

REPORT OF COMMITTEE ON REVENUE OF THE CHICAGO BOARD OF EDUCATION.*

A year and a half ago on October 10, 1906, a special Committee on Revenue was appointed by the Board of Education to report on the financial resources of the Board. The committee consisted of Mr. John C. Harding, Chairman, Messrs Mills, Spiegel, Post and Robins. The report was presented to the Board at its regular meeting on June 3. The report was signed by Messrs. Harding, Mills, Post and Robins.

The work contemplated the preparation by the committee of a "suitable plan for a thorough inquiry into existing conditions in relation to the sources of public revenue, and the assessment, collection and administration thereof" to the end that the interests of the public school system might "be properly conserved for the benefit of the school children of Chicago." The reason for the proposed inquiry, as stated in the preamble to the resolution, was that the school system is "seriously handicapped by lack of funds due either to inadequate legislation or unjust and inequitable discrimination in the levying and collection of taxes."

Subsequently, resolutions relative to long leases of school lands and the cancellation of clauses therein for decennial revaluation, were referred to the Special Committee.

THE CAUSES OF DEFICIENT REVENUE.

Your said Special Committee is informed and has reason to believe that the lack of adequate funds for school maintenance, in consequence of which economies otherwise indefensible have long been necessitated, is attributable to three general causes: improvident alienation in the past of most of the rich landed endowment of the school system; improvidence in administering the remnant of this endowment; and inequitable methods of assessing property for taxation.

INEQUALITY OF ASSESSMENTS.

To a considerable extent the methods of assessing property have been illegal as well as inequitable, as the history of the legal proceedings instituted and carried to a successful issue by the Chicago Teachers' Federation against certain public utilities corporations discloses. The Teachers' Federation, moved thereto by the pressure upon teachers' salaries in consequence of restricted school revenues, had appealed to the Board of Equalization of the State to assess the value of the capital stock of these corporations, but the

*We are glad to present this Report on Revenue of the Chicago Board of Education which is reprinted here from the *Union Labor Advocate* of that city, for July 1908. It is a very remarkable document. Indeed no more notable report has ever emanated from any municipal body, and it is for that reason indicative of the progress our movement has made in public thought. We reproduce it verbatim, excepting only those portions which refer to the diagrams accompanying the Report.—Editor Single Tax Review.

Board as then constituted ignored this appeal. These corporations would therefore have continued wholly to escape taxation on capital stock, if the Teachers' Federation had not carried the question of their liability and the duty of the Board of Equalization into the courts.

At the instance of said Federation, Judge Owen P. Thompson, holding Circuit Court at Springfield, issued a writ of mandamus against the Board of Equalization, and after full hearing gave judgment requiring said Board to assess the capital stock of the corporations in question according to law. The case being carried then to the Supreme Court of the State, that tribunal affirmed the decision of Judge Thompson; and the Board of Equalization, acting in accordance with the mandate of the Supreme Court, so assessed the value of the capital stock of said corporations that the Board of Education has since been receiving an augmentation of its income from that source alone to the amount of a million dollars annually.

The amount so received would have been still larger but for the fact that the Federal Courts interposed and lowered the assessment upon the ground that the valuation was nearer the actual value of the property than were the assessments of other classes of property.

The character and result of these proceedings by the Chicago Teachers' Federation indicate the possibility, in the judgment of your committee, of a large measure of success in other proceedings for the impartial enforcement of the laws of taxation, a result that would still further relieve the financial embarrassment of the public school system. We refer, for example, to the custom of assessing unimproved real estate on a lower level relatively to actual value, than improved real estate. This custom discriminates against improvers, thereby tending to check real estate improvement and to depress business in the building trades. It seems also to be in violation of the law which requires that all classes of property shall be taxed alike.

The law requiring quadrennial publication of tax valuations designed to secure uniformity by means of publicity, has been complied with but once, namely in the year 1900, for the reasons explained by the County Board that they are without funds to comply with the law in this respect.

As the Board of Education is without authority to incur the necessary expense of securing an enforcement of the laws of taxation, your committee can only call attention to the subject in the hope that in behalf of the schools some method of enforcement may be legalized.

A CONSTITUTIONAL REMEDY.

Your Special Committee also directs the attention of the Board to a possible improvement in taxation that would promote the legitimate interests of the schools in a marked degree, but which necessitates a constitutional amendment.

Under existing law, buttressed by the Constitution of the State, the financial benefits and advantages of living and doing business in Chicago are diverted from the public uses of the city to private owners of the building lots

which constitute the site of the city. There are no statistics immediately available for determining the amount due solely to the city's growth which is thus diverted by law to private use, but manifestly it is very great.

