Wisconsin State Review
February 14, 1972
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# Property Tax Has Adverse Effects

**IN THE FIRST** installment of this series, we observed that high property taxes conflict with many desirable community objectives. It penalizes growth with tax increases for both the owner and the community. It encourages urban sprawl, land speculation, and drives the farmer off his land. Now let us examine current municipal spending policies and their relationship to the negative results of high property taxes.

We have become conditioned to expect public salaries to be the fastest rising municipal budget item. During the 60's, the Beloit city budgets for public safety and public works increased 80% and 110% respectively while that for municipal indebtedness increased 630% and became the second highest budgetary item. This resulted from capital commitments being determined by the city council separately from the well-attended budgetary hearings and seldom with the assent of the public via public referendum. The appeal of deferred public payments is just too tempting to resist some "favored" projects.

As an example, Beloit officials have rigorously campaigned for a dual corridor highway (two superhighways within 6 miles of each other and parallel for twenty miles). One leg would dump virtually the entire load on a narrow three land city street or on a proposed bypass to be located on a flood-way and flood-plain. In addition, no funds have been appropriated, or are available for this part of the project, and in fact its cost has never even been publicly discussed. Over six thousand people in the metropolitan area opposed this pork barrel project but what chance did they have when one of the councilmen voting for it had a financial interest in 200 acres of land, recently annexed to the city, and located at a proposed interchange. The council has not only directly committed its citizens to this expensive project but also indirectly to many other financial consequences.

As another example, the council showed its contempt for the plight of the taxpayer during the recent recession. When local industries were either laying off workers or freezing and/or cutting salaries across the board, the council appropriated capital to redecorate a portion of the city hall.

### SPENDING OUTSTRIPPING ABILITY TO PAY

These specific observations are unique to Beloit but are typical of a universal practice. The capital indebtedness expressed as a dollar amount per capita is an effective measure of this problem. In Beloit this amounts to $439 of indebtedness per person, which is just under the Wisconsin average of $464. This is put in prospective by observing that Wisconsin ranks thirty-fifth in the U.S. where the average if $606. We should not seek solace in this comparatively good showing since Wisconsin's total indebtedness is growing at twice the state equalized evaluation and over 16 times faster than the population. Clearly spending is outstripping our ability to pay for services.

Uncontrolled spending demands that our "time-honored" approaches deserve further scrutiny. During the decade of the 60's, Beloit spent $3,479,000 for just storm and sanitary sewer expansion projects, while its population increased by 2,883 (approximately 720 families). This means the city invested $4,800 for each new family that moved into the community--a sum which would take over nine years to be recovered by the tax contribution of that family. Restated, this expansion cost each and every taxpayer $280. This figure becomes even more staggering when school, street, hospital, parks, and municipal projects are included. The people would object to these increases, but feedback control is missing because the taxpayer never feels the full impact on any one tax bill since these expenditures are pro-rated over a number of years.

We are not against people moving into our communities but we do not like the policies that make these additions so expensive. The key to Beloit's problem is that 30% of the land in the city is farm land owned by less than one-half percent of the population and has been virtually held off the market for decades. While most appears to be farmed by the owner, further exploration indicates the land is either rented to someone else to farm, as in soil bank, or owned by individuals whose principal source of income lies elsewhere.

The mathematics of property taxation encourages this. As an example, a typical 200 acre farm pays $3,460 in taxes which on the surface seems high. However the land currently is assessed at $100,000 and has the potential, as a subdivision, of 750 single resident houses which will then have a raw land value (before improvements) of $1,100,000. This tremendous ripening allows the owner to develop the equivalent of two sites per year to cover his taxes while holding onto the remaining land—at his own asking price.

This lack of financial incentive to develop the land or sell to someone who will amounts to a public subsidy. It creates the leap frog growth, so expensive to taxpayers, as builders seek more reasonably priced land. At first glance our cities look full, but discerning "windshield surveys" will indicate otherwise. Much of it remains undeveloped.

This subsidy effects farmers surrounding cities. They are hurt by the advancing wave of speculative land sales which prematurely proceeds visible and necessary urban growth. As a result, assessments of adjacent land, being worked by dedicated farmers, is raised. The tax increase cuts heavily into farm profits. He is then faced with the decision of reduced profits or selling out and moving elsewhere. Studies indicate that Rock County, one of the most fertile in the U.S., ranks sixty-seventh out of 71 Wisconsin counties in the percentage of farms at the poverty level. However it ranks number 30 for the number of farms at the poverty level. This is in part due to being sixteenth in the number of part time farmers and by the high tax gradient around the city borders.

### THE FAILURE OF URBAN RENEWAL

Another urban malady directly traceable to the malfunctioning of the property tax is the failure of urban renewal. Cities clamor for federal funds to raze blocks of unsightly or antiquated structures. But how many can show new buildings of equal or preferably higher value rising in their place?

Again the mathematics of property taxation buck the very objectives of the program. A case in point is the block in downtown Beloit slated for razing during the first action year. The existing structures of early 1900 vintage now contributes $12,500 in property taxes. When completely cleared, the vacant land will only contribute $5,900 in taxes (with the public making up the difference). Even this tax can be avoided, while keeping ownership, by renting the land to the city for a public parking lot. The third choice facing the owner is to rebuild. However new structures at today's cost with the same square footage, and hence the same sales potential, will result in four times the taxes. Clearly the property tax interceeds in favor of the least desirable solution for the community. A merchant or industrialist will tend to maximize his profit by taking minimal care of his structures—thereby reducing his tax burden. On the one hand, we have taxpayer's money, in the form of urban renewal subsidies, seeking to improve blighted areas while, on the other hand, tax incentives discourage this, except at great public cost.

The results are expensive and inadequate renewal projects which lead to decay in our city cores and growth of suburbia.