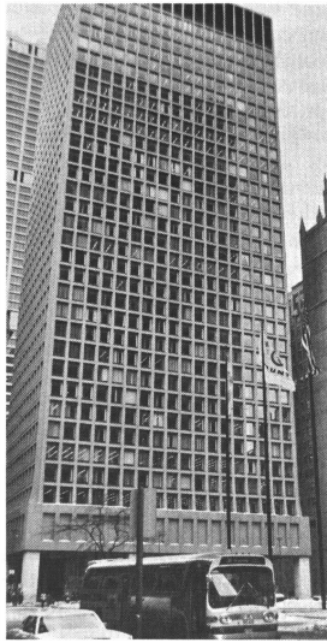


The Great Chicago Rip-off!

TENS OF MILLIONS of dollars were switched into the pockets of Chicago's landowners during the postwar years in one of the most audacious manipulations of property tax laws in the US, writes Fred Harrison. At the centre of the racket was P. J. Cullerton, the Cook County assessor. Landowners paid as little as one-third of what they would normally have had to pay. So there was a massive transfer of the tax burden onto homeowners. When the scandal was exposed in 1970, just before the elections, the real estate tycoons did not conceal the fact that they backed Cullerton's bid for re-election: he was THEIR man!

The "tax breaks" were justified by Cullerton and his officials on the ground that these were needed to encourage development. The process can be illustrated by the Brunswick building (right).



The 36-floor skyscraper was built in 1963-5. The property tax assessment was reduced by two-thirds. Reason: the building had a "reduced net income" - arising because its owners had given "artificially low rents" to two major tenants. Other tenants paid market rents.

Not content, the owners appealed to the Circuit Court under a then little-known device called Objection I. The appeal - which Cullerton did not oppose - was successful: the tax liability was further cut in half!

Brunswick was given a partial assessment "condition factor" (based on a variety of criteria) of 30%, in 1963. By 1965, fully occupied, the "condition factor" ought to have gone up to the top rate. It remained at 30%, until Objection I reduced it to 18%. The owners saved \$2m. in the first five years. In 1969, for example, the property tax was \$479,295 (\$268,539 charged on the building, the rest on the land). If, however, the normal 88% "condition factor" had been used, if the assessor's own guidelines had been adhered to, the property tax would have been over \$1m. Gain to owners: \$540,849.

The Brunswick site cost the developers \$2.6m. in 1957. Its value in 1978 was \$9.6m. Net appreciation in 20 years: \$7m.

Because of Press publicity, Cullerton announced before the elections that if re-elected, he would introduce departmental reforms. He was returned to office, and Richard Daley, the Chicago political boss, appointed one of his old friends to survey the operations of the assessor's office.

The economic effects of under-assessment are twofold. 1. It boosts the residual value of land, thus increasing the net income stream received by the landowner. So other landowners adjust their rental expectations upwards. 2. Because of the higher ensuing land prices, it takes longer to find buyers at these inflated levels; developments which would otherwise have taken place are deferred or lost: precisely the opposite effect allegedly sought by Cullerton's supporters!

BEFORE we give undue credit or blame for the Objection No. 1 process to P. J. Cullerton, the Cook County assessor who took the rap when these murky doings were delved into and the data laid before the electorate during the 1970 political campaign through some fine investigative reporting by the staff of the *Chicago Daily News*, we should know whether it was really his own brilliant idea.

There are two major political entities in metropolitan Chicago: the City itself and Cook County, in which the city is located. The personnel of both are housed in the same single structure, split down the middle by an interior wall, City Hall on one side, County Building on the other. With the growth of the city and the fact that the more affluent secede to the suburbs, the County Board in recent times is constituted of ten members elected from areas predominantly in the city (Democratic) and only six from areas predominantly in the suburbs (Republican). This means that the same Democratic political machine controls both the city and the county and has control of the patronage of both units.

Jobs are typically filled by political nominees and advancement is through political recommendation. One must know the right people (and have the right racial and ethnic antecedents) to be a working fireman. Advancement, even to lieutenant in the fire department, requires a political patron, known as a "sponsor." Just what is the quid that goes for the quo depends upon the individuals and is regarded as a private matter between the contracting parties involved. William Hale Thompson, a former mayor (Republican) died with several million dollars in cash in his personal safety deposit box at his bank.

But such an army of payrollers requires a general who will direct the division of the spoils and whose word will squelch internecine squabbles which could result in damaging disclosures. After the death of former mayor Cermak in an abortive Miami attempt to assassinate former President Franklin D. Roosevelt, Edward Kelly became the mayor of record in 1933 and controlled what became known as the Kelly-Nash, or sometimes the Kelly-Nash-Arvey, machine. When the improprieties had grown by 1947 to the point where it was considered possible that the electorate might revolt and instal a Republican mayor, the Democrats tipped Martin Kennelly, a reputable Chicago businessman, as a successful blue-ribbon mayoral candidate.

Kennelly's honesty created severe problems for the machine. He insisted on holding genuine periodic civil service examinations which provided lists of qualified people from which city jobs were filled, displacing temporary political appointees. The political hierarchy, from the precinct captains up, seeing their incomes and their influence slowly fading away, declined to lie down and roll over, and they revolted under the leadership of Democratic County Clerk Richard J. Daley, who was elected mayor in 1955.

