

The Southfield Story: A Lesson in Creative Taxation

by
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Growth and Progress in Southfield

OUR news media has been filled with stories of urban problems—blight, poverty, fiscal irresponsibility, high taxes, riots. Very rarely does one find stories such as the one I am about to bring to you concerning a progressive, growing city which has avoided or overcome these problems. This is the story of how taxes instead of inhibiting growth have actually been used to encourage it.

The developers in Southfield know that the city authorities will not tolerate the land within its boundaries not being put to the highest and best use. In Southfield productive business is not discouraged by having to shoulder the costs of benefits provided to the non-productive vacant land. This is good news to the residential homeowner, developer and businessman; however, it is bad news to the speculator.

In the past it was difficult to specifically spell out the attributes and benefits of land-value taxation without running into the comment from someone, "prove it." Southfield is beginning to prove it,

and those economists who attacked the principles of land-value taxation are running for cover. All across the nation more attention is being drawn to this simple but expedient way of financing local government.

Southfield has become one of the fastest growing cities in America. It has doubled in assessed value over the last five years and tripled over the last ten years. Last year alone 21 per cent. growth was added to our assessment roll. Southfield is now the eighth largest city in Michigan and comprises 26.6 square miles and 65,000 people. There are thirty-five high-rise office and apartment buildings recently completed or under construction. There are over three hundred major office buildings including headquarters for national leaders such as Bendix, Standard Oil, Maccabees Insurance, Eaton, Yale & Towne, Federal Mogul, McDonald Travel, Allstate Insurance, and Kelly Girls.

Since 1960 over three million square feet of office space have been built in Southfield. This is ten per cent. greater than the amount of office space built in Detroit, which ranks as the fifth largest city in the nation. Over one thousand new homes were built in Southfield last year, and the average house sells for around \$27,000. Houses vary in price from \$10,000 to over \$100,000. Southfield has property valuation in excess of \$750 million—\$250 million in land and \$500 million in buildings. There was over \$75 million in new building construction last year alone.

The City of Southfield has drawn nation-wide attention for its emphasis on land-value taxation. Southfield's policy of assessing has differed from most other cities for six years now. There is an annual reappraisal of land values. Land is assessed on a basis of its *full market value*—whether it is being used, used poorly or not used at all, zoned or not zoned properly. Southfield has one of the most active commercial real estate markets in the nation. Real estate developers have been drawn to this city by the stability that land-value taxation has created in the land market. A buyer of an unimproved site fully realizes he will pay taxes based upon the market value of the site, whether he builds or not.

This policy has given Southfield a tremendous advantage over the surrounding suburban cities and Detroit. The rapid growth in the City of Southfield has placed a tremendous burden upon the com-

munity to provide services—pave roads, provide sewers and water, police and fire protection, build schools, parks, recreation and library facilities, and to do all this with efficient administration and economy. Southfield has done this with the lowest major city property tax rate in the State of Michigan—one third the amount of the City of Detroit property tax rate. Many of the State's big cities also have a municipal income tax; Southfield does not.

History of Land-Value Taxation in Southfield

The idea of land-value taxation was unknown to the City of Southfield prior to the election of Mayor James Clarkson in 1961. The Mayor had just served in the State Legislature and had been a member of a committee that investigated the effects of higher tax rates on land values as compared to improvements. The committee had made a favourable report to the legislature recommending implementation of land-value taxation in the State of Michigan. However, the State failed to act.

When the Mayor took office, he wrote to the Assessor requesting him to study implementation of land-value taxation by providing partial exemptions to improvements and annual reappraisals of land values. Under Michigan law it would be difficult to put into practice a program of taxing land values *only*. The Assessor pointed out that he could not comply with the Mayor's request, whereupon the Mayor asked the Assessor to resign. This opened up controversy between the Council, Mayor and Assessor.

The Council appointed a committee to study assessing practices in the city. The Mayor presented to the Council documentation of the fact that land value assessments were far below the level of building assessments and far below the sales prices that they were bringing. The Council study committee found no negligence in the operation of the Assessing Department, but pointed out that steps must be taken to enable the Assessing Department to do a better job of reappraisal.

The Mayor recommended the establishment of a Land Division under the Assessor's Office to annually reappraise all the land in the City of Southfield. To accomplish the first reappraisal, the J. M. Cleminshaw Company, an independent appraisal firm from Cleveland, Ohio, was hired. The Cleminshaw Company did a complete

reappraisal of land values throughout the city which resulted in an increase in valuation of land parcels amounting to \$45,000,000. The Council balked, and a compromise was reached by depreciating all buildings in the city by \$22,500,000.

