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California's Land Undervalued

by ROY DAVIDSON

ILLEGAL assessment practices have contributed in large measure to the speculative advance in California land prices. Today the market value of all privately held land in the state is close to 100 billion dollars. Yet less than one per cent of this community-created value is taken for the mounting costs of local government. Instead pick-pocket taxes are levied at both the state and local levels to the tune of more than 6 billion dollars annually.

The social, political and moral reconstruction of society which would come about from community collection of all economic rent depends on increased public awareness of the "single tax" philosophy. In the meantime, true property tax reform can forestall added use of the regressive and anti-social methods of today's monetary and fiscal planners.

The California constitution, like most other state constitutions, calls for both full cash value assessments and property taxation in proportion to value, but no state comes even close to such assessments. Many years ago, the average assessment ratio in California was about 50 per cent. Today it is below 25 per cent, but the courts have generally upheld fractional assessment — the graveyard in which the assessor

buries his mistakes. Thus the most practicable avenue toward reform of the local tax structure would seem to be assessment equalization.

Last year, in an intensive study of 11 counties, I obtained a market value for almost 1000 properties including a cross-section for residential and commercial properties, poorly improved parcels and vacant land. These cases were selected from newspaper reports of real estate transactions, realtor listings and legal journals. They represent a wide range both in selling price and in degree of improvement to the land. Current assessments were then taken from the county assessor's roll and compared with the estimate of market value.

Residential and commercial properties were assessed on the average at about 20 per cent of market value. Low improvement or slum property bore an average assessment of somewhat under 10 per cent of market value. Vacant land received the most favored treatment, being assessed on the average at about 5 per cent of market value — considerable variation was apparent in individual cases. I did not include any inventory or factory equipment assessments in the study

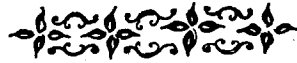
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ministering the laws of public finances as well as the public at large are being given the opportunity to evaluate concepts well known to Georgists. This has been an education effort unrelated to a political campaign or bills in the legislature. The lawsuit has focused attention on important economic issues.

My conclusion is that the Canaan case has added, perhaps in a small way, to a very important body of knowledge. Whether it can be cited as a guide for others who later advocate a change in assessments remains to be seen. It has become clear to me that

our fair and just sounding law on assessments is an ironic facade. Many taxpayers believe the constitutional provision requiring assessments at full cash value offers them a bargain. They don't realize that land speculators are getting a far greater bargain. A workable law with teeth in it is clearly needed.

Perhaps eventually the difference between land and production will be expressed in our assessment laws. A reform of assessment laws is a direct, simple and easily understood way to accomplish more land value taxation.



Land Undervalued

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but these appear to range from 30 to 50 per cent for inventories, with machinery and equipment sometimes valued as high as 100 per cent. You can see from these great disparities in the assessment of various types of property how it is possible to come up with an average for all classifications of about 25 per cent and then equalize between counties.

Vacant Land at Lowest Rate

Here are some specific examples of underassessed land cited in a nine-county study conducted for the State-wide Homeowners Association: 10 industrial acres in Alameda County with a market value of \$171,500 had an assessed value of \$3,100 or 1.3 per cent; 320 acres in Imperial County selling at about \$1,000 an acre carried a market value of \$304,000 and an assessment of \$24,550 or 8.1 per cent; and a commercial lot 50' x 114' in San Mateo County, selling for \$21,850, was assessed at \$1,330, a 6.2 per cent ratio.

Of 243 vacant land cases 32 per cent were assessed below 5 per cent and almost 90 per cent were below 15 per cent of the market value estimate. By contrast 87 per cent of improved residences were above the 15 per cent assessment level.

Relating the findings to the school finance problem in the state, over 400 million dollars was the projected cost to the public schools alone of illegal underassessment. At least another 400 million is being lost by county and city governments. Confirming similar underassessment finding of the U.S. Bureau of the Census, several reports of the California State Assembly, and recent investigations of school district and other governmental site purchases, the conclusion of the survey was that "consistent underassessment of vacant land and slums has placed an unjust and inequitable burden on owners of improved property. Throughout the state local assessors have been in clear violation of constitutional provisions guaranteeing all citizens equal protection of the laws."

Growing discontent with higher property tax rates poses a serious di-

lemma for local officials charged with the responsibility for running our counties, cities and school systems.

Informed Citizens Should Act

Appeals for more aid from already overburdened states and federal government threaten the autonomy of local government. Such aid is bound to prove less efficient in budgeting for specific local needs as they arise. The potentially damaging economic effects from regressive sales or consumption taxes, higher income taxes, or increased bonded indebtedness cannot be ignored. Should local officials tackle head-on the problem of underassessment, they run the risk of offending powerful and deeply entrenched interests. Most public officials have disclaimed any obligation for determining the property tax base. They have set the rates and left assessing to the assessors. Public pressure on these officials as well as the assessor could provide the stimulus for good assessments.

What suggestions can we offer for reconstruction of the property tax? Instead of electing the assessors, select and appoint those with experience and knowledge of real estate values, but who are un beholden to land speculators. Consider land values separately from improvement values and reassess vacant land annually with special attention to the rapidly growing areas. Assessors should consider the selling

price as prima facie evidence of the market value, and fractional assessing should not be tolerated. They should disclose on request the level at which they are valuing the different types of property and the manner in which they arrive at their valuation. Property tax bills should then be sent to property owners to acquaint them with all the facts about their assessments and the general assessment level in their community.

Full cooperation of local realty boards should be enlisted, as modern electronic data processing machines can be utilized in working toward market value assessments. Local property tax appeal procedures should be strengthened, since for most people such a proceeding becomes almost prohibitive. State boards of equalization and state legislatures should study the whole property tax structure, and prepare objective reports on the assessment levels for different types of property.

Unjust and illegal property tax assessments are perpetuated by public apathy. Lost revenue running to billions of dollars has led local officials to push the "instant money" button for more aid from their state capital or from Washington. The chief beneficiaries have been the land speculators — at the expense of homeowners, productive businessmen, workers and consumers. Only informed citizens alert to the implications of different modes of taxation can restore the balance.

Roy Davidson, director of the Henry George School in San Diego, conducts a book shop at 3627 30th Street, San Diego. In 1964 he completed a preliminary county report proposing property equalization as an aid in public school financing.

Tom Sherrard is an attorney in San Diego, who has also probed deeply into assessment practices. The foregoing articles reflect addresses made at the Henry George Conference in California in July. Newspapers have carried references to many inquiries which have arisen recently as a result of these disclosures.

The Statewide Homeowners Association was the first to enter this field on a wide scale. Behind all efforts to publicize land and its fiscal responsibility is the continued support and encouragement of Sidney G. Evans of San Diego, whose distinguished contribution to the Henry George movement through many years will live in history.