

PROPERTY TAXATION AND URBAN REDEVELOPMENT -
SOME RANDOM REFLECTIONS

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It is usually easier to state a problem than it is to come up with constructive solutions to it. However, today I would like to exchange ideas with you. In the process I hope to learn more from you than you from me, and I hope to stimulate some thinking and get some help from your practical experience. My concern with the problem of property taxation and urban redevelopment stems from a theoretical interest as an economist, from a business interest as a savings and loan association executive, and from a public interest as immediate past president of the National Association of Housing and Redevelopment Officials.

In all three roles I have been concerned with the complex problems of urban deterioration. In discussions with leaders of a considerable number of trade associations and government officials I have tried to explore ways to halt urban deterioration and to improve our housing and our cities. I am sure you will agree with me that there are no easy solutions. There is no single panacea. However, I would like to explore with you one possible tool, namely, property taxation, and get your reaction to my proposals. One of the biggest gaps in our knowledge is the lack of conclusive evidence as to the possible effects of changes in our Jerry-built tax structure at the federal, state, and local levels.

Most people agree that our problems of urbanization - slums, blight, improper land uses, congestion, traffic, air and water pollution, the demand for increased municipal services, etc. - are going to get worse before they get better. They also probably agree that something needs to be done about them. The question is how do you pay for the solutions - assuming we could agree on what should be done - and who is to pay for them.

I do not want to bore you with the statistics and estimates of the cost of correcting our past mistakes - and, we hope - of preventing at least some of our

future mistakes in the cities of America. In Chicago it is costing ^{\$100} million dollars to clear one square mile ~~of not too important blighted land~~. To do the same for all the cities of the United States would cost impossible astronomical sums. It is far beyond Uncle Sam's capacity to pay, and to do so by taking more money from taxpayers at the Federal level would merely compound the problem at the local level.

Positive Incentives

The solution of using the "stick" of governmental power to force people to improve their properties is too drastic for a democracy. Therefore, I would like to explore the possibilities of using the "carrot" - or positive incentives - so that huge Federal expenditures and subsidies might not be necessary. This might put the monkey on your back, which you may not like. In fact, I recall a conversation with your own John Behrens in Chicago when he said: "We have trouble enough as assessors without trying to be reformers too!" My reply was in the form of a question: "Aren't some of your assessors concerned with the effects of carrying out the policies somebody else sets? They should at least be curious enough to wonder whether some other system might not have the effect of improving our cities without necessitating extensive Federal subsidies." I am convinced the Bureau of Internal Revenue doesn't care. All they seem to be interested in is raising more money regardless of the fact that business decisions are being made right and left (because of the tax structure) without regard to whether they are good or bad for business or the economy as a whole, but only with regard to the tax situation. In my book that is the tail wagging the dog, and it is not good.

It is my contention, and it is borne out by my good friend, Perry Prentice, until recently editor and publisher of "House and Home", that our local property tax policies, by underassessing and undertaxing run-down properties and unused, underused, and misused land and overtaxing improvements, have encouraged land speculation, urban sprawl, slums, and blight to the discouragement of sounder land uses and better housing.

Today the biggest bottleneck to building more and better housing is the high price of land. Please don't misunderstand me, I am not advocating Henry George's single tax on land - that is too simple in today's complex economy - but I do think, as an economist, savings and loan man, and housing official, that we should look into the desirability, or undesirability, of local property tax reform by shifting some of the property tax from improvements to land. In California too high a percentage¹ of our property tax, in my opinion, is on the improvements and not on the land, whose value is ^{correspondingly} too lightly taxed. Public and private investment have often made a rural acre increase in value in a few years from, say, \$500 to \$10,000, and a central city acre from \$100,000 to \$200,000. This community-created increase in value is lightly taxed, and many taxpayers and investors are beginning to balk at the fact that our local government tax revenues come mainly from the assessment of buildings and other improvements, which discourages the very improvements we need and want to prevent urban deterioration.

Too Many Political Subdivisions

To back up for a moment, to the problems of the levels of government. As you know, there are 90,000 government jurisdictions in the United States: one federal government, 50 states, 3000 counties, 34,000 cities and towns, and 54,000 special districts, including school districts, road districts, park districts, cemetery districts, fire fighting districts, and mosquito abatement districts. This means roughly one government ^{jurisdiction} for every 2,000 people and every 40 square miles - which is, to put it mildly, too many political subdivisions.

