have, it is conceivable that we may move in the near future to obtain the comparatively minor change in the state law that would allow us to apply different tax rates to land and improvements.*

* While state law requires all property within a given class to be taxed at the same rate, in Arlington the application of different rates of taxation to different classes of property has long been the practice. While "land" and "improvements" are required to be recorded separately in the land books, these two types of property are lumped together as "real estate" in the statutory list of property taxes. Division of the real estate category into its two component parts is the only statutory change required.

The housing agency's "Workable Program" is another glaring example of misplaced emphasis. This was the invention of people brought into the federal picture after the Republicans captured the Presidency in 1952, people presumably inclined toward the positive program for a laissez-faire approach to public-problem solving, people aware of and critical of the economic witlessness embedded in the write-down formula of the 1949 Housing Act. How a group so oriented could have overlooked as completely as they did the real estate assessment-taxation angle is hard to understand!

The general idea of the workable program was excellent: To require each locality -- as a prerequisite of obtaining federal grants -- to do what was within its powers, with its own resources, to eliminate the causes of blight and slums. Its shortcomings trace partly to lax enforcement; but apart from this was a serious flaw in the concept: Seven different types of activity were singled out as likely to require attention; but improvement of real estate assessment and taxation systems was not one of them. This in spite of the strong emphasis that had been placed on this aspect by the Buttenheims, Walkers and other leaders of the opposition to the write-down formula of the 1949 Act.

This is where I would urge you folks to pick up. The workable program is still moving in the inadequately-conceived grooves cut in 1954. It is due for a new look. One of the reforms certainly should be to establish improvement of real estate assessments as one of the major categories of workable program activity. This would have the effect of making CRP funds available for the task of modernizing real estate assessments. Coupled with such measures as development and publication at yearly intervals of locality-by-locality comparisons of assessment quality to generate pressures for improvement from below; and use of the workable program to exert pressure from

above, this should lead to a great deal of improvement in real estate assessing systems in the proximate future.

This is one good way to counter the defeatism I detect in Dick Netzer's book -- which, as you will recall, was the take-off point for my paper.

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APPENDIX A

The Building of Modern Structures in Rosslyn, 1940-1965

	<u>Land Area</u> <u>Sq. Feet</u>	<u>Total</u>	<u>Office Space</u> <u>Sq. Feet</u>	<u>Total</u>
<u>Completed before 1962</u>				
1940 - Hot Shoppes (restaurants)	90,923		xxx	
1954 - Arlington Towers (apartments, stores and office space)	798,560		not avail.	
1959 - Marriott Motel	108,164		xxx	
1961 - 1801 N. Moore Street	<u>14,170</u>	1,011,817	<u>27,424</u>	27,424
<u>Started during 1961</u>				
Lynn Building	<u>28,440</u>	28,440	<u>60,000</u>	60,000
<u>Started during 1962</u>				
1815 Ft. Myer Drive	<u>31,740</u>	31,740	<u>96,800</u>	96,800
<u>Started during 1963</u>				
Oak Hills Building	58,156		189,007	
Donata Building	22,500		73,120	
Key Building	<u>41,896</u>	122,552	<u>136,143</u>	398,270
<u>Started during 1964</u>				
Rosslyn Building	34,309		111,440	
London House (apartments)	89,305		xxx	
Holiday Inn (motel)	57,328		xxx	
Magazine Building	28,466		92,515	
Murphy-Ames Building	72,363		161,564	
Pomponio Building	23,940		70,904	
Weaver Building	<u>10,203</u>	315,914	<u>38,205</u>	474,628
<u>Started during 1965</u>				
Architects Building	35,938		116,798	
Hope Windows Building	34,926		113,000	
Normandy House (apartments)	<u>44,528</u>	115,392	<u>xxx</u>	229,798
<u>TOTAL STRUCTURES, 1940-1965</u>		<u>1,625,855</u>		<u>1,286,920*</u>

* - Excluding the converted office space in Arlington Towers.

