Prop. Tax & Equity, July 6, Denver

National Conference of State Legislatures

Headquarters Office
(303) 623-6600

1405 Curtis Street
23rd Floor
Denver, Colorado
80202

President
Fred E. Anderson
President of the Senate
Colorado

Executive Director
Earl S. Mackey

$1\frac{3}{4} \div 2 = \frac{7}{4 \cdot 2} = \frac{7}{8}$

$\frac{7}{8} \div 2 = \frac{7}{16}$ hr. = 26 $\frac{1}{2}$ minutes for me.

MEMORANDUM TO: Panelists, "Property Tax Relief and Revenue Policy Choices"

FROM: Winnie Austermann WA

DATE: June 12, 1978

SUBJECT: Program Description

The purpose of this program is to explore more moderate alternatives to property tax relief than California's Proposition 13. Each panelist should be prepared to discuss the issues in the following outline and to have questions for the other panelists, although specific questions have been developed for each panelist. The panelists, of course, are welcome to address any other items they feel are pertinent to their presentations.

Each panelist will have 10 minutes to make formal remarks. Some brief, clarifying questions can be asked during the presentations, but most questions should be held for the 50 minute question and answer period following the presentations. Senator Mutz will preside over this session.

GENERAL OUTLINE:

The basic issues we would like panelists to cover are:

Part I — The extent to which relief can be built into the property tax itself

- Development, history of property tax: traditional uses, etc.
- Why has the tax become so universally despised? Wrong premise
- Ways to make the tax more equitable
  - Direct taxpayer relief, including circuit breakers, tax deferral programs. What are the limits to this approach?
  - Indirect tax relief
    a. assessment practices
    b. review of tax exemption policies
    c. Exempt capital.

Part II — Alternatives to property tax-based relief, such as:

- state funding of local schools
- state limitations on local revenues and expenditures
- income tax indexation

SPECIFIC QUESTIONS FOR EACH PANELIST

Specifically, we would like each panelist to address the following topics:

Part I - Property Tax-Based Relief

Here we envision a broad-based discussion between Dr. Shannon and Dr. Gaffney (primarily) about the extent to which relief can be built into the property tax.

Specific questions for each panelist include:

1. Dr. Shannon
   - A. Trends, history of property tax rebellion: Why has it become so universally despised?
   - B. Means to provide direct relief to taxpayers, such as:
     Circuit breakers: concept, how formulated, how many states use it?
     Why is it a valid approach?
   - C. Indirect means to achieve tax equity and relief
     1. Assessment practices: Should state control assessments? (Maryland example)
     2. Review of tax exemption policies (hidden tax expenditures)
     3. Full disclosure

2. Dr. Gaffney
   - A. Why is the property tax still a valid, enduring tax?
   - B. What are the limits, if any, to built-in relief, such as circuit breakers?
   - C. Do you agree with Aaron's contention that the property tax is basically progressive?
   - D. In a general sense, what are the problems with the property tax? What solutions are available to policymakers? (This should serve as a lead-in to the next part of the discussion.)

The other panelists are welcome to address any of the above issues in their presentations.

Part II - Alternatives to property tax-based relief programs

In this part of the discussion, we envision that the remaining panelists will give "case studies" of alternatives their states have taken. Each panelist, Senator Mutz, Speaker Strahle and Donald Steele (invited), should also feel free to address the problems of property tax relief from the policymakers perspective. Specifically, however, we would like panelists to address the following issues:

1. Senator Mutz

   Discussion of 1973 Indiana law placing limits on local governments revenues and expenditures
   - what are its provisions?
   - how has it worked?
   - has it successfully limited the burden on the property tax?
   - impacts on state budget (such as increased state funding for schools).

2. Donald Steele (invited)

   A. Why do you support full state funding for local schools?

   B. Provisions of your proposed legislation
      1. Impact on state economy
      2. Impact on local control over schools

   C. Will this legislation defuse a potential taxpayer "revolt"?

3. Speaker Strahle

   A. Description of your 1978 property tax deferral legislation

   B. Alternative approach: 1978 income tax indexation bill
      1. Impact of inflation on all parts of state revenue system
      2. Specifics about the indexation law
         - how is the Annual Inflation Factor determined?
         - applies only to the rate (not the personal exemption also, as does Canada's)
      3. Impact on state revenues
      4. Impact on budgeting system
      5. What will happen to state revenues and operations during the next recession?

