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# Better Assessments for Better Cities

## Introduction

**O**N THE NEXT 31 pages you will find a consensus report on what to do to correct what is so obviously wrong with today's assessment administration, assessment thinking, and assessment results. It was worked out by representative leaders of the

- International Association of Assessing Officers**
- National League of Cities**
- U.S. Conference of Mayors**
- National Association of Counties**
- Council of State Governments**
- National Governors Conference**
- International City Management Association**
- Committee on Economic Development**
- Advisory Commission on Intergovernmental Relations**
- Chamber of Commerce of the U.S.**
- National Industrial Conference Board**
- National Association of Manufacturers**
- Urban Land Institute**
- National Housing Center**
- American Institute of Planners**
- Regional Plan Association**
- New York Economic Development Council**
- Tax Foundation**
- Resources for the Future, Inc.**

## A Panel of 40 Experts Calls for Sweeping Changes



The roundtable conference at which this consensus was developed was cosponsored by the first seven of these organizations in association with *Time*, *Life*, and *Fortune* and the Robert Schalkenbach Foundation. Pointing out that what is wrong with today's assessments is not only costing our cities billions of dollars in lost revenue but also in making what is wrong with the cities worse, the roundtable recommended three major clarifications in assessment doctrine and a long list of legislative changes, most of them designed to provide better state supervision and get assessment administration out of local politics.

The two-day conference was assisted in its deliberations by an Assistant Secretary of Housing and Urban Development, by a num-

ber of outstanding university economists, and by the most respected Australian Valuer General, who traveled half around the world to participate.

The word "consensus" should not be understood to imply unanimity. It implies only broad and general agreement; and the fact that these leaders were invited to the conference to represent their organizations does not mean that their organizations have officially approved the content of this report.

What the individual panelists said at the roundtable was off the record; otherwise it would have been impossible to get frank talk leading to such a sensible consensus.

**PERRY PRENTICE**  
*Moderator and Rapporteur*



# Here Are the Panel Members Who Took Part In the Roundtable Conference on Assessments

## From the International Association of Assessing Officers:

### CLIFFORD ALLEN

President  
Metropolitan Assessor, Nashville, Tenn.

### PAUL V. CORUSY

Executive Director

### KENNETH BACK

Director, Department of Finance and Revenue,  
Washington, D.C.

### HOLLIS A. SWETT

Director, New York State Board of  
Equalization and Assessment

### ROBERT H. GUSTAFSON

Consultant, California State Board of  
Equalization

### TED GWARTNEY

Assistant Assessor of Sacramento County,  
Calif.  
Former Assessor of Southfield, Mich.

### DONALD R. BEACH

Deputy Supervisor of Assessments, DuPage  
County, Ill.

### LYLE BRYANT

Former Executive Secretary, Arlington  
County, Va., Planning Commission

## From the National League of Cities and the U.S. Conference of Mayors:

### PATRICK HEALY

Executive Vice President of the League

### JOHN GUNTHER

Executive Director of the Conference

### C. BEVERLY BRILEY

Former President of the League  
Mayor of Nashville, Tenn.

### RICHARD G. LUGAR

Vice President of the League  
Mayor of Indianapolis, Ind.

## From the National Association of Counties:

### BERNARD HILLENBRAND

Executive Director

## From the Council of State Govern- ments and the National Governors Conference:

### BREVARD CRIHFIELD

Executive Director

### EDWIN BECKER

Chairman of the Council  
State Senator, North Dakota

### D. DAVID BRANDON

President, Council of State Planning Agencies  
Deputy Director, N.Y. State Office of  
Planning Coordination

### W. HUGHES BROCKBANK

President, National Legislative Conference  
Chairman of the Utah Joint Budget Audit  
Committee

### JAMES ALLOWAY

Director, Division of Local Finance, New  
Jersey Department of Community Affairs

## From the International City Management Association:

### MARK KEANE

Executive Vice President

## From the Department of Housing and Urban Development:

### FLOYD HYDE

Assistant Secretary  
Former Mayor of Fresno, Calif.

## From the Advisory Commission on Intergovernmental Relations:

### WILLIAM COLMAN

Former Executive Director

## From Australia:

### DR. JOHN F. N. MURRAY

Past Chairman, Commonwealth Valuations  
Board

## From the Tax Foundation, Inc.:

### C. LOWELL HARRISS

Economist  
Professor of Economics, Columbia University

## From the Urban Land Institute:

### MAX WEHRLY

Past Executive Director

## From the Committee for Economic Development (CED):

### ROBERT F. STEADMAN

Director, Improvement of Government  
Management Studies

## From the National Association of Real Estate Boards:

### EUGENE P. CONSER

Executive Vice President

## From the Chamber of Commerce of the U.S.:

### CARL H. MADDEN

Chief Economist

## From the Regional Plan Association:

### JOHN P. KEITH

President

## From the American Institute of Planners:

### DAVID C. SLATER

Director, Chapter and Technical  
Development

## From the National Housing Center:

### THOMAS P. COOGAN

Past Chairman  
Past President, National Association of  
Home Builders

## From the National Association of Manufacturers:

### A. WRIGHT ELLIOTT

Senior Vice President

## From the National Industrial Conference Board:

### JOHN J. MURPHY

Director, Department of Business and  
Government Relations

## From the New York Economic Development Council:

### PAUL BUSSE

Executive Vice President

## From the Universities:

### DR. FREDERICK E. CASE

Director, Real Estate Research Center,  
University of California at Los Angeles

### DR. ARCHIBALD M. WOODRUFF, JR.

President, University of Hartford  
Former Supervising Appraiser, Prudential  
Insurance Co.

### DR. ARTHUR P. BECKER

Past Chairman, Economics Department, The  
University of Wisconsin-Milwaukee

### DR. JOHN HENRY DENTON

University of California in Berkeley

## From Resources for the Future, Inc.:

### Dr. M. MASON GAFFNEY

## From the Schalkenbach Foundation:

### ALBERT PLEYDELL

President

## Moderator and Rapporteur:

### PERRY PRENTICE

Time, Inc.

## Assessments are vital to property tax improvement, but they are too often neglected and misunderstood

Second only to the federal income and Social Security levies the local property tax is by far the heaviest tax weighing on the American economy. It provides seven-eighths of the locally-collected tax revenues for the support of local government. Its burden has septupled since 1945 and is now more than \$33 billion.

Properly applied and administered the property tax could be one of the fairest and wisest of levies, an incentive tax for good land use and good planning, a disincentive tax for bad land use and property decay. But such fairness and wisdom are impossible unless its administration can be taken out of local politics and its appraisals can be kept accurate and unprejudiced by professional appraisers paid enough to do a good job and given the facilities (including computers) needed to keep their appraisals current. And it is foolish to hope assessment reform will get very far unless and until state governments face up to their obvious but neglected responsibility for setting sound assessment standards and provide the necessary state machinery to make sure their local assessment districts meet those standards.

Under often very difficult conditions and pressures many assessors are striving valiantly to apply sound and correct standards to their work, and the International Association of Assessing Officers is giving a strong lead to correct what is so obviously wrong with today's

assessments. The IAAO urges all state governments to take an active part in assessment reform and supervision, presses for better assessment legislation, conducts scores of schools for assessors in series ranging from elementary through intermediate to advanced, and insists that high professional standards must everywhere be applied to assessment appraisal and assessment administration. The organization's efforts deserve the all-out support of an enlightened public opinion, but they are hardly likely to get that support until the public is given a far better understanding of why today's assessments are apt to be bad, why better assessments are so essential if we are to solve our urban crisis and our housing crisis, and what must be done to correct them.

Today the sad fact is that almost nobody realizes how bad property tax assessments are apt to be, almost nobody understands how many urban problems and housing problems are made worse by bad assessments, and (worst of all) almost nobody seems to care except to hope his own property will get in on the right side of a bad assessment instead of on the wrong side. One big reason for today's assessment discrepancies is that 90 per cent of today's homeowners mistakenly believe they are getting the best of a bad deal. They are much less interested in assessment equity than in getting inequity favorable to themselves.

## Assessments are getting much better than they were, but their improvement still has a long way to go

The 1967 Census of Governments found "widespread gains since 1956 in the quality of (residential) assessments," with less than half as many districts showing "a co-efficient of dispersion exceeding the 20 per cent outside

limit for acceptable deviation" from the market values established by sales.

But we all agree with the Advisory Commission on Intergovernmental Relations that "much more improvement is still urgently



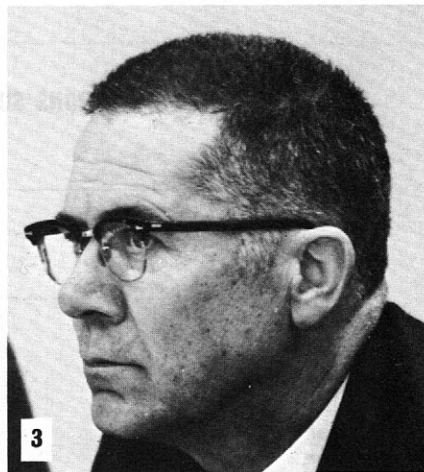
# Better Assessments

needed," and like ACIR we deplore particularly the "much lower assessment-sales ratio for vacant lots than for improved urban property." For example, in Alameda County, Calif., a check of every 1966-67 sale (including condemnation cases) showed homes assessed at 19 per cent, vacant land at only 7.6 per cent; another study showed homes assessed at 18.8 per cent, vacant residential lots at 11.4 per cent. (Since then the new assessor has more than doubled land assessments throughout the county while raising improvement assessments only 13.2 per cent).

Conversely, we also deplore the frequency by which new improvements and most particularly big new improvements tend to be penalized by relatively heavy assessments. This is partly because in so many districts their appraisals, being the most recent, are more apt to reflect today's high costs for land and construction, partly because assessors have learned by painful political experience that they get into less trouble by putting a high appraisal on one big new building than by raising the assessments on scores of smaller existing properties.

Assessments still average worst in the states where appraisals are subject to the politics of hundreds of small township governments. For homes the 1967 Census of Governments found them worst of all in New York itself, where hardly 100 of the 1,537 assessment districts seem to be doing a good job. But over the full spectrum of properties they may be still worse in Illinois, where not so long ago a whole subdivision was found left off the tax books, and in Indiana, where not even one of the elected assessors has qualified for the professional CAE or the MAI designations of the American Institute of Real Estate Appraisers.