APPENDIX B

44. RELATION OF TAXATION TO SYSTEMATIC URBAN LAND USE

Contributor: Raymond Hengren, Federal Deposit Insurance Corporation
Washington 25, D. C.

Although city planners have rarely paid attention to the matter, a strong case can be made on theoretical grounds for the thesis that faulty taxing arrangements are at the root of some of the knottiest problems met with in efforts to achieve rational use of urban land. An important contribution to the understanding of urban problems can be made through empirical studies of the effects of local, State and Federal taxes on business decisions respecting the use of (a) vacant land in and near large cities and (b) slum properties. The study might be conducted along lines similar to those being followed in the Harvard studies directed by Dan T. Smith and concerned with the effect of Federal taxes on business decisions. Following are two sets of hypotheses that should be tested in such a study: (1) That low taxation of land relative to improvements provides an economic incentive to speculative holding of obsolete properties and vacant land and, conversely, that gradual transfer of the tax burden from improvements to land would provide an economic stimulus to the development of such land into highest and best use; and (2) That slum properties and vacant urban lands are quite generally held for the rise accompanying urban growth by persons in the higher Federal income tax brackets for whom taxes on and income from the properties represent only fractional dollars and who, in order to avoid for their estates the capital gains tax, are disposed to hold such properties in their present state until death unless an opportunity to make a large profit presents itself. For a fuller development of the first of these hypotheses see the National Resources Committee's report on "Urban Planning and Land Policies" (1939).

45. ECONOMICS OF URBAN REDEVELOPMENT

Contributors: Harold S. Bottenheim, Editor, The American City, 470 Fourth Avenue, New York City; and Albert Dickens, 1124 Dupont Circle Building, Washington, D. C.

This calls for an appraisal of the Federal slum clearance and redevelopment program in terms of an alternative program which, in place of subsidies, would stress measures aimed to correct existing practices that encourage speculative holding of derelict properties and thus impede the improvement of land toward its highest and best use. The program might involve corrective measures with respect to such common practices as: Lower assessment of site values than of improvement values; leniency with respect to tax delinquency; and laxity in the enforcement of health and safety regulations. The crucial problem of achieving proper timing should also be explored. Corrective measures might include provision for acquisition of tax-delinquent properties by the municipality; and for acquisition by the municipality of other

properties under condemnation proceedings at assessed values. Consideration might even be given to the possibility of differential taxation, as advocated by various economists, so that improvements would be taxed at lower rates than site values. Such measures would make it economically advantageous for owners to hasten the improvement of land toward its "highest and best use" and, being "built-in," they would have a further advantage in that the beneficial effects would be felt continuously. It is recommended that the study be made in terms of facts of one or more concrete situations where a local redevelopment program is in progress. The study would involve determining the net effect of all available devices in achieving economically realistic land prices and possibly of considering what tax differential would still be required to bring land prices to a point where all land could be better utilized within a reasonable time. It would also involve considering the supplementary arrangements, such as zoning changes, necessary to prevent land-overcrowding and to accomplish objectives specified in the particular redevelopment program. It would weigh advantages of making changes gradually over a period of time compared with making them rapidly. An analysis of the economic and political status of the owners of the properties involved would be essential. This should be supplemented by a careful analysis of businesses and home owners that would gain from the proposed change. Possibly the influence of speculative owners of such derelict properties, in blocking rational solutions to this problem, has tended to be overrated. The job requires an investigator competent in application of price theory combined with some insight into political realities. Part III of the report of the National Resources Committee on "Urban Planning and Land Policies" (1939) gives scholarly treatment to many of the basic questions here involved. Gilbert M. Tucker's booklet "The Self Supporting City", Robert Schalkenbach Foundation (1946), also contains useful material. The Housing and Home Finance Agency would be interested in the results of such a study.

Reproduced from Suggested Research Problems: Business-Economics
(Lyle C. Bryant, Editor) U.S. Department of Commerce Washington 1950.