As you also know, the federal government gets and spends and redistributes a whopping \$80 billion a year. State and local governments are hard pressed in their search for more revenue, and tax receipts are falling behind expenditures. Local governments receive a goodly part of their total incomes through intergovernmental grants, currently some 25 per cent, primarily from the states. It still isn't enough. Property taxes still provide nearly three-quarters of the local take, and there aren't

many other local sources left besides taxing sales, incomes, bicycles, and cats - unless there is a complete overhaul, which seems unlikely, between the bite of federal, state, and local governments.

In the light of an ever increasing public demand for expanded local services, most local governments, being unable to raise substantial sums from non-property taxes, have little recourse but to try to increase and possibly revitalize the property tax. Improvements might include taxation of certain properties now exempt, particularly federal properties, and assessment techniques that would take fuller account of rising values. Another possibility would be shifting some of the property taxes from building values to land value. Some contend that by so doing, capital investment would be encouraged and the vexatious problems of urban sprawl and slums might be solved to a degree. Any such improvements would have to aim at maintaining, rather than decreasing, total revenues.

California Homes Assessed

As you also know, the total assessed valuations in California for 1961-2 (subject to about \$1 billion exemptions) amounted to \$32.5 billion. This included nearly \$15 billion residential assessment, over \$4.5 billion personal property, \$2.4 billion agricultural and farms, \$5.2 billion commercial and industrial (exclusive of \$4 billion railroads and public utilities assessed by state rather than local assessment) and \$700 million vacant lots. I am primarily concerned with the residential and vacant lot assessments, and the possible effects some changes in the assessment system might have.

I know this is a highly controversial field, and people don't like to change the way they are now doing things, especially when they are already under fire and don't want to draw even more fire.

We have inherited not only a system of assessment techniques, but also some economic doctrines from David Ricardo, Alfred Marshall, Henry George, R. T. Ely,

and Edwin R. A. Saligman, to name only a few of the theorists who have made profound statements on the subject in the past. Some of them might even be willing to revise their theories if they could see the facts of the world of 1962. If facts, theory, and policy don't jibe, ^{then} theory and policy, at least, aren't worth much.

Discussions of taxation, especially in relation to land values, have often been highly emotional, over-simplified - and I'm probably guilty of the same thing - and the subject is almost akin to a religion to some people. My interest as an economist is based on an uneasy feeling that we are sometimes forgetting that land

is a unique commodity, whose supply is becoming more limited in relation to the demand for it by the increasing population that wants to use it. My interest as a savings

and loan man is that I am concerned over the sky-rocketing costs of land - we used to figure it at one-tenth the cost of house and lot combined and now often at one-fifth and one-quarter, and often even more - so that I feel strongly that the high price of land is one of the most basic factors that prevent more housing from being built, especially for the lower and lower middle income groups of our cities.

As a chairman of a city housing authority and public official, I am also concerned whether the high price of land and our property and income tax policies are not aiding and abetting slums, urban sprawl, land speculation, and urban deterioration, and preventing their economical correction. The facts are that something has to be done about land prices and land use when we realize that from 1950 to 1960 the nation's urbanized population (officially areas with 1500 persons or more per square mile) increased by 38 per cent, the space taken up by such areas increased by 100 per cent, more than $2\frac{1}{2}$ times the population growth, and the price of a simple lot (a quarter acre with utilities) for an FHA-insured home now runs about \$2400, up from \$1000 in 1950, an even greater increase. In California ^{- with \$3500 -} the increase has ~~often~~ been ^{much} even higher than the national average.

Why Are Taxes Levied?

Most economists - though not all laymen - will agree that taxation of all kinds together usually serves a three-fold purpose: to raise revenues, to counteract cyclical

economic fluctuations, and to achieve certain social purposes, including about a one-fifth redistribution of the national income annually from those who have the ability to pay to those who haven't. What I am driving at is that there is nothing inherently new, inconsistent, or wrong with using taxation as a device for creating and developing better cities. I know people have not been thinking along these lines, but I think they should be. I would like to solicit your help as people who have very intimate practical knowledge of the field that would be affected. We honestly don't know what the results of a change in assessment and property tax practices would be, but as far as incentives are concerned, the present property tax system has little to recommend it. As long as ownership of slum real estate and land speculation are two of the most lucrative fields of investment in the United States we aren't going to get very far in improving our cities. I am, therefore, suggesting a negative as well as a positive use for property taxes.

You are probably squirming at the thought of having to make subjective value judgments or of being a social reformer. I am going on an assumption that you are willing to concede, as I am, with regard to property appraisals that assessment is an "art" and not a "science", and therefore open to some variations. (I have seen too many expert appraisers come up with ^{very} ~~too~~ divergent appraisals on the same piece of property.) If we agree that assessments and/or tax rates (and incidence) could be changed if we had to or wanted to, and could set up criteria to do so, then the important question is what would the result be? Would it achieve the results that proponents of change ask for, or would it have adverse side effects or raise other problems even worse? I am not sure myself, and wish we had more objective studies at hand. This is where your organization could be helpful.