Assessments are getting quite good and sometimes very good in the District of Columbia and nearby Maryland and Virginia, and important progress is being made in Oregon, Kentucky, Utah, and most recently and notably in Tennessee (where as late as 1966 four of the 95 elected assessors could hardly read or write). They are perhaps best of all in California, where 20 years ago the Realtors helped and pressured the state government to take assessment reform seriously through state supervision and equalization; but even in Cali-



1. JOHN J. MURPHY: "Business is taking more and more interest in community problems."
2. WILLIAM G. COLMAN: "It's frightening to think what the spread must be where assessments are not as good as in California."
3. W. HUGHES BROCKBANK: "I believe in the art of the possible in politics." "You are putting a lot of responsibility on the states."

ifornia the ex-assessors of two of the 58 counties were jailed for selling under-assessments (mostly to big companies who may also have been buying under-assessments undetected in less vigilant states) and a third took poison rather than stand trial. Also in California it is still easy enough to find examples of how underused land is grossly under-assessed, like the Salt Point Ranch assessed at \$27,000 for which the state had to pay a condemnation award of \$2,100,000!

To meet the urgent and obvious need for assessment reform the Advisory Commission on Intergovernmental Relations has proposed 31 specific changes in assessment legislation and assessment administration, most of which will be repeated and detailed in our recommendations. We commend the commission for thus focusing official attention on the problem and we are almost unanimous in subscribing to each and every one of its proposals. We agree with ACIR that it would be better if assessors, like all non-policy-making officials, were appointed instead of elected, though we recognize that many good assessors do get elected. We agree with ACIR that there is no use expecting much better assessments without



**CLIFFORD ALLEN:** "We assessors are more aware than anyone else of what's wrong with today's assessments."

better state assessment legislation requiring professional training and permitting better assessment procedures; but we question whether any legislative or procedural change will avail unless and until assessments are taken out of local politics, unless and until assessment districts are enabled and required to pay salaries adequate to attract and hold well qualified assessment personnel, and unless and until assessments are made almost self-policing by full public disclosure in a form any taxpayer should be able to understand.

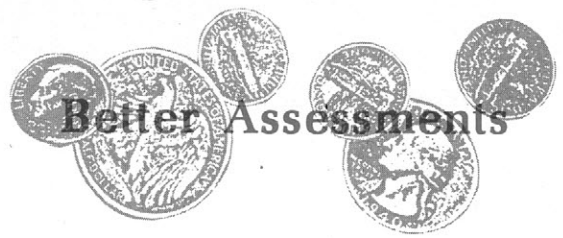
**NET ASSESSED VALUATIONS SUBJECT TO LOCAL GENERAL PROPERTY TAXES: 1956, 1961, AND 1966**  
(Billions of dollars)

Item	Amount			Per Cent		
	1956	1961	1966	1956	1961	1966
Total	272.2	354.0	484.1	100.0	100.0	100.0
State-assessed property	22.5	27.8	41.6	8.2	7.9	8.6
Railroads	6.5	5.9	5.1	2.4	1.7	1.1
Other utilities	13.4	18.8	25.0	4.9	5.3	5.2
Other	2.6	3.1	11.5	0.9	0.9	2.4
Locally assessed property	249.7	326.1	442.5	91.8	92.1	91.4
Real property	202.8	269.7	378.9	74.4	76.2	78.3
Personal property	46.9	56.5	63.6	17.4	16.0	13.1

**Note:** Because of rounding, detail may not add to totals.

U.S. Department of Commerce, Bureau of the Census





## Better Assessments

# Better assessments would enable many cities to get far more revenue from the property tax

Too few local officials seem to understand that assessment inequities are bound to cut deeply into the potential yield of the property tax. Only with maximum equity in assessments can the property tax be expected to come close to providing the revenues our cities now require. Where assessments are allowed to get grossly out of line with each other the revenue potential is limited by the tax-paying capacity of the property that carries the heaviest relative assessment, for much the same reason that a chain can be only as strong as its weakest link. For example:

If the tax burden on homes assessed at 25 per cent of full value limits the tax rate the voters can be expected to accept, assessing vacant land at 9 per cent will cost local government nearly two-thirds of the property tax receipts the same rate should bring in from its owners had their assessments been equal to those on homes.

Or consider the example cited by Luther Gulick at the 1955 IAAO convention:

"If one factory is assessed at 15 per cent of full value and another at 30 per cent, the tax burden on the second will be twice as heavy as on the first. But the economic interest of the community demands that the burden on the second should not be more than it can bear. So the revenue that can be raised by property taxation tends to be limited by the highest assessments, rather than by the average, if the authorities have any regard for the community's economic health."

Many cities that claim to be in desperate financial straits have measurable dispersions among their assessments that are so severe that the city must be passing up 30, 40, or even 50 per cent of its potential property tax revenue for fear of stirring up too many articulate complainers among the relatively over-assessed.

Census found the top quartile assessed and taxed twice as heavily as the bottom quartile and proportionately more heavily than the intermediate quartiles in two-thirds of the districts covered by its 1962 study. If these



**1. HOLLIS A. SWETT:** "Assessments never go to court. All you have to do is hire the right law firm."

**2. BREVARD CRIHFIELD:** "Some things of major principle need substantial revision in the laws of most of the states."



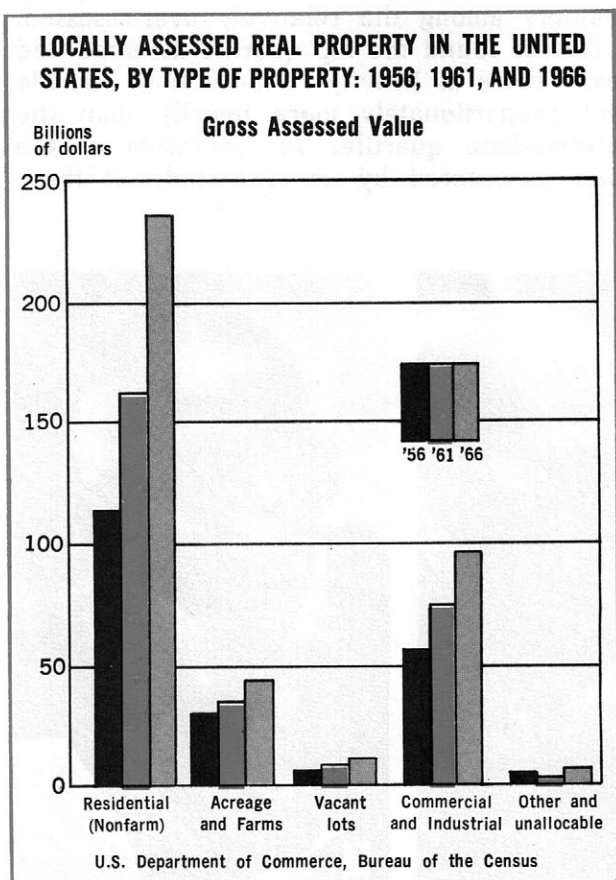
big-inequity districts account for their proportionate two-thirds (i.e., \$20 billion) share of a \$30 billion property tax total, a little oversimplified arithmetic would suggest that the relative under-assessment of the bottom quartile must be costing local governments \$3-1/3 billion a year (i.e., \$3-1/3 billion vs. \$6-2/3 billion) and the relative under-assessment of the middle quartiles another \$3-1/3 billion. This \$6-2/3 billion total should be discounted to the extent that assessment ratios have improved since 1962, but it should be upped to allow for under-assessments in the other third of the districts. It would be much higher still

if property tax rates in the South and West should be brought up level with the nearly-twice-as-high rates prevailing in the Northeast.

This is another way of saying that, except where state limits forbid, correcting today's relative under-assessments (especially the gross under-assessment of location values) could bring as many added dollars into local treasuries as the revenue sharing act now under consideration is budgeted to provide before 1976.

Alternatively (but not too probably) cities could, of course, choose to give those taxpayers who are now relatively over-assessed a break by reducing their assessments and taxes.

## Making assessment administration good should cost less than the tax loss from doing the job too cheap



The property tax could and should cost less to administer well than any other important state or local levy. This is our almost unanimous belief, but alas! we can find no meaningful figures to prove it—for three reasons:

(1) Few governing bodies see fit to publish their tax costs in a way that would permit intelligent comparisons. Even the federal government lumps the costs of its internal revenue service.

(2) The percentage cost of assessment administration is bound to vary inversely with the tax rate. Assessment should cost no more for a 4 per cent property tax than for a 2 per cent.

(3) Published figures for local assessment costs give no indication of how good a job is being done. Some districts report costs that are very low indeed, including .24 per cent for New York City and .28 per cent for Cook County (Chicago). Other relatively low figures picked at random include Sioux Falls, S.D., .301 per cent; Park County, Wyo., .52 per cent; Detroit, .68 per cent; Muskegan, Mich., .515 per cent; Bloomfield, Conn., .475 per cent; Glendale, Wis., .545 per cent. But we suspect that many such low-cost districts could improve both their net revenues and the fairness of their assess-





ments by spending more. DuPage County, Ill. spends less than .5 per cent, but the assessors there believe it would take twice as big a budget to do the job right.

Among districts that enjoy much-better-than-average-assessments, Los Angeles County reports a cost of .82 per cent; Southfield, Mich., .68 per cent; Arlington County, Va., .71 per cent; Prince George's County, Md., .721 per cent; Fairfax County, Va., .979 per cent. So as a rough rule of thumb we believe most assessment districts with an average property tax rate should be able to do a competent job for about 1 per cent. If budgeting 1 per cent should require adding perhaps \$200 million to the combined budgets of today's 14,496 primary assessment districts, that added \$200 million would still be less than one-thirtieth (1/30th)

of the tax loss from relative under-assessment suggested above.

In brief, it is penny wise, billions foolish for so many tax districts to budget less than is needed to do a good job of administration.