Why does all this matter? Because while he is an elected official performing what is in this jurisdiction a county function, the assessor operates as a part of the single political operation called "the Chicago machine." And at the first County election after Daley was elected mayor, the organization dropped Frank Keenan and brought in

REPORT BY HENRY TIDEMAN



RICHARD DALEY (left) AND CHICAGO ARCHITECT HENRY TIDEMAN



its own choice, P. J. (Paddy) Cullerton as county assessor. His staff—almost to a man political appointees—were also expected to follow orders. Cullerton is quoted as having said, for example, that if he discovered that any of his staff had joined the International Association of Assessing Officers, a professional organization devoted to improving assessment practices, he would automatically discharge him on the spot.

Could Cullerton have initiated the use in his department of the "Objection No. 1" process, as a policy designed to rebuild central Chicago? He is not known as an abstract thinker. Would Cullerton have moved that far in so major a matter without direction from the boss?

Those of us concerned with its inner workings know that among the many Chicago businessmen was real estate man Arthur Rubloff, the developer who promoted the Brunswick building, the first in recent history to be publicly known as having been accorded the advantages of the Objection No. 1 process. Rubloff had learned something.

The Brunswick building rises on part of the south side of a large open square which is fronted on the west by the City-County Building and on the north by a recently constructed muscular steel public court and office building now known as the Richard J. Daley Center. On the open square itself, on axis with the Brunswick building, stands Picasso's silent steel sphinx, a showpiece of the city.

The new court building, the underground office area below the square, and their connections to each other and to the City-County Building, were conceived at the same time as the Brunswick building was being designed. The architects saw a chance for a major urban advance, a system of underground weather-protected pedestrian walkways which could connect not only these four areas but would reach well beyond them in the present and could be extended still further in the loop in the future; a brilliant innovation.

The Brunswick building plan would then put the usual shops and restaurants not in the first storey but instead place them down in the basement where they would—hopefully—draw business from the as yet non-existent through using these walkways in inclement Chicago weather. This arrangement would then make of the first storey only a large handsome travertine marble lobby, uncluttered by neon signs and goods delivery areas, with a dignity appropriate to its location opposite the city-county government complex, an arrangement reputed to have been much appreciated by, shall we say, the municipal authorities.

But with the basement full of shops and passageways, where would the boiler room and its accessory areas go? All these mechanical areas were lifted bodily to the second floor, which then not only required more rigid framing, but became unrentable space. Many pieces of loop land have made their way with only street level shops. Here income from both the first and second floors was sacrificed, with

the hope that the as yet untested conception of basement shops on the underground pedestrian walkway would prove to be publicly acceptable.

All this was at the time merely a dream. How could it be realized? How could Mr. Rubloff, his reputation and his own and his backers' money on the line, be justified in this daring—and, generally, as it turns out, successful—experiment? There is no doubt that those involved had Daley's ear when Rubloff needed assurances that he would not lose his shirt with so handsomely conceived—and financially risky—a building. The Objection No. 1 process was called into use to protect him from losses; construction proceeded. The precedent had been established. Why not carry on with the Objection No. 1 process elsewhere?

The politicians saw no need to inquire into the principles of taxing land or buildings, no need to educate themselves or the public in those matters, no need to inquire as to whether this process was privilege rampant for the benefit of the charmed circle. It worked, let us get on with it.

Yet neither should the contributory influence of the Chicago financial institutions, known locally as "La Salle Street," be discounted too much. If the latent tax reduction offered by the promise of the Objection No. 1 process was an effort to guarantee a 12% return on the developer's equity money, it automatically guaranteed the interest on the borrowed money, a prior claim, a step which is of major benefit to the financial institutions lending the money with which to build!

The assessor's office, during Cullerton's four four-year terms, was reputed to be a major source of party campaign funds. His former assistant and then elected successor, Thomas Tully, retired at the time of the first election after Daley's death with what the newspapers suggest was a campaign fund of half-a-million dollars with which to re-enter the political fray at a future time of his own choosing. If he indeed received and then declined to share these "campaign funds" with others in the party of Mayor Bilandic, who succeeded Daley, it is not surprising that he "retired." But all that is really certain is that if the Chicago machine has something it considers to be worth selling, it will sell it; and that if the Chicago businessmen think that the politicians have something that they consider worth buying they will buy it. Beyond that lies terra incognita.

But since life is process, that is not the end of the matter. True, the possibility of invoking the Objection No. 1 arrangement (now called only Certificate of Error) tends to insure the investment of the developer and his backers and so encourages building at this time. But that encouragement to building in general then becomes tomorrow just one more advantage of the location of the land, and of course other and future landholders and developers making their arrangements for future land selling and buying recognize that the land is now more valuable because the landholder now has an additional potential advantage to sell, for which the developer must now expect to pay. Local central land values must and rapidly do rise to swallow the advantage of possible recourse to the Certificate of Error process.

We are here treated to a classic specimen demonstration of the fact that to minimize the penalty on construction in this fashion automatically makes the land more valuable. In technical terms, the value of the land has risen in proportion to the value of marginal land. If land were now taxed proportionately more to make up for the tax not collected on the buildings, the city could have both the additional construction *and* the tax income. But that requires wholesale, not retail, thought.