As a practical matter, the California assembly interim committee ^(for ACA 43) has authorized such a study which is being carried out here in Fresno, California by Griffenhagen, Kroeger Associates, to determine what effects there would be if various systems of

assessment and taxation were used in relation to land, improvements, and real property, still bringing in the same total revenue. I am interested, however, beyond that in how it would affect people's attitudes toward and use of their properties, vacant land, etc,

In all candor, I find it hard to draw any absolute conclusions on the basis of the attempts by Australia, New Zealand, Canada, South Africa, and our own state of Pennsylvania to shift taxes from improvements to land. We have, in my opinion, four good studies that would be fairly appropriate for our own conditions, but much more work needs to be done before out and out advocating of these changes. They include Mary Rawson's study of Burnaby, British Columbia,⁽¹⁾ the Greater Dayton study,⁽²⁾ and "Tax Policies and Urban Renewal in New York City", a report by a special committee on Tax Policies organized by the Citizens Housing and Planning Council of New York, Inc.⁽³⁾ and the study of Bethlehem, Pennsylvania.⁽⁴⁾

The people of the State of California may have the assembly interim study, related to Assembly Constitutional Amendment 43, before them if it is referred out to the people next year. This would provide local option to consider differential taxing of land and improvements. If such a proposal were adopted and resulted in inequitable tax treatment or erosion of the tax base, it would not be good. Farmers and others are scared of it, but I think they mistakenly assume the burden of the taxes would be shifted from city dwellers and home owners to them, which is not the case since many ^{farmers} ~~of them~~ would even come out more favorably than they now do, and total revenues would not be affected. The property owner who improved his home or farm would be benefitted, and the owner who didn't use his land or let his property run down wouldn't.

- (1) "Property Taxation and Urban Development", published by the Urban Land Institute, Washington, D. C., 1961
- (2) "Taxation and Urban Blight, A Case Study of Greater Dayton", 1962
- (3) "Tax Policies and Urban Renewal in New York City", Report on a Tax Study with Recommendations, 1960
- (4) "An Analysis of the Potential Effects of a Movement Toward a Land Value Based Property Tax", 1958

What is of greater concern to me as an erosion of the tax base is the current Proposition 4, which will come before the voters in November of this year. California voters, who thought they were being kind to golfers, did the very foolish thing of passing the Proposition that allowed for lower golf course assessments in the last general state election. Actually, the beneficiaries will not be "golfers" or "green-space-happy" planners, but golfers as land speculators who could wind up with a beautiful valuable subdivision inside our towns a decade or two hence.

The current Proposition 4, which is being pushed as the current project and meal ticket of the same public relations ~~firm~~ ^{boys} that put over the golf course exemptions, is now beating the drums for the farmers in rural-urban fringe areas. I love farmers, and I don't want to see them clobbered by city slickers. But I love farmers as farmers, and not as farmer-land speculators, and I'm not about to help them erode the tax base any further or to get further special privileges, nor do I want to provide a meal ticket as a fellow tax payer, 51 years of age, ^{the public relations} for a firm that is already standing in the wings warming up a proposal for a property tax exemption for everybody over 65 in California that will be on the next ballot if Proposition 4 makes it this time. This, in my book, is reform and change prostituted and gone haywire, and I hope the voters of California will be smart enough to catch the implications.

But I am interested in a sincere and objective look to see if we could encourage people to do privately by themselves - because, for a change, the incentives might not be harnessed backwards - what otherwise would publicly cost billions. Maybe - just maybe - we could hold land costs and urban sprawl down, could halt urban deterioration and blight if we were willing to look at the possibilities of taxing property in such a way as to encourage people to put it to the use that would be to the highest public good, or, conversely, and putting it in uglier terms, would get the chiselers who are riding on the backs of the rest of their fellow taxpayers to pick up their share of the tab. I realize that much would also depend on what was done in the meantime with other federal, state, and local taxes.

I know most of you will see many complications in what I have suggested. I have read many arguments pro and con about the property tax and talked to many people. Most of you think it won't work. But will you at least think about it and help furnish information and assist in studies to see whether it will or whether it won't work?

Thank you for the opportunity to tell you of my concern and interest in what I am sure is a mutual problem. I hope it will stimulate some thinking and constructive discussion.