A 1 per cent cost for property tax administration would be twice the percentage cost of IRS, but it enjoys the double economy of (1) unequaled scale and (2) being able to shift to the taxpayer most of the administration costs of both the federal income tax and the federal corporation tax. Millions of middle-income taxpayers spend 10 times as many hours working up the data for their tax returns as the IRS spends checking them and on top of that pay their tax accountants 5 to 10 times as many dollars to work up their returns as IRS spends to process them.

## Better assessments could make the property tax a better instrument to achieve better cities

Outstanding examples of what better assessments can do for a community are Southfield, Mich., and the Rosslyn area of Virginia across the Key Bridge from Washington.

Despite the two-fold advantages of including within its borders the world-famous Northland Shopping Center and two major highway interchanges, Southfield was actually seeking federal depressed area subsidies as late as eight years ago, when the then newly-elected Mayor James Clarkson called in outside appraisers for a complete land reassessment and at the same time applied a long-overdue depreciation allowance on buildings. This more than doubled the tax on vacant and underused land, making possible a cut of up to 20 per cent in the taxes on good homes and other improvements. Since then land has been reassessed upwards in each succeeding year, and some acreage that was valued at \$1,000 in 1962 is now valued at \$50,000. The combination of heavy tax pressure on valuable vacant land with lowered

taxes on improvements helped make Southfield the boomingest city in Michigan, with more new office space built in the past five years than in thirty-times-as-populous Detroit next door. On the Detroit side of the dividing road you can see little but vacant lots and a few shabby stores; on the Southfield side of the same road building booms.

Almost the same story could be told of Rosslyn, Va. Before a complete reassessment made it too costly for landowners to underuse their land Rosslyn was a sleepy slum best known for its pawnshops and auto and building material yards. Since the reassessment Rosslyn has been completely rebuilt on an investment of over \$125 million and is still going strong.

A converse example showing the harm done by bad assessments is Milwaukee, where an eight-year, sale-by-sale vacant land study instigated by the Urban Land Institute and financed by the Schalkenbach and Lincoln Foundations has shown that compared with

Rosslyn, Virginia



Southfield, Michigan







## Better Assessments

improvements Milwaukee land is more than 50 per cent under-assessed. This is one reason why Milwaukee has to impose a tax rate on new improvements of nearly 4 per cent-of-true-value (equivalent to paying off a 68 per cent single-payment sales tax on the installment plan at 5 per cent interest over the 60-year life of the improvement). This in turn must be one reason (perhaps the biggest reason) why there has been so little private construction in or near downtown Milwaukee since 1929 and one big reason why even large federal subsidies for

land write-down have failed to spur private rebuilding on hundreds of acres cleared for urban renewal. If land assessments in Milwaukee had been more than doubled to bring them up even with improvements and the increase used to permit a significantly lower tax on improvements, such a tax shift would have so changed the arithmetic of property ownership that much less if any federal aid would have been needed to spur the rebuilding that all the federal subsidies poured in to date have failed to motivate on even half the renewal acreage.

## What's wrong with some of today's appraisal ideas is making what's wrong with today's cities worse

Today's standard approach to assessment is in urgent need of a major rethinking, simplification, and clarification to free assessors from the archaic techniques, legal fictions, and frequently incorrect theories that now dominate too much professional appraisal doctrine.

These techniques, fictions, and theories make assessors waste much too much time studying and reconciling the results of conflicting appraisal approaches. They bring many assessments into increasingly serious conflict with sound economics. They tend to reward with lower assessments those owners who underuse, misuse, or neglect their properties, even though this misuse and/or neglect may be impairing neighboring properties and impairing neighborhood values. And they are costing local governments substantial tax revenues by undertaxing millions of properties that could and should be put to better use.

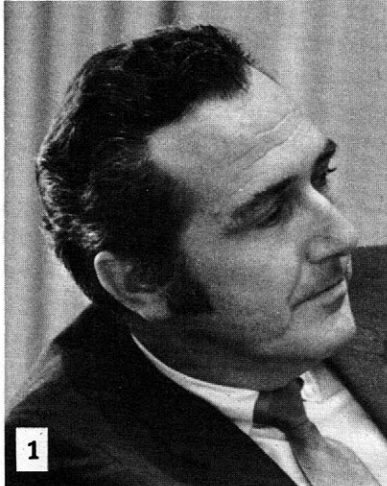
Current doctrine is that all appraisals should reflect a three-way correlation between the values indicated by (1) market comparison, (2) reproduction cost less depreciation, and (3) net income capitalization. Applying the third of these standards too often results in penalizing owners whose good management produces a sizable income and rewarding those whose less good management fails to achieve this

potential. The second reflects the very questionable assumption that buildings start out being worth no more and no less than their construction cost, whereas the fact is that the right building in the right location can be worth a lot more than cost and the wrong building in the wrong location may be worth less than nothing at all. Very few buildings would ever be built if their owners did not expect their value would be substantially more than they would have to spend on their erection.

And integrating appraisals based on market comparisons with appraisals based on reproduction cost less depreciation leads in thousands of cases to the absurdity of assessing the land under buildings right for their location as worth three, four, or more times as much as the land under wrong buildings right next door or right across the street!

We agree with some of the assessors on our panel who point out that there are many instances where this complex and difficult three-way approach is necessary (most of them on big income properties) and we agree that expertly handled the cost and income approaches can be very much oriented to the market.

But we believe that wherever there is an active real estate market assessors (including



1. BERNARD F. HILLENBRAND: "Farm preference laws are totally inequitable when there is no recapture clause."

2. KENNETH BACK: "We don't pay very much for assessments, so we don't get very much."

most specifically assessors armed with computers) can and should rely on careful studies of market transactions to provide the sole basis for all but a small percentage of their appraisals. Assessors will be busy enough keeping their appraisals from lagging too far behind market changes without complicating their task with reproduction-cost-less-depreciation and income-capitalization studies, which become important only for appraising specialized properties like big factories or utilities for which comparable market transactions are too few to provide a sound assessment basis. In populous districts there will almost always be enough actual sales of homes, stores, vacant lots, and open land to permit accurate assessments based on market comparisons alone.

As the first steps towards bringing assessment practice in line with sound economics we recommend that:

#### I

Land should be appraised first and any residual value assigned to the improvement, instead of (as is now the too common practice) appraising the improvement first at cost less depreciation and assigning the residual value to the land. The Milwaukee study previously cited, which was conducted by our fellow-panelist Dr. Gaffney, found that on a sizable percentage of all sales the property would

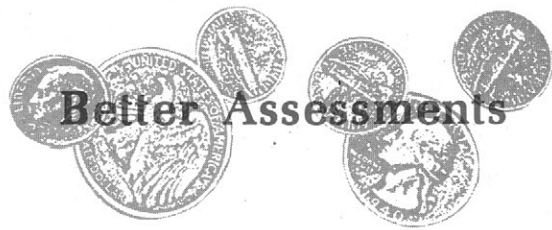
actually have brought a higher price if the improvement to which the assessors had assigned a substantial value had not been there at all. Assessing the land first would reflect the long-recognized "continuity of land values" and thereby put pressure on the landowner for a like continuity of development that would match public investment with private investment.

#### II

Land should be assessed as if the owner was putting it to its highest and best use (as indicated by the selling price of well-developed land nearby) instead of being assessed (as is today's now too common practice) on the basis of the use or non-use to which the owner is now putting it. Today's practice in effect subsidizes underuse and non-use by under-taxation, and the Milwaukee study concluded that it is delaying downtown renewal and the replacement of obsolete buildings by 20 to 30 years.

Too many assessors confuse the property tax with an income tax and grossly under-assess idle land and other properties that are realizing little or no immediate income. The property tax is not a tax on current income; it is a tax on current capital values. The value of a location has little or nothing to do with whether its potential is being realized, i.e., with whether or not the site is currently being put to a use





that maximizes its income. Likewise, buildings often have a potential for other uses or for better management on the present use that gives them a market value greater than their present earnings would seem to justify.

### III

The depreciated (or in some cases the amortized) value of improvements in the land should be assessed as improvements instead of having their value imputed to the land. Assessors should make it quite clear to all their appraisers that the words "unimproved land value" mean exactly what they say, i.e., what land in that location would be worth if its past and present owners had never done anything or spent anything to improve it.

The improvement value of land is the value created by the owner's own investment to pay for the improvements. Its location value is the value created by an often enormous investment of other people's money to develop the community around it. This includes an often enormous investment of other taxpayers' money to pay the capital cost of the public facilities needed to make the location reachable, livable, and saleable—and other-taxpayer investment for added roads, streets, sewers, water supplies, schools, hospitals, police and fire protection, etc., estimated at not less than \$16,850 per lot around New York by the Regional Plan Association and at a figure only slightly lower around Los Angeles by the Southern California Research Council.

This distinction may be relatively unimportant as long as unimproved land values and improvement values are taxed at the same rate and supposedly assessed at the same percentage, but it would become critically important when, as, and if (as most of us would recommend) improvements should be taxed less or not at all and a much larger share or perhaps all of the property tax should be charged to unimproved (i.e., community-created) land values.

Unless owner-paid improvements in the land are assessed as improvements such a tax shift would be grossly unfair to farmers who have spent thousands of hours and/or large

sums of money to improve their land by clearing it, grading it, draining it, irrigating it, and increasing its fertility. It would be unfair to the owners of timberland who have converted their holdings into tree farms and often spent millions of dollars of their own money for access roads, fire breaks, fertilization, etc. It could likewise be unfair to homeowners to the extent that they may have paid for their own streets, sewers, sidewalks, neighborhood parks, etc., either through neighborhood assessments or as part of the price they paid the developer who paid the cost of converting their raw land into building lots (whereas many other homeowners have enjoyed a completely free ride at other taxpayers' expense to pay for all their public improvements).

The concept of assessing improvements in the land as improvement values rather than as land values is far from new. It has been widely applied wherever land and improvements are taxed at differential rates. In this country 30 years ago the federal government developed and published through the Agriculture Department a series of elaborate formulas for assessing improvements in farm land as improvements in states where farm improvements had been voted special tax exemption. In New Zealand and most Australian states the concept has been embodied in legislation for many years and has stood up under the test of considerable legislation, even when carried to such an absurd extreme as making much of the land under downtown Auckland tax exempt because it is filled land that was once under water in the harbor.