PANELISTS:

Dr. Mason Gaffney
3040 Tyler Street
Riverside, CA 92503
(714) 687-1677

Senator John M. Mutz
5410 Emerson Way
Indianapolis, IN 46226
(317) 257-7321

Dr. John Shannon, Assistant Director
Advisory Commission on Intergovernmental Relations
Suite 2000, VanGuard Building
1111 - 20th Street, N.W.
Washington, D.C. 20575
(202) 653-5548

Donald C. Steele
Research Director
Joint State Government Commission
Room 450, Main Capitol Building
Harrisburg, PA 17120
(717) 787-6422

Speaker Ronald H. Strahle
242 State Capitol
Denver, CO 80203
(303) 839-2346

TIME: Friday, July 7, 1978
1:45 - 3:30 p.m.

LOCATION: Vail Room
Denver Hilton

I am enclosing an Annual Meeting brochure which contains meeting and housing registration forms. Please call me if I can be of any assistance to you in making these arrangements or if you have any questions about the program in general.

NCSL talks, July 7, '78.
1:45 – 3:30P = 1 hr & 45 minutes ÷
w. John Shannon.

∴ Discussion of more moderate alternatives re Tax & Expenditure Limitations.

Basis of "revolt" --

Punishing the young for rebelling in Nam.
Deep roots in social psychology

- vs. prop. tax?
- vs. all tax?
- vs. bldg. tax?
- vs. land tax & devmt.?
- vs. surplus? (raid on)
- vs. rapid change?
- vs. busing?
- vs. blacks, browns, & poor?
- vs. Serrano?
- vs. local govt?
- vs. public schools?
- vs. welfare programs?
- vs. responsibility?

vs. birthright concept
vs. citizenship

- vs. youth? even vs. middle age!
- vs. Jerry Brown?
- vs. discrim. overassmt. of apts.
- vs. prop. exemptions.

Early retirement. It's the modern counterpart of the old pension crowd, but now they own propty.

"Propty. never sleeps." Pressure vs. prop. tax is constant. No news there.

Permanent greed lobby there. Saw one oppy. to strike, & everything happened to come together for it. R.E. lobby got relief, in writing, but J-G. rhetoric emphasized other things -- sneaked in their substance in guise of general spending limit, etc.

On legit. side, apts. were overassd., so they spearheaded attack — they whom other owners have regarded as prop. tax parasites!

Research need: effect on fiscal input outcomes. How now, to overcome exclusionary policies?

How to make tax more acceptable?

1. Reassess yrly. Avoid shock of big changes, and inequity of reassg some more often than others.

2. Big home exemption, for all.

It's not enough to provide special programs for welfare cases & distress cases.

These programs do call the bluff, in s.t., and answer some rhetoric. But mustn't mistake the

It is seldom sincere.

rhetoric for the real animus. The widow thrown on the street is a debater's ploy, a scare tactic. It's a symbolic device, a surrogate.

Society's true level of concern for charity cases is measured by how it treats aged crippled widows who are renters. They feel full brunt of infln., rent rises, crime, urban decay.

Also sales taxes, as they live on savings.

" infln., " " " " " "

So we never shd. have thought the concern for rich widows reflected sincere concern for poor ones. It's empty, ritualistic, perhaps expiatory.

True concern is for everyone's residence, (& & small business.)

So, give a large d.u. exemption.

7,000 was not enough in Cal.

For renters, give something to reg. voters only.

~~Errors, etc.~~

~~Page Item Line~~

3. Get data ~~& records~~ on absentee ownership.

Get models on ec. base mult.

4. Stop attacking prop. tax, if you are liberal

Get data on

Conc. of ownership. Release to press.

% of land

5. Remove exemptions.

Farmers, forests, already had theirs.

6. Stop waste.

Return as social dividend.

Lower sales & income tax.

7. Modify prop. tax so as to hit non-voters harder. Big, absentee owners.

8. Stop overassg d.u. of poss. Find alt. means to appease fiscal mercantilism.

9. Drop busing.

10. Tax land more for constituency that wants growth.

11. Avoid big Δ r.e. values.
Major beneficiaries don't appreciate it.
Creates a kind of madness.
to avoid restrictions on bldg.
At same time, keep bldg. contained, avoid destroying virgin land.

LVT in cities.

Emphasize stable, sustained growth.

12. Fight nat. infln. — locals get blamed for it.

13. Stop early retirement & pension dependency.

Index pensions.

Those who were smokered into empty pension plans, now striking back blindly, not at those who smokered them, but at the productive middle-aged.

14. People want non-govt. solutions. Good! They realize LBJ-HEW programs are counter-productive. Good!

Non-govt. solutions are mkt. solutions. LVT needed.