Some indication of its magnitude may be obtained by reference to the statistics of cities which distinguish the sites value of real estate from its improvement values. Among such cities are New York, Boston, Detroit and Milwaukee, regarding each of which we submit the following figures from the Report for 1907 of the Commissioner of Taxes and Assessments for the City of New York:

City.	Land Values.	Improvement Values.
New York.....	\$3,563,293,224 (62.5 per cent)	\$2,140,716,428 (37.5 per cent)
Boston.....	635,449,200 (60.7 per cent)	412,000,300 (39.3 per cent)
Detroit.....	124,989,520 (53.9 per cent)	107,626,880 (46.1 per cent)
Milwaukee.....	87,443,375 (55.5 per cent)	70,168,185 (44.3 per cent)

Commenting upon this disclosure of site values in New York, the tax report referred to says:

"The assessed value of land alone exclusive of improvements, in the City of New York, is greater than the assessed value of all the real estate, improvements included, in the state of Pennsylvania and nearly twice great as the value of all real estate including improvements, in the state of New York outside the city. The assessed value of the land of six square miles of Manhattan in the neighborhood of Central Park is greater than the assessed value of all the real estate of the State of Missouri.

It would seem probable, since the site values alone of New York City are so much greater than the real estate values of all the rest of the state of New York, that the site values alone of Chicago are likewise great in comparison with those of the rest of the State of Illinois. It is furthermore probable that the proportion of the site values in Chicago to the total of real estate values, inclusive of improvements, is not less than that of New York, which exceeds 60 per cent.

No intelligent person needs to be more than reminded that this proportion of real estate values is neither created nor maintained by the site owners, but is wholly due, both as to continuance and augmentation, to the population and progress of the city as a whole. It is to these values, therefore, that the city ought to go for its income and not to the values of improvement which are individually maintained and augmented.

And in the opinion of your Special Committee it would be wise for the City of Chicago to obtain its school revenues from that source. Is it not a reasonable inference that if real estate improvement in Chicago were stimulated and rewarded with exemption from taxation, and public revenues were derived

from a fairly rigorous assessment of those values which the city as a whole gives to the building sites within its limits, a triple public benefit would accrue, of which the public schools would be a large beneficiary? Not only would individual industry and thrift be fostered; and not only would site monopoly be discouraged; but the increased value of the site of the city consequent upon the increased improvement that would naturally result from exemption of improvements, would doubtless far more than make up in public revenues from site taxation for loss from exemption of improvements.

While no official action involving the expenditure of money can be made in the direction of this change in taxation, yet it would be so manifestly for the benefit of the schools that we recommend such advisory action as the Board may have the power and be disposed to take.

THE SCHOOL LANDS OF CHICAGO.

In the opinion of your special committee, the chief financial obstacle to the improvement of the public school system of Chicago, and the payment of as liberal salaries relatively for the work of teaching as are already paid for the work of administration, is the diversion from the city to private individuals of the values of the building sites upon which the city rests. And your committee is further of the opinion that in so far as those values are created, maintained, and increased by the growth and progress of the city as a whole and not by the owners of the sites individually, they should not be diverted to private use. To some extent it is within the power of this Board to prevent that diversion. It has only to conserve so much of the landed endowment of the public schools as is yet under Board control and to which we now proceed to call attention.

Upon the organization of the State of Illinois, the National Government endowed the public school with section sixteen of the public land of every township. Pursuant to this endowment, Chicago received for public school purposes exclusively Section 16 of Township 39 North, Range 13, east of the third principal meridian. This mile-square of land, now in the heart of the City of Chicago, is bounded by State, Twelfth, Halsted and Madison streets.

Its true present value is not disclosed by the tax returns, because they lack the uniformity and fullness of value which the law requires; but some hint may be obtained from an estimate made by W. A. Somers, the land value expert of St. Paul, whose method of land valuation has been highly commended to this Board professionally by Mr. Aaron McKay, and who is now employed in the utilization of his method by the tax department of the City of New York. As Mr. Somers appraises nine scattered blocks of varying value in the old school land section at nearly \$60,000,000, valuing each as if it were composed of vacant lots, and as these blocks aggregate only a small fraction of the section, it is a fair inference, your Committee submits, that the site value of the whole section must run far up into the hundreds of millions. Had this gift of land been conserved for school purposes, it alone would now support the pub-