To the extent that the property tax falls on the community-created value of the location instead of on the owner-created value of the improvements it conforms closely to the principal of taxation in proportion to benefits received. This same community-created value likewise provides the potential for a corresponding ability to pay, a potential that should be equally obvious whether the owner chooses to realize the potential now or decides he can make more money by leaving his location temporarily underused in the hope of thereby making more money on it later.

## Too few voters have any idea how deeply assessments are involved in local politics

"The politics of assessment are worse than rugged, and few mayors could survive sponsoring a real assessment reform at their local level."

### SAID THE DOUGLAS COMMISSION:

"Prevailing arrangements for property tax administration are ridiculous . . . It would be hard to find any other inherited feature of American government that is more out of line with modern conditions or that reflects a more fallacious notion of the task involved.

"The reasons that assessing practices in most parts of the country fall far short of a reasonably attainable standard include the following:

- "(1) excessive decentralization of assessment responsibility;
- "(2) assignment of assessing in most areas to officials who are selected by popular election and for whom there are no prescribed standards of education or training despite their complex duties;
- "(3) limited and understaffed State participation in the process of property tax assessment;
- "(4) the common practice of assessing property at minor fractions of current worth;
- "(5) the widespread lack of usable machinery for taxpayer appeal against questionable assessments."

"In too many thousands of tax jurisdictions the power structure in local politics depends for its financial support on the campaign contributions of big property owners who expect to be paid back by under-cover assessment favors."

Here, presented without names, is a fair sampling of what was said at our roundtable about the political climate in which assessors have to work—words the speakers could hardly have spoken had they not been assured of anonymity.

"You ask whether assessments are political, and the answer is in most places they couldn't be more so."

"The politicians are not going to let assessment practice be changed if they can help it, because the assessor is the fundamental entity in local politics; he is the man who brings in the political contributions that enable the group in power to get re-elected year after year."

"Local political pressures are irresistible to assessors who have no state agency to back them up."

"In one California county the assessor was able to raise a campaign fund of well over \$100,000 to get himself re-elected."

"You can't get good assessment practice until you overcome the political obstacle, and that's the fundamental problem."

"In this Ohio township a housewife was nominated for assessor in preference to a qualified appraiser because 'She's a Catholic and she's a widow, so she can't lose!'"

"Most lawmakers are lawyers, and too many lawyers have a vested interest in preserving the market for their services created by bad assessments."

"If big companies would stop paying off for low assessments we wouldn't have any crooked assessors."

"Politicians don't want the people to understand how the property tax is administered."



1. MARK KEANE: "The state must start taking a major share of the responsibility for the property tax."
2. ROBERT H. GUSTAFSON: "The market will reflect whether and how long present zoning restrictions are likely to last."
3. PAUL BUSSE: "Assessment uniformity means that certain taxpayers pay more than their share."

**ESTIMATED DISTRIBUTION OF LOCALLY ASSESSED REAL PROPERTY, BY TYPE OF PROPERTY:  
1956, 1961, AND 1966**

Type of property	Gross assessed value (billions of dollars)			Per Cent		
	1956	1961	1966	1956	1961	1966
Total	209.8	280.5	393.2	100.0	100.0	100.0
Residential (nonfarm)	113.5	162.5	236.3	54.1	57.9	60.1
Single-family houses only	95.1	135.5	196.7	45.4	48.3	50.0
Acreage and farms	29.1	32.7	43.4	13.9	11.7	11.0
Vacant lots	4.8	7.0	10.2	2.3	2.5	2.6
Commercial and industrial	158.0	74.5	97.2	27.7	26.6	24.7
Commercial	34.8	44.2	60.0	16.6	15.8	15.3
Industrial	22.6	30.3	37.1	10.8	10.8	9.4
Other and unallocable	4.4	3.8	6.0	2.1	1.4	1.5

<sup>1</sup> Total commercial and industrial includes, for California and Nevada, properties not allocable by type—principally separately assessed mineral rights.

**Note:** Because of rounding, detail may not add to totals.

U.S. Department of Commerce, Bureau of the Census



"Professionalism can't thrive among assessors who have to raise a campaign fund every two or four years to run for reelection."

"Computerization has been blocked for years by politicians afraid that computerization would make it impossible for them to go down

the back stairs to the assessment room at night and change the assessments with their pencils."

"The last thing the local political power structure would want is a competent assessor who would put the influential landowners' assessments where they should be."

## Assessments should be made almost self-policing by making them easy for taxpayers to cross-check

"If people had any idea how badly they are being trimmed on assessments they would soon change the way property is assessed."

So said one of the most knowing members of our panel, and we all agree. The two best ways to stop assessment discrimination are: (1) make it easy for taxpayers to see and under-

stand how their own assessments compare with the assessments on other peoples' homes, other peoples' businesses, and other peoples' land, and (2) make it easy and cheap for taxpayers to press an assessment appeal. Then every property owner could police his own assessment and make sure it was not out of line.

### SAID THE C. E. D. REPORT:

"Real property tax administration suffers from two major sources of inequity: unequal assessment and under-assessment. In view of the primary reliance on real property taxes, it is quite shocking that in most parts of the country—whether urban or rural—its administration may be accurately described as inequitable, inefficient, incompetent, or corrupt. There is no more vivid illustration of the need for reform of local institutions.

"Most of the injustice and waste under the present system could be eliminated—quite readily—if property tax administration were entrusted to strong local units, properly organized and managed. Small, overlapping tax assessment and collection districts, with their amateur elective assessors and collec-

tors, must give way to professionally competent personnel under incorruptible supervision. These changes would produce sizable administrative savings, permit equitable and accurate property valuations, and eventually reduce the number of successful assessment appeals. State governments have a basic responsibility, even though they gain little revenue from property taxes. They should set assessment standards, inspect enforcement, and provide technical assistance upon request.

"When county governments are reconstituted, they should be entrusted with property tax administration—at least for an initial trial period—under state supervision and with state technical assistance."



Today's confusion starts with today's almost universal practice of fractional assessment, i.e., assessing properties at a fraction of their worth even though state law may call for assessment at 100 per cent of market value. Too few people seem to understand this practice (which the Advisory Commission on Intergovernmental Relations calls "a convenient graveyard for assessors' mistakes"), so a homeowner who is told the assessment on his \$30,000 house is \$15,000 is all too likely to think the assessor has given him a break instead of realizing that his 50-per-cent-of-market assessment is twice the district-wide average of 25 per cent and four or five times the vacant-land assessment average.

Dr. Irene Hickman, the militant Sacramento assessor, gave the fractional assessment problem nationwide publicity by loudly announcing that she was about to reassess every property in her district at 100 per cent, insisting that 100 per cent assessment is required by the state constitution (which does indeed so specify). This started a grand toodoo, with the big local landowners demanding her recall only to find her returned to office with a bigger vote than ever. Eventually the courts decided that fractional assessment was so long-established and so deeply enmeshed in the distribution of state monies that it should not be changed; but the battle at least served to get many more voters interested in knowing more about assessments, including their own.

Meanwhile the California legislature had already voted two important assessment law improvements that should make it much easier for property owners to understand and police their tax appraisals:

(1) Before 1971 all California property must be uniformly assessed at 25-per-cent-of-true-value.

(2) Effective at once, all California property tax bills must show not only the fractional assessment, but the full appraisal on which the fractional assessment is based.

Since then Los Angeles County has begun publishing the assessment of every property by street address instead of by a parceling system that one member of our panel compared to publishing the figures in Latvian. Twenty other counties are starting to follow Los

Angeles' lead. This will make it much easier for any taxpayer to compare his assessment with the assessment on any other property in the district, both like and unlike. In Sacramento anyone interested can see the complete roll not only in all the city and county office buildings, but also in all the public libraries.

Land assessments are easier to check and compare than improvement assessments, so it is important that each tax bill should show the two separately and that these should appear separately on the published rolls. In Lawson Purdy's time New York City published land assessment maps anybody could buy for 25 cents showing front foot assessments on every block in the city. So did Milwaukee in the early 1930s.

The most practical way of all to let taxpayers make their assessment comparisons is to publish them in a well-read local newspaper for all to see. In a few cities this is already being done with excellent results. In some of these places the newspapers charge advertising rates for the needed space; in others the newspapers publish all the assessments as news, recognizing that very few local items would command greater readership than a chance to see how all their neighbors' homes are being taxed. In cities too big to publish all the assessments in one newspaper it is almost always possible to work out a combination of neighborhood and suburban papers.

Some of us feel so strongly about the need for giving assessments maximum publicity that they would favor making the assessor's office give prompt replies to any and all telephone requests for assessment figures.

Where an outside assessment firm is called in its appraisals should be made a matter of public record, and so should any changes in those appraisals that may be made by the local assessor. Likewise, any and all assessment reductions negotiated out-of-court should be published. In each such case it is important that the name of the law firm that got the settlement should be published, for this will all too often reveal that a few favored firms have a very profitable inside track to the assessor's office.

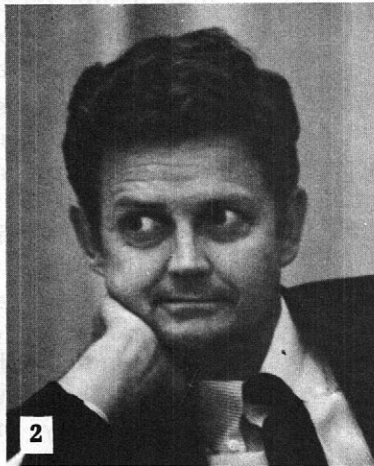
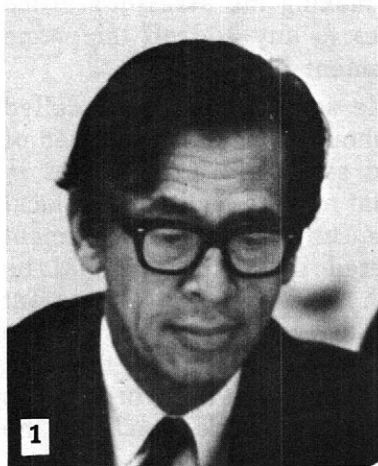
## But today assessment appeals are so difficult that only big owners can make good use of them

Oregon, Maryland, Hawaii, and the District of Columbia are setting an example for all other states by setting up tax appeal courts in which (1) the judges are specially knowledgeable about assessment problems and local property values, and (2) the property owner does not have to pay a lawyer to help him win his case. Alternatively, Oregon property owners without a lawyer can take their protest to a similarly qualified tax appeals board. Under both procedures all the taxpayer has to prove is that his own assessment is unreasonably out of line with the published assessment ratio in his district, and either way the decision must be handed down within a year, i.e., before the next tax bill becomes due. By way of contrast there are 10-year-old tax appeals in Illinois that are still waiting to come to trial, and in most states the cost of tax appeals (including lawyers' fees) is so big that they are out of the question for small and median property owners. On bigger properties the more or less standard procedure is to employ a law firm with the right connections to get a one-year settlement out of court, with the law firm taking half the tax saving as its fee.

