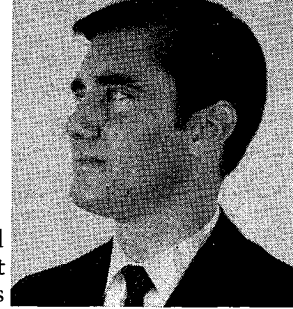


Story of Creative Taxation

by TED GWARTNEY
Southfield City Assessor



OUR news media have been filled with stories of urban problems—blight, poverty, fiscal irresponsibility, high taxes and riots. Very rarely do you find stories 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, Michigan, know that the city will not tolerate the land within its boundaries not being put to the highest and best use. 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—bad news, however, to the speculator.

It is difficult to spell out the attributes and benefits of land value taxation specifically without running into the comment from someone to "prove it." Southfield is beginning to prove it and more attention is being drawn to this simple but expedient way of financing local government.

Southfield, the eighth largest city in the state, is one of the fastest growing cities in the country. It has doubled in assessed value over the last five years and tripled over the last ten. Last year alone 21 percent growth was added to our assessment roll. Comprising 26.6 square miles, with a population of 65,000, the city boasts of 35 high-rise

office and apartment buildings recently

completed or under construction, and more than 300 major office buildings including headquarters for national leaders such as Bendix, Standard Oil, Maccabees Insurance, Eaton, etc.

Since 1960 over 3 million square feet of office space have been built. This is 10 percent more than the amount built in Detroit, which ranks as the fifth largest city in the nation. Over 1,000 new homes were built in Southfield last year at an average selling price of around \$27,000. There was over \$75 million in new building construction last year alone. The property valuation is in excess of $\frac{3}{4}$ billion dollars — $\frac{1}{4}$ billion land and $\frac{1}{2}$ billion in buildings.

The city has attracted nation-wide attention for its emphasis on an assessment policy which, for six years, has differed from most other cities. Land is assessed and annually reappraised on a basis of its full market value whether it is being used properly or improperly, not used at all, or zoned properly or improperly. Southfield has one of the most active commercial real estate markets, and real estate developers have been quick to sense the stability which land value taxation has created in our land market. A buyer of an unimproved site fully realizes that his taxes will be based on its market value whether he builds or not.

While this policy has given Southfield a tremendous advantage over Detroit and the surrounding suburban cities, the rapid growth has placed on it a tremendous burden to provide all necessary services efficiently and eco-

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Opposite is a view of Southfield's Northland Center showing office buildings erected in the last four years. Other impressive buildings adjacent to the north boundary of Detroit are partially hidden in the background. This was from Mr. Gwartney's conference presentation.

nomically. But this has been accomplished with the lowest major city property tax rate in the state and at one-third the amount of the Detroit property tax rate. Many of Michigan's big cities have a municipal income tax—Southfield does not.

All assessments are now made on a uniform basis and land which rises most rapidly in valuation is given priority in the reappraisal process. In recent months the assessor's office has been contacted by a dozen or more cities at home and abroad for information regarding "creative taxation." A number of political candidates have also picked up the idea. Senator Paul Douglas's Commission on Urban Problems, after considerable time spent in the area, reported to the President that to be successful, urban development must go hand in hand with LVT.

Appraisals are based on sales information confirmed and adjusted for special conditions. Our staff includes 11 appraisers, 7 secretaries and 3 part-time high school students. We have a large number of land sales and our land value appraisals have good justification.

When a building is built a complete appraisal is made, then we apply a 3 percent depreciation immediately. Many items such as landscaping, sprinkler systems and garbage disposals, are excluded from our first appraisal. The building values can be depreciated or updated annually according to economic circumstances. We apply the principle of adjusted net income "capitalization" to further check commercial building values.

Our efficient annual reappraisal would be impossible without the use of a computer system. The Computer Control Corporation in Southfield specializes in municipal computer services on a fee basis. They have designed a program which allows us to do the mass city-wide annual reappraisal in three hours at a cost of less than a new sec-

retary. During the year we collect the data necessary in order to have this service performed.

The computer, in addition to doing the paper work of the annual reappraisal computation, prepares our assessment roll, prints letters informing persons of the assessed valuation (land and building), a zoning summary report for the county and state, and a sales study which indicates errors in assessments and establishes reappraisal priority.

For this computerized high level of uniformity and low level of error we spent only about 20 cents per property during our first year for all the programs we presently use. We estimate that the annual reassessment should cost about six cents per parcel, and our staff will be able to spend 35 percent more time in actual field appraisal work. The costs of performing these same services on a manual basis without the use of a computer would range from \$5 to \$15 per parcel.

Land value taxation cannot take all the credit for our city's growth. We do not even have 100 percent LVT—but we claim a greater amount than any other city in the nation, and Southfield's record is impressive. At present we have a definite competitive advantage over neighboring cities which, having failed to keep land assessments current, find their land sitting idle year after year. We do not find our 50 year old homes becoming slums.

Heavy taxes on improvements are bound to discourage, delay or deter owners from making improvements. A high improvement tax reduces the owner's incentive to improve his property. In Southfield, heavy taxes on land values tend to encourage growth and sometimes compel development. The bigger land value tax therefore exerts a stronger leverage on owners of unused property to improve it or sell to someone who will.