lic schools of Chicago with the most liberal income of any school system in the world, and yet without any taxation for school purposes. But unfortunately the endowment was not conserved. Except for one block it was all (or nearly all) sold some seventy years ago, for less than \$40,000. No accusation is made here against the officials who sold it. While their act must be regarded, in the light of subsequent events, as improvident, the men themselves doubtless acted in harmony with the business spirit of the time. It is to be noted also that their authority to sell outright was established by the Supreme Court of the State (Bradley vs. Case, 4 Ill. 585, 610) though earnestly and plausibly contested, and against the dissent of the distinguished jurists, John D. Clayton, Samuel H. Treat and Stephen A. Douglas, then on the Supreme bench of Illinois. Within fifteen years the same land, simply as sites for buildings and without any reference to the value of improvements, was estimated at \$6,000,000, and today, as already suggested, its value probably runs far up into the hundreds of millions.

While it is too late to attempt any recovery of the land thus improvidently sold away, it is not too late to heed the lesson. The remnant of the original section should be intelligently conserved as a sacred trust for the public schools, and the Board of Education is charged with that duty.

At first the long leases were for 50 years with a clause requiring a revaluation of the land for that purpose every five years. When the first of these periods was closing, in 1885, the lessees secured injunctions forbidding the intended increase of rentals and involving the Board in litigation. This litigation was compromised in 1888 by adding 50 years to the term of the leases and extending the revaluation periods from five years to ten.

When the first decennial period was about to close, 1895, litigation was again foreshadowed, and the decennial revaluation clause was voluntarily cancelled by the Board of Education in several leases, notably those of the Chicago Tribune Company, Hanna and Hogg, the Chicago Daily News Company and John M. Smythe. The revaluation clause in the Daily News and Smythe leases was cancelled by the Board of March 1895, while the appraisement for the next decennial period was in progress. The Daily News Company offered 6 per cent. ground rent on a capital value of \$2,750 per front foot until 1905, and on \$3,000 thereafter until the end of the lease in 1985, on condition that the revaluation clause be cancelled, and the offer was accepted by the Board of Education.

In May, 1895, after the three lots of the Tribune Company at the corner of Dearborn and Madison had been appraised, and the ground rent for the next decennial period had been fixed at \$30,000 per year, the Tribune Company offered \$30,000 annually until 1905, and \$31,500 thereafter, on condition that the decennial revaluation clause be cancelled, and this offer also was accepted by the Board of Education. There was no other consideration. But more than a year afterwards, the Tribune secured a cancellation of the decennial clauses in the leases of three adjoining lots it had meanwhile acquired; and

part of the consideration on its part for these later cancellations was an agreement to improve all the lots with a \$300,000 building.

The cancellations which a few tenants of the Board secured in 1895, and thereafter, have since been urgently sought for by other tenants, who have gone into the courts to prevent the collection of rents readjusted under their leases. In consequence of technical errors in proceedings under those leases—which errors, if any, were made by the Board of 1904-05, they have thus far succeeded in resisting collection. And in addition to resisting collection under the rental readjustment clauses of their leases, they have pressed the Board of Education in the past, as they doubtless will in the future, to cancel those clauses altogether, thereby in effect giving them leases for 80 years or more upon the rental values of the present time. While this would be a better basis than that of 1895, when site values were abnormally low, your Committee urges that the School Board retain for the benefit of the schools the increasing values which our growing city is giving, generation by generation, to its remnant of school lands.

(Signed)

John C. Harding, Chairman,
Louis F. Post, Secretary,
Wiley W. Mills,
Raymond Robins.

Chicago, May 6, 1908.

TAX REFORM IN FAR OFF LAND AND HOW IT IS WORKING OUT.*

Sydney, New South Wales, the port at which the American battleship fleet is due to day, is just now a place of more than ordinary interest for folk even on this side of the world. It is suffering from or enjoying, whichever way you choose to look at it, the collapse of land speculation.

The city had in 1901 a population of 481,000. It has the same problem of congested districts every large city has. According to one real estate man in the suburbs there was enough land subdivided to give every man, woman and child in the city two lots each. It was held for speculative purposes. Taxes on it were low. Rents were high.

A reform government was elected and an act was passed making it com-

*This remarkable editorial from the *Pittsburg Leader* is an indication that the truths for which we contend, and which are receiving practical exemplification in distant lands, cannot much longer be kept from the American newspaper-reading public. This editorial is an illustration, if any were needed, of the usefulness of the wider circulation among newspaper offices of our periodicals—especially of the *REVIEW*, from which the information contained in this article is largely derived. Mr. A. G. Huie's contributions to the *REVIEW* have contained full and splendid reports of the great and unexpected gains made by the advocates of our principles in New South Wales.

Editor *Single Tax Review*.