Condemnation awards are beyond the scope of our roundtable, but in passing we should add

that everything that is wrong with most states' judicial system for tax appeals is more glaringly wrong for condemnation proceedings because the stakes are perhaps fifty times greater. Standard condemnation procedure in most states is that the property owner hires an appraiser to testify to the highest value he could possibly justify while the government agency hires another appraiser to testify to the lowest. A jury that usually knows next to nothing about the values in question is then called upon to decide which witness was furthest from the truth, after which nine times out of ten the jury shows its sympathies by voting the owner a lot more than his property is worth. And a judge with no special familiarity with property law or property values hands down the decision.

Compare this with the procedure in the specialized Australian and Malayan land courts, where the primary responsibility of the appraisers called is to the Crown, where there is no jury involved, and where the sitting judge is a specialist with years of experience on land law and land values. Somewhat similar procedures are standard in England where a court-employed appraiser holds the balance between appraisers employed by the litigants.



1. JOHN HENRY DENTON: "Zoning has not been effective in any California growth area."
2. DR. M. MASON GAFFNEY: "Milwaukee assessors spend 80% of their time assessing improvements, hardly 20% assessing land."





## Assessment reform won't get very far until the states take on the job of policing what local districts do

How can anyone expect broad assessment reform and much better assessments as long as so many states leave assessment fragmented in 14,496 separate primary assessment districts, most of them too small to employ competent full-time assessors and most of them almost free to assess as they please.

A few states are now making serious efforts to impose higher standards on local property tax administration, including most notably California, Maryland, Virginia, Tennessee, and New Jersey. In Hawaii local assessment districts have been abolished and assessment has been taken over lock, stock, and barrel by the state.

Most of the other state governments are either blind or indifferent, but this blindness and indifference is only half the problem, for even with the best intentions how can any state hope to exercise effective supervision over the performance of so many often miniscule assessment districts? For example, how can the State of Texas hope to assure sound assessment administration within its borders as long as assessment is fragmented in the 4,500 assessment districts that now function almost independently there?

As every big realty lender knows, assuring good supervision is just as important as employing good appraisers. For assessments, good supervision is doubly important (1) to make sure that assessors employed by many different assessment districts are following the same assessment guidelines, (2) to make sure the local districts are budgeting enough money to attract and hold good professional appraisers, and (3) perhaps most important of all, to give local assessors the protection of incorruptible supervision against otherwise often irresistible local pressures.

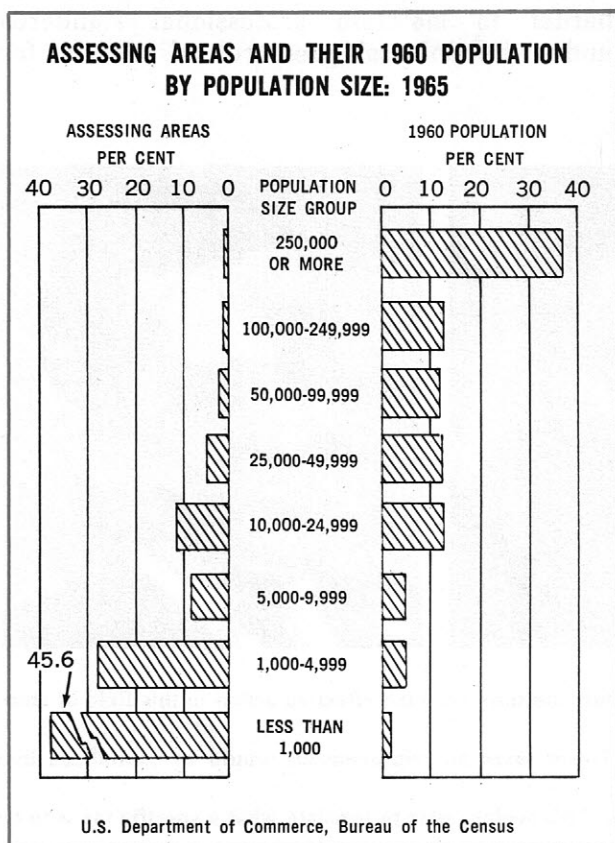
To make this incorruptible supervision workable we recommend:

### I

The states should make it clear, by legislation and otherwise, that they are prepared to face up to their responsibility for good and equal assessments in every assessment district.

### II

The states should consolidate the 14,496 primary assessment districts that now serve today's 82,000-plus tax jurisdictions into about 2,000. No assessment district should be smaller than a county and some could embrace as many as five, for half of today's 3,049 counties are so small that they have less than 10,000 population. Fixing more assessment responsibility at



the county level would provide one more good reason why everyone should support the National Association of Counties' sound and ambitious program for modernizing and strengthening county government.

County-size assessment districts are standard in 31 states, mostly in the South and West, and it makes no sense at all that if California can enjoy the best assessments with only 58 primary assessment districts New York should need 990, Indiana 1,009, Illinois 1,424, Michigan 1,475, North Dakota 1,772, and Wisconsin 1,834. With some exceptions it can almost be said that the more assessment districts a state has the worse its assessments are likely to be.

Consolidation would serve the triple purpose of (1) making the number of assessment districts small enough to permit effective state supervision; (2) eliminating overlapping assessment districts and the wasteful duplication of work they entail; and (3) making even the smallest assessment districts big enough to afford an adequately-paid full-time assessor's office (whereas under today's fragmentation many assessment districts are trying to get by

with only a part-time assessor paid as little as \$500 a year!).

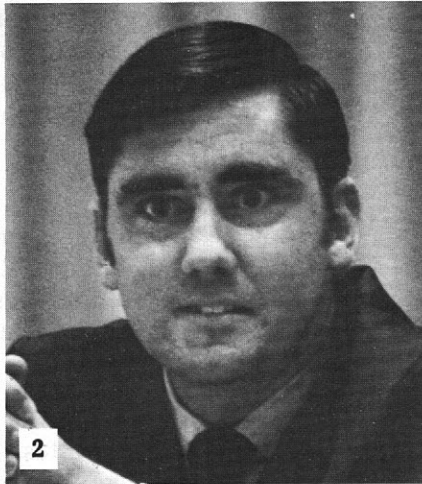
Bigger districts should make assessments not only better but often cheaper.

### III

Within these larger assessment districts the states should require that the same assessments should be used for the village tax, the city tax, the county tax, the school tax, and all other local property levies (library tax, sewer district tax, water district tax, etc.) There should be no overlapping assessing authorities.

### IV

Preferably the states should make the assessor's office appointive rather than elective and the assessor should be given the protection of civil service status. We say preferably because (1) we believe all non-policy-making government jobs should be appointive and (2) because elected assessors must find it much harder to maintain professional standards under the political pressures of running for



1. PATRICK HEALY: "Only the state can take effective action in this field of more effective assessments."

2. TED GWARTNEY: "Lower taxes on improvements would be capitalized into higher prices for land."

3. D. DAVID BRANDON: "It's seldom wise to legislate what a specific tax is to be spent for."



# Better Assessments

reelection and raising a campaign fund every two to four years, and we note without surprise the census report that assessments average much better in city-manager cities.

## V

States should set minimum professional standards for all appraisers employed in the assessor's office, including specifically the assessor himself if his duties will include some actual appraising in addition to directing the assessing staff.

In Tennessee these appraiser requirements include four years of college with a major in business administration and attendance at a state-supported two-weeks appraisal school each year to keep up to date.

In California every appraiser must be certified by the state after passing a competitive examination. He must maintain his certification from year to year after 24 classroom hours a year of additional training in a state-approved school.

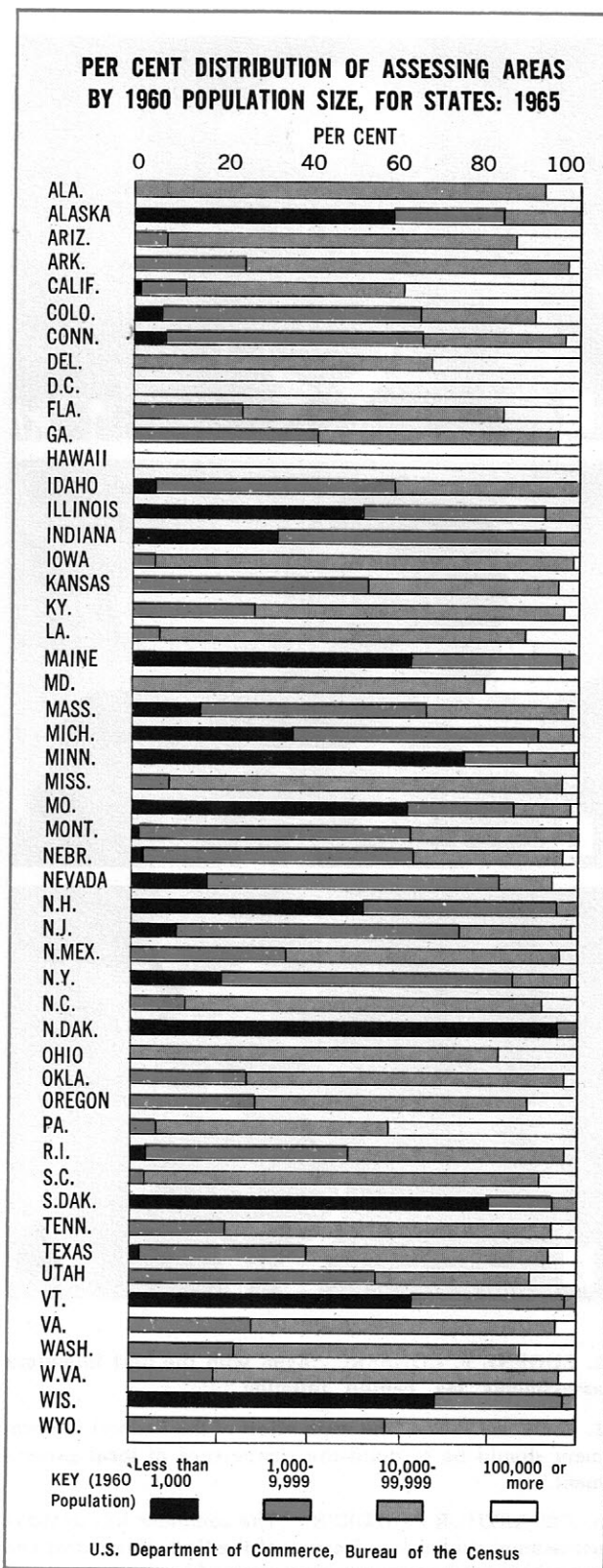
In Australia, where assessments are notably professional, every appraiser must be a member of the Commonwealth Institute of Valuers, which entails three examinations and at least four years practical experience under a qualified valuer.