The new City Assessor urged the Council to back the Mayor and the Assessing Department in putting the land reappraisal program into effect. With the reassessment program completed controversy ensued, which concluded with the Council instructing the City's Board of Assessment Review to remove the Cleminshaw Company land reassessment program. A taxpayer's suit instituted by the Federation of Homeowners Associations, representing the majority of homeowners in Southfield, sued the city to maintain the assessments as determined by the Cleminshaw Company, and they won. Homeowners generally experienced a reduction in assessed values and a reduction in the City tax rate. Speculators received a whopping increase in assessed values.

This established the policy of annual land reappraisal within the City of Southfield. Mayor Clarkson won four elections on a basic platform of land-value taxation. He has distributed a pamphlet *Good Maintenance Does Not Raise Taxes*. The Assessor's policy is that a person's assessment will not be increased because of fixing up or improving his home. This policy has been extended to exempt most home improvements, including yard improvements, landscaping, sprinkler systems, driveway paving, fences, storm windows, gutters, repairs, paint, and minor modernization. A man's home has become his castle in which improvements he makes are not assessed. Counter-wise, those who let their property deteriorate by failing to paint, repair, maintain and improve, find that they receive no reduction in tax assessment. This policy has worked favorably to encourage people to improve and maintain their homes.

All assessments are now made on a uniform basis. Land that rises most rapidly in value is given priority in the reappraisal process. In recent months the Assessor's Office has been contacted by over a dozen cities throughout the U.S. and in foreign countries for information regarding its program of "creative taxation." Political candidates in major cities have picked up the ideas of "creative taxation."

Senator Paul Douglas's Commission on Urban Problems has devoted considerable time in this area and is reporting to the President the news that urban redevelopment, to be successful, must go hand in hand with land-value taxation.

How the Annual Reappraisal is Accomplished

Appraisal of properties is based upon sales information that has been confirmed and adjusted for special conditions. We have a large number of land sales and our land value appraisals have good justification. Due to Southfield's rapid growth, we have a large appraisal staff which includes eleven appraisers, seven secretaries and three part-time high school students.

When a new building is built, a complete and individual appraisal is made, then immediately we apply three per cent. depreciation. Many items are excluded from the first appraisal such as landscaping, sprinkler systems, walls, garbage disposals, etc. These building values can be depreciated or updated annually depending upon economic circumstances. We apply the principle of adjusted net income capitalization to further check our commercial building values.

One appraiser works full time collecting commercial land sales and reappraising commercial land values. Residential land values are reviewed annually, subdivision by subdivision, by the residential staff.

Our annual reappraisal would be impossible without the use of a computer system. Southfield does not own a computer, but contracts with a professional company, Computer Control Corporation, which specializes in performing municipal computer services on a fee basis. They have designed a program which allows us to do a mass city-wide reappraisal in a period of three hours, once a year, at a cost of less than a new secretary. During the year we collect the necessary data so that we are able to have this service performed.

The computer, in addition to doing the paper work of the annual reappraisal computation, also prints our assessment roll, prints a letter informing each person in the city of their assessed valuation—land and building—prints a zoning summary report for the County and State and prints a sales study which indicates error in assessments and establishes reappraisal priority.

The primary benefits we receive from the computer are a high level of uniformity, low level of error, and a very economical way of maintaining current assessments. During our first year, we spent only about twenty cents per property for preparing all the programs we presently use. We estimate that the annual reassessment should cost about six cents per parcel. We estimate that our staff will be able to spend 35 per cent. more of their time in actual field appraisal work. The costs of performing these same services on a manual basis without the use of a computer would cost \$5 to \$15 per parcel. More of the staff's time is now being used in reasoning and less in computing.

Summation

I have shown the tremendous growth in the City of Southfield and have indicated the political haggling that occurred, and I have described the mechanics of how we perform the job today. Land-value taxation cannot take all of the credit for our city's growth. We do not even have one hundred per cent. land-value taxation. However, we do have perhaps a greater amount in Southfield than in any other city in the nation; and Southfield's record is impressive. At present, we have a definite competitive advantage over neighbouring cities that have failed to keep land assessments current and find their land sitting idle year after year. We do not find our fifty year old homes becoming slums.

Heavy taxes on improvements are bound to discourage, delay or even deter owners from making improvements. The bigger the improvement tax, the smaller is the owner's incentive to spend good money to improve his property.

In Southfield, heavy taxes on land values tends to encourage growth and sometimes compels development. The bigger the land tax, the bigger the leverage on owners of unused property to properly improve it or sell it to someone who will.