## VI

In many, if not all, assessment districts the state should take over full and direct responsibility for appraising big industrial, utility, and commercial properties. There are two immediate reasons for this shift, plus a long-range reason that is somewhat beyond the bounds of this roundtable on assessment practice:

**Immediate Reason No. 1**—Assessing industrial, utility, railroad, and other multimillion dollar properties calls for specially-qualified appraisers whose services are not needed to appraise run-of-the-mine properties.

**Immediate Reason No. 2**—Assessing these big properties subjects local assessors to pressures that even the most honest find almost impossible to resist. Quite apart from any question of bribery or campaign contributions, a big industrial property owner can always







1. EUGENE P. CONSER: "Even with the best intentions assessments lag behind inflation."

2. FLOYD HYDE: "The main effort of the Federal Government should be to build the competence of local government."

3. DR. ARTHUR P. BECKER: "The computer lets us make assessment studies in a fraction of the time. Computers can be very helpful in statistical analysis of land use."

threaten to move to a tax haven unless the local assessor will agree to an under-appraisal.

**Long-Range Reason**—State assessment of big industrial properties could be the essential first step towards state taxation of industrial properties at a uniform statewide tax rate, with the taxes redistributed to support local schools on a per pupil basis. We know of no other way to end the scandal of tax havens, with some communities enjoying low tax rates because they have a big industrial tax base and others laboring under a crushing tax burden because they have many children and a small industrial tax base. In New Jersey this disparity results in a tax rate in some districts nearly 11 times as high as in others (6.92 per cent-of-true-value versus .61 per cent).

## VII

The states should set minimum standards for local assessment performance and should require the state supervisory agency to step in and provide appropriate assessment administration at district expense in those local districts that fail to meet the minimum standards. In other words, the state should be the assessor of last resort.

More specifically, states should conduct statewide assessment studies and determine which, if any, districts' assessments are out of line. If these districts cannot or will not bring their assessments up to the state standard, the state supervisory agency should send in its own personnel or an outside assessment firm to make a complete reassessment and bill the district for the costs incurred.

Such a practice is already provided for in California, where the state can and does step in to name a reappraisal commission consisting of the assessor, the chairman of the county supervisors, and a nominee of the state tax office. They can hire an independent staff whose appraisals must go directly on the roll.

In Tennessee the state stops the assessor's pay in any district that fails to meet state standards. One Canadian Province goes to the far extreme of voiding all property tax bills if a taxpayer's suit shows undue variation in assessments. The local government thus can



collect no property taxes until the inequities are corrected.

#### VIII

The states should set minimum pay standards high enough to make employment in the district assessor's office attractive to qualified employees. In California the state has set the starting pay for assessment appraisers at \$7,800 a year, rising to \$12,000 in four years.

#### IX

Most of us believe it was a mistake for the states to abandon the property tax as a significant source of state revenue 30 years ago. What passed for a renunciation of revenue soon became an abnegation of state responsibility.

We are almost unanimous that assessments and assessment administration would be better if all states would involve themselves directly in property tax improvement by imposing at least a token state levy on property. And we note with interest that Michigan is considering

a statewide property tax for school support that could be a long first step to lessen the inequity of tax havens.

#### X

We agree with ACIR that each state should study the desirability of taking over the whole assessment job (as in Hawaii) but we are not prepared to prejudge the outcome of these studies, whose correct conclusion may differ from state to state.

#### XI

All states should repeal the constitutional limits they now impose on the amount and the incidence of local property taxes and reconsider the legal limits. They are a major cause of the cities' financial crisis and a major reason why so many cities are forced to make such desperate pleas for more state and federal aid. To escape them is the No. 1 reason for today's costly proliferation of special tax districts (library districts, water districts, etc.).

## State help for better assessments should begin by correcting state laws that hinder good assessors

Too many states now make it harder instead of easier for assessors to do a good job. Too many state laws enacted in a different age fail to fit today's needs.

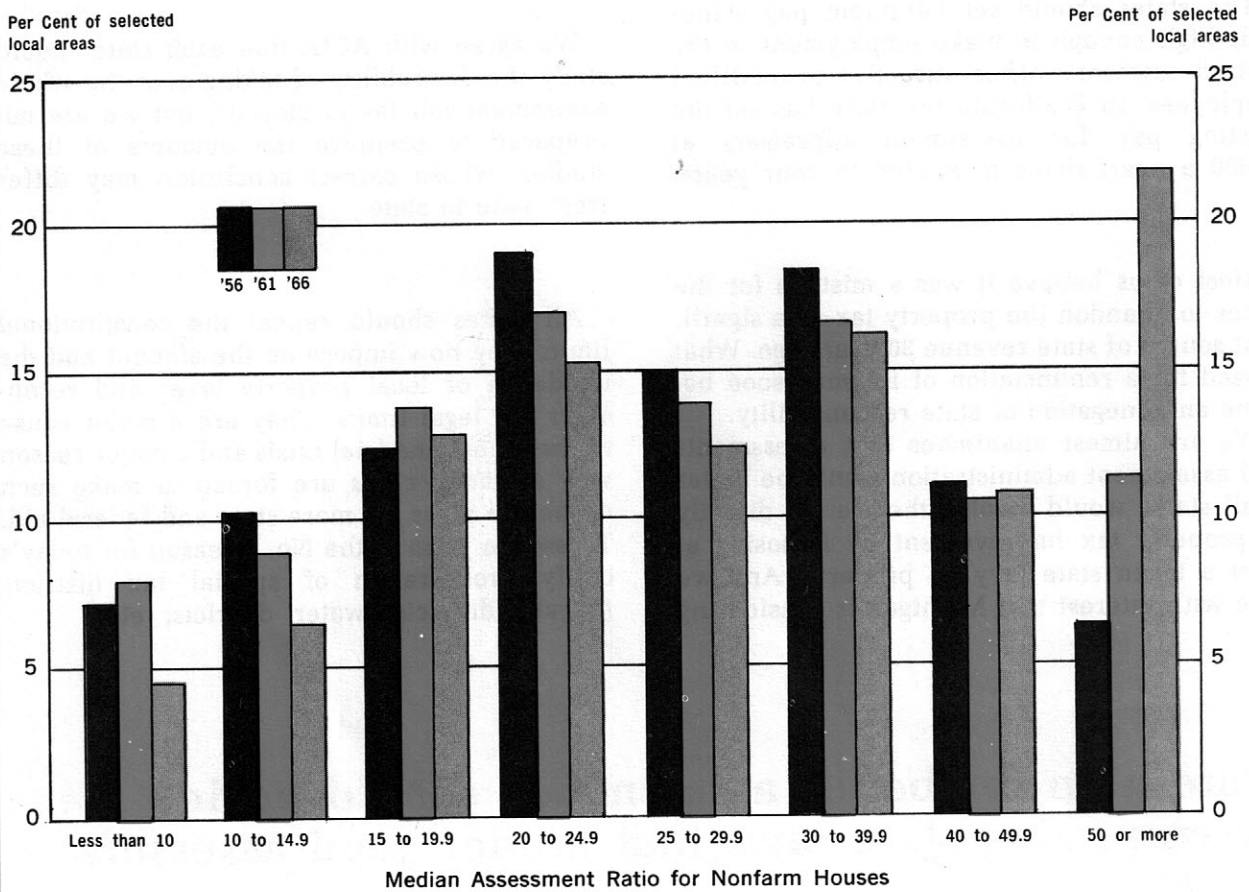
The state spokesmen at our roundtable recognize that many changes seem desirable in state laws affecting property tax administration, but they rightly protest that to make these changes wisely state legislators will need and should be given a lot more help by those who have specialized knowledge of assessment methods, assessment needs, and assessment problems. "Why," they ask, "have the various assessors' and appraisers' organizations failed to provide every state government with a list of changes they would recommend? And why

have assessment reform advocates given the legislators so little assurance of support to answer and overcome the opposition of those who benefit from what's wrong today?"

A case in point: we all recognize that if Tennessee today enjoys just about the best assessment legislation the credit is partly due to the guidance and advice of Nashville's Metropolitan assessor, Clifford Allen, who is president of the International Association of Assessing Officers. His wise guidance enabled Tennessee to take full advantage of the experience gained by such assessment-reform pioneers as California and Maryland.

Here then is a check list on which we are almost unanimous:

**PER CENT DISTRIBUTION OF SELECTED LOCAL AREAS ACCORDING TO MEDIAN ASSESSMENT RATIO FOR  
NONFARM HOUSES: 1956, 1961, AND 1966**



U.S. Department of Commerce, Bureau of the Census

**I**

Ten states still discourage assessors from keeping their assessments up-to-date by annual reassessment even in areas where values are changing rapidly. Pennsylvania calls for reassessment only every three years; Illinois, Iowa, and South Carolina every four years, Utah five, Indiana and Ohio six, North Carolina eight. With replacement costs soaring and land prices inflating faster than any others, this reassessment restriction guarantees that millions of properties will soon be gravely under-assessed.

**For example:**

In Southfield, Mich., many properties appraised at \$1,000 an acre in 1962 now carry a tax appraisal of \$50,000 an acre. Without annual reassessment much of this \$50,000 land would still be assessed at less than \$10,000!

**II**

Too few states make it easy for assessors to check their appraisals against the market by requiring that the price of every sale must be included in the deed; and some states that do have this requirement make it needlessly hard





for assessors to use the information. For example: in Illinois the assessor may look at the figure and use it provided he does not copy it. In California the only way the assessor can be sure of getting the sales price is to questionnaire the buyer twice by mail and then summon him to appear if he fails to answer. Colorado requires assessors to collect agricultural statistics for the Department of Agriculture but forbids them to use any of the information thus gathered for assessment purposes!

### III

Too many states make local assessors waste too much time and money handling forms for state-ordered tax exemptions (exemptions for veterans, homesteads, the elderly, farmers, disability, low-income property owners, etc.) and too much time and money assessing properties that will end up paying no property tax at all.

For example: in 1969 the Sacramento assessors' office had to maintain a separate division with four extra clerks on the payroll all year round and 42 more for five months of the year just to process tax exemption application forms, and the end result of all their labors is a \$10 million reduction in Sacramento's property tax receipts. In Florida the local assessor is required to send each homeowner three notices to come in and apply for his homestead exemption. If the state tax office had to handle all this processing and paper work instead of dumping it on the local assessors the states might be less free with exemptions. We are almost unanimous that states that wish to subsidize some favored group of voters should pay the subsidies directly from the state treasury instead of indirectly through the local assessors' offices. At the very least they should compensate their local governments for their revenue losses due to state-ordered exemptions.

### IV

Too many states weaken the local property tax base by indiscriminately granting religious, charitable, and education organizations full tax exemption on all the real estate they own, whether or not they are using it for those pur-

poses or not using them at all. In New York land under the Chrysler Building is tax exempt by special statute because it belongs to Cooper Union. In Syracuse half the properties around the university are falling into decay because it has bought them as a land reserve for future growth and is spending little or nothing on their upkeep. Hundreds of Manhattan brownstones are being bought by foreign governments and/or foundations that enjoy exemption not only on the present structure they use but also on the air rights they feel free to waste. And in many states churches and charities enjoy tax exemption on land that they rent to farmers or to industry.

On the wisdom of limited assessments on land used for farming (sometimes as low as \$200 an acre for land held for sale at \$13,000) we are less agreed. Some of us would argue that if farm preference were to be stopped, the resulting property tax increase would make farming unprofitable in too many areas. Others reply that today's assessment preference just gets capitalized into land prices so much



1. MAYOR BRILEY: "Few Mayors are in office long enough to understand the long local history of bad assessments."
2. SENATOR EDWIN C. BECKER: "We citizen legislators are not assessment experts, so we need professional advice."

higher that they actually add more to farming costs than would a higher tax.

Either way, we all agree that when farm land that has enjoyed limited assessment is sold for its non-farm value the community should recover a substantial portion of the taxes that would otherwise have been paid (i.e., perhaps the five-year difference between the tax actually paid under farm preference and what the tax would otherwise have been.)

#### V

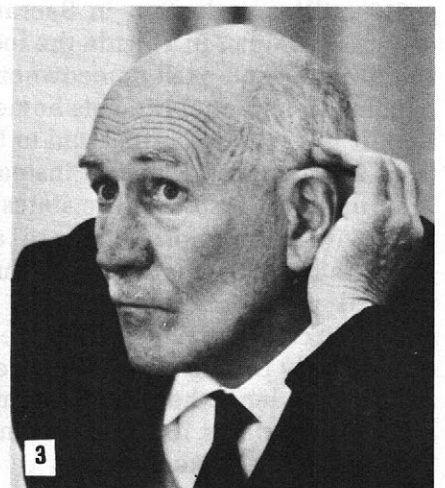
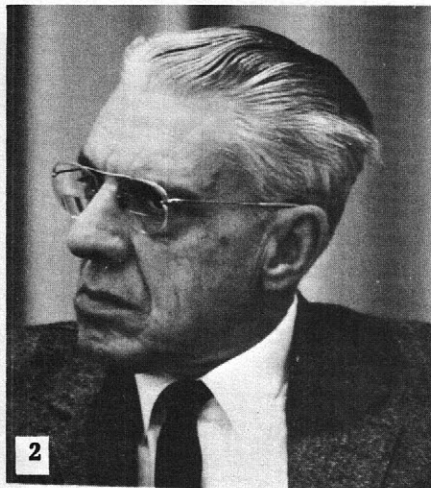
Some states actually set a \$10,000 or \$12,000 top limit on what local governments can pay assessors!

#### VI

Some states make it almost impossible for cities to call in outside appraisers to overhaul and/or update assessment rolls that for one reason or another are in urgent need of correction. On the contrary, we believe that in some emergencies the employment of outside appraisers should be mandatory, as it is now in Tennessee. Their employment may be the only

practical way to start assessment reform in districts where present assessments are notoriously bad, but it should be clearly understood that employing outside appraisers almost always costs more than maintaining a good local assessment office, and their appraisals will soon be out of date unless a good local assessment office is set up to keep them current.

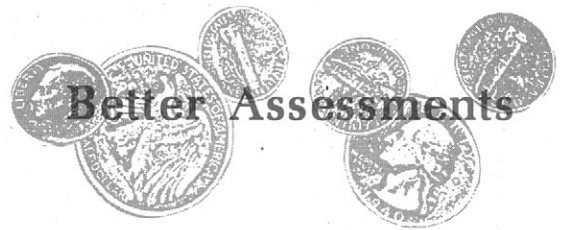
The calling in of outside appraisal firms is not a panacea. In too many instances, they are so highly competitive that the price per parcel which they quote is unrealistically low, making it impossible for them to do an adequate job in a revaluation. A second criticism is that almost without exception they rely on replacement less depreciation with minimal attention paid to actual market data. A final and perhaps the worst criticism stems from the fact that they bid their prices so low that they spend all too little time on the complex commercial and industrial properties. Too often they undervalue properties by intent, so that they will not face the necessity of defending the appraisal in court at their own expense.



1. PAUL V. CORUSY: "The property tax costs less to administer than the state income tax and sales tax."

2. MAX S. WEHRLY: "Land use policy and property taxation policy are going in opposite directions and defeating each other."

3. DR. JOHN F. N. MURRAY: "In Australia we have no difficulty assessing land values independent of the improvement."



## Better Assessments

### VII

Some states still make assessors spend too much time assessing household personal property (i.e., tangibles other than machinery and business inventories) despite the widely-accepted belief that taxing a homeowner's household property brings in too little revenue to make it worthwhile to assess and collect it.

### VIII

Too many states stipulate that all assessment information not specifically authorized for release is therefore restricted. It would be much better to word this provision the other way around, allowing full disclosure of all assessment information not specifically restricted.

### IX

Too many states allow such a long redemption period (up to seven years) after tax sales that it is virtually impossible to sell an owner's property for taxes. This creates an often impossible obstacle to the redevelopment of slum areas where delinquent taxpayers have abandoned their properties.

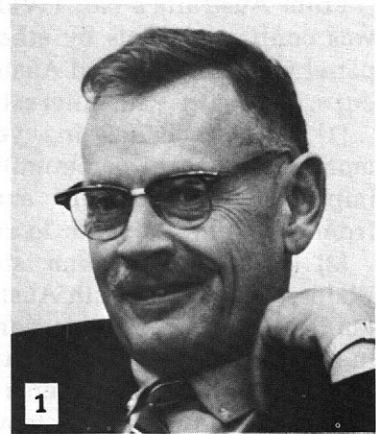
### X

Too few states have even defined what value the assessor is supposed to assess. Should he assess land at what it is worth for its present use, or should he assess land at what it would be worth if the owner were putting it to its highest and best use? Should he assess land at what would be its highest and best use today, or should he assess land at a market price that discounts the future and reflects what its highest and best use will be tomorrow? Should he assess land at what it is worth under present zoning, or should he base his assessment on its current market price when the market price shows the market expects the zoning to be changed?

We strongly and unanimously recommend that state laws should stipulate that land should be assessed at its highest and best use; that its future should be discounted to the same extent that the current market discounts it; and that zoning restrictions should be discounted

to the same extent that the current market discounts them. Downtown land whose highest and best use would be as part of a larger plot that could take advantage of the air rights needed for a large building should be assessed on that basis instead of at its much smaller value as a single lot (this could make it much more difficult and expensive for single-lot owners to obstruct downtown redevelopment by holding out for fancy prices that too often make it too difficult to assemble the frontages needed to make multistory use of prime locations).

The International Association of Assessing Officers could find only 13 states that even theoretically require assessors to use a state-prepared or state-approved appraisal manual—and of these 13 manuals not all reflect today's best appraisal thinking.



1. DR. ARCHIBALD M. WOODRUFF Jr.:  
"The assessor is a planner with his head in a bag."



2. MAYOR LUGAR:  
"Who will break up the very cozy relationship between assessment and the local political set-up?"



## Some appraisers say you can't assess land separately, but Australia has been doing it well for over 80 years

Everyone concerned with property taxation and local government finance should take a long look at property tax practice and experience in Australia where none of the six states levies any state tax at all on improvements, but all six tax land at progressive rates that scale up as high as 5 per cent on holdings aggregating \$500,000 and 7 per cent on \$1 million holdings (i.e., \$70,000 a year on \$1 million vs. a local levy averaging less than \$20,000 on vacant land in this country).

Two states (Queensland and New South Wales) likewise restrict local property taxation to land values only (except for a small water and sewer levy in the Sydney area). The other four states allow local option on whether the local government should tax site values only or should follow the British system of rates.

From Australia's No. 1 Valuer, whose report was confirmed to us by other members of our panel who have studied Australia's long experience, we learn with interest that:

(1) With each passing year the voters in more and more communities opt to untax improvements. Contrary examples of a shift from site value taxation to rating are rare.

(2) In four Australian states, (New South Wales, Tasmania, South Australia, and Queensland) all the assessing is done by the office of the state valuer general. In these states there are no separate assessments for local taxation, and Western Australia is moving towards a like system. In Victoria the state valuer general supervises the work of qualified valuers working under contract.

(3) There is less argument and much less litigation over assessments where land only is taxed, because owners can see at a glance whether assessment on their land is right in line with assessments throughout the neighborhood.

(4) Assessment appeals are handled by a separate land valuation court whose judges must be qualified experts on property problems.

(5) Contrary to the American practice of assessing properties at a fraction (usually about

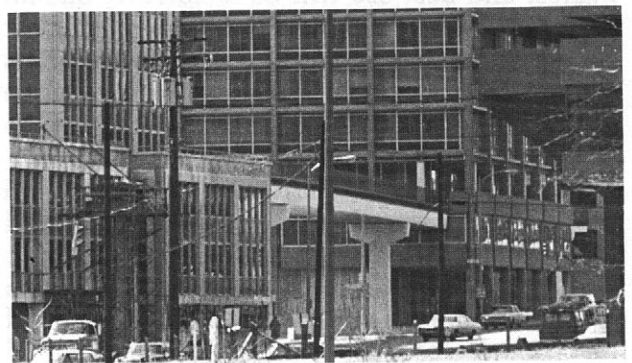
25 per cent of market) all assessments in Australia are at 100 per cent, and these assessments are used in all real estate transactions as the starting point for bargaining.

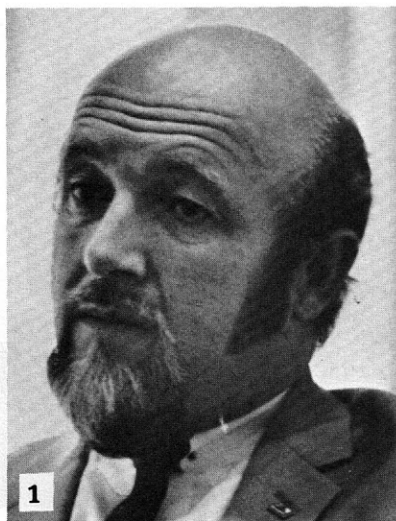
(6) Many more new buildings are being built in Sydney and Brisbane, the two big Australian cities where improvements are not taxed, than in Melbourne, the big city where they are. And Sydney and Brisbane have fewer "deteriorated properties" than Melbourne and no slums at all comparable to the slums to be found in every American city.

(7) Australian income taxes allow a deduction for property taxes, but no deduction at all for depreciation.

(8) Developers in Australia must pay the full cost of installing streets, sewers, and utilities and can be required to contribute 10 per cent of the land for community purposes (schools, parks, etc.). This requirement may have been a more effective check in land speculation than the land tax, which has not kept land prices from soaring (probably because Australia's non-taxation of improvements gets capitalized into higher land prices just as higher taxation of site values gets capitalized into lower land prices).

New South Wales is now bringing in a development charge to be levied where the zoning is changed. This charge is to be 30 per cent of the difference between the value August 1, 1969, and the value after the zoning change.





1. DONALD R. BEACH: "If big industry would stop paying for crooked assessments the crooked assessor would be out of business."

2. ROBERT F. STEADMAN: "Assessment politics are so bad that I don't think we have even a flavor of how bad it is in some parts of the country."



## Computers offer assessors a fine new tool to help keep better assessments up to date

In conjunction with the State Board of Equalization, California's county assessors are setting every other state an important example by introducing computers into the appraisal process to minimize the clerical work associated with computing, recording, file maintenance, and data retrieval in the appraisal of single-family residences. Still in the early stages, this innovation is working so well that the board is already satisfied that the use of computers can: (1) permit annual updating of the appraised values instead of every four years or so, (2) achieve this annual updating with a somewhat smaller staff than is presently employed on residences on the present cyclical timing, (3) eliminate the drastic increase every few years associated with a slower reappraisal program, and (4) make available additional staff members for other appraisal work.

Preliminary findings show that the computer generated estimated sales prices (ESPs) are quite reliable when checked against the current market and current appraisals made by the staff. All but 3 to 8 per cent of the variation in sales price can be explained for the typical home with the larger per cent in the extremely

heterogeneous neighborhoods. When checked against the appraisals based on comparable sales (market approach), the variation is about 5 per cent on the average. It is anticipated that 85 to 95 per cent of the estimates will hold up under field review, with the remaining properties requiring the expertise of the journeyman appraiser.

Three California counties, San Francisco, Sacramento, and Santa Clara, have used this technique to revalue portions of their rolls already. San Mateo and Orange have totally operational systems and expect to employ the technique in the current assessment year. Eleven additional counties (comprising 95 per cent of the state's 2.5 million residences when added to the five mentioned above) are at various stages of development or installation. Both Washington and Oregon are taking the first steps to develop systems similar to California's. Meanwhile, a few other districts have been moving independently into computerization.

First costs of the new system have been averaging \$1.50 per home in California to input on magnetic tape the answers to about 100



1. JOHN GUNTHER: "Letting the states mandate what local government must spend is dangerous."

2. JAMES ALLOWAY: "In my state there is a purposeful manipulation of the ratio just for the confusion of the general public."

pertinent questions concerning the characteristics of the property. These queries cover such items as square feet, age, architectural style, one-story or two-story, garage, carport or none, how many bedrooms, is there a basement, is it finished, what about the attic, is there a playroom, how wide, how busy, and how well-paved is the street, are there water rights and a dock, how near is the school, what other community facilities are easily accessible, etc. Once these basic data are on the tape it can be kept current and checked against neighborhood sales data at an estimated annual cost of only 11 to 15 cents per house per year. In good neighborhoods remodeling permits can be relied on to catch physical changes; in declining neighborhoods field checks are more apt to be needed to see how well the property is being kept up.

Test samplings in Sacramento have shown these methods can produce computer assessments averaging within 5.25 per cent of actual selling prices. Such a cross-check could be made much easier and cheaper if state law would (1) require all deeds to show the total sales price, and (2) authorize assessors to copy off and use the sales figures instead of making the assessor question the buyer to get this information (as he now must in California and many other states).

Up to now computers have been limited almost everywhere to residential work, but they should also be especially helpful in keeping assessments abreast of the inflation in the price of land, including most specifically vacant land. This inflation has left land assessments almost everywhere far behind market. Recent studies have demonstrated the computer's potential in other property types. California is currently studying the feasibility of applying this technique to small multiple family units, apartment homes, rural, and timbered parcels. Whether computers can also work well amid the much greater variables of commercial and industrial properties remains to be seen.

Another valuable computer use has been developed at private expense by the California Statewide Homeowners' Association, which has found that for a little more than \$10,000 it could tape side by side for easy comparison the assessed valuation and the actual selling price of every property sold within two years in each of two above-average-size California counties (Alameda and San Diego) with each property keyed to show its neighborhood and its classification. These tapes have been criticized as "crude" and also as "performed under conditions that fail to eliminate many distorting factors," but they do make it possible for the





assessor (or any other interested party) to get a fair idea within a matter of minutes as to (1) what neighborhood assessments are falling out of line with the market, (2) what classifications (homes, vacant land, etc.) are out of line, and (3) what classifications show so few sales that a further check is needed. For a tool that can provide such a quick check, \$10,000 every two years might be a very small price to pay.

The Robert Schalkenbach Foundation has spent three years and quite a lot of money exploring the potentials of computer analysis and has developed a complete *Users' Manual* for five groups of pre-tested and debugged computer study programs, which statistically analyze

- (1) Assessed land and improvement values by property classification (land use, for example).
- (2) Tax incidences by property classification under various tax policies.

- (3) Assessment-sales ratio by property classification.
- (4) Effects of alternative taxation policies on income-producing property.
- (5) The geographical distribution of user-defined variables (by means of computer produced "maps" of the study area).

These programs can also be adapted to analyze other variables and/or classifications defined by the user.

The foundation is now offering these Fortran language programs, including the *Users' Manual*, free of charge to universities and similar non-commercial research centers, where the foundation hopes states, counties, and cities will take advantage of them to pursue their own studies of assessing practices. Further information is available from the foundation at 50 East 69th St., New York, N.Y. 10021. ■

Rosslyn, Virginia





# Serving the nation's cities for 46 years



The National League of Cities, founded in 1924 as the American Municipal Association, today represents 14,883 municipal governments in all 50 states and Puerto Rico. Included in this membership are all municipalities which are members of State Municipal Leagues and—as Direct Member Cities—the vast majority of cities over 30,000 population.

The National League of Cities works to strengthen the role and capacity of municipal governments in bringing about a better urban America. The policies which guide this activity are spelled out in the NLC's National Municipal Policy. This blueprint for urban progress provides the policy base for America's municipal governments in their dealings with the Congress and federal government administrative agencies. It also spells out goals and recommendations for better state-local relations on issues of concern to all municipalities.

The National Municipal Policy is formulated through a year-long committee process which involves some 1,100 city councilmen, mayors, and other city officials throughout the nation. The culmination of this policy development activity occurs during the annual fall NLC Congress of Cities where municipal delegates debate committee-recommended changes and then adopt the policy for the coming year. Policy statements are enunciated in the following areas: Community Development, Human Resource Development, Intergovernmental Relations, Municipal Government, Revenue and Finance, Transportation, Public Safety, Environmental Quality, and International Municipal Cooperation.

The NLC also provides the following services to its member State Municipal Leagues and city governments:

- Legislative representation in Washington.
- Urban research programs.
- A national municipal government information exchange through a variety of meetings and conferences, publications (including NATION'S CITIES magazine), and inquiry services.

Through joint staffing operations with the U. S. Conference of Mayors, the National League of Cities co-sponsors such activities as the Urban Observatory program, the Model Cities Service Center, the City-County Labor-Management Relations Service, the Urban Fellows Program, the Federal Aids to Local Government Service, the Man-In-Washington Service, the Summer Youth Transportation Project, and the Urban Leadership Training Project.

This, then, is the National League of Cities: spokesman for America's municipal governments in an age of rapid urban change.

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