Irony & error is, they began by throwing out the only govt. tool of non-govt. solutions, the only neutral tax, the land tax. Res. ~~the~~ of bad effects of taxing bldgs.

Other states can relieve propty. by exempting bldgs.

All the old counter arguments have been overthrown by Jarvis.

Outline

31. Schneider Prof X

23, 42, 41 J. deceived allies. Laffer Friedman, Ulrich

43 So, not a vote vs. prop. tax; but vs. waste & grabbing surplus. Prop. never sleeps

Tenn. Colo. Ulrich, not vs. prop. tax. 32

Cal. bc 30 of retirees a factor, special.

34, 46, 7 Wd. doctoring prop. tax make it more acceptable?

Maybe. But Cal. already had. Just legitimizes, confuses, whets appetite for more. Taste blood.

Way to go:

a. ~~b.~~ ~~Stop~~ Undermine & apologizing for prop. tax, ~~#~~. Get out together. 22, 44

13, 14, 5, 4 b. ~~c.~~ Marshall arguments for prop. tax. 16, 26. ~~Stay~~ 40, 45

c. ~~d.~~ " " vs. freezes, alts. to prop. tax. 19, 21, 24, 37

8 d. ~~e.~~ Keep l.v. stable.

e. as ~~more~~ to Senate, explain the system slippage. 29. ~~Cut~~ Distrib. surpluses

27, 33, 38 f. ~~g. h.~~ To reduce, remove K from tax. fact.

This satisfies need to reward saving. The ec. need also the cultural ~~tion~~ need -- the idea that prop. shows you saved, & this is the evidence of a good life.

15, 18 Remove tax from priv. sector. Land tax.

20, 39 ~~f.~~ Avoid waste in govt. CGRB model. If prop. tax ltd, prop. will force it. Avoid gratuitous irritants.

3. Undue attn. to Cal.
   a. Tenn. has limited State spending — not local.

   b. Colo. limited inc. tax, too.

   In Cal, Kasun & Miller & Crawford & Friedman & Laffer let selves be used by Jarvis.

4. Message is, to win you must have ~~some thing~~ broad constituency (plus money).
   The surplus made it possible to promise a free lunch

   Must be a demagogue. Slogans. Stir up Yahoos.
   Must project

5. How to stop JG.
   Absentee ownership.
   Change Fed rules to pro-growth.
   Develop sentiment for local indep.
   Stress duties of prop.
   Lower sales & inc. tax.

Research B.C. experience, & rejection.

Accept desire to lower taxes; lower taxes on your voters (sales & inc.); & explain what you are doing, beginning early.

Analyze budgets, cut real fat. E.g. new hiways.

Cut things that create new prop. values - you may not be able to recoup.

Return surpluses to taxpayers, early. - cut inc. taxes.

Exempt first part of hearth. (but then beware zoning effect)

6. Message. Tyranny of small decisions, logrolling, end up w. spending pattern nobody wants. So, is rejected in the aggregate.

But logrolling will not cease. Just fight over smaller budget.

7. Message

Cal. had relief & deferment for low-inc. & elderly. Didn't ~~stop~~ save prop. tax.

So, try exempting bldgs. - & all IS.

8. Message.

Avoid zoning etc. programs calc. to sustain l.v. Voters do not appreciate. Stability is what they value. Change spooks them, up or down.

9. Message.

Avoid early retirement.
Beware schall retirees. Self-righteous, selfish.

10. Play up cases of renters evicted for higher rents.
No mercy for widows w/o r.e.

11. Beware myth of surplus administrators.
Get facts, spread them.

12. Legislators assumed a syndrome in voters -- they wanted police & fire & cut welfare.
& hiways

A new class-consciousness. A new majority.
A step in evolution. As you bring more people into middle class, they ally w. richer ones, pull up the ladder.

Begin. 13. Forces behind prop. tax are strong & enduring
Recognize that ex. rent of land is pure fat.
A non-functional income. A prem. for not doing anything. Unearned $. Unjust enrichment.
Recog. that the part of prop. tax on l.v. encourages eff. dev., - unlike other taxes, which shoot anything that moves.

14. "I may not own any r.e., but I am a person ..."

15. Cut the fat out of pvt. sector. A good tax system will.

16. "Don't tax yr. voters. That's not so great.
Tax those guys outside the state."
(Take note of session on Corp. & Fm. Ownership of farm land.)

17. P.I.) makes the rich richer, poor poorer.

18. Investing in land doesn't create rent.
Rent is there first, & ∴ land has value.

If you buy it, thus legitimize, you have "laundered fat."

But that viewpoint has reversed. Now if you buy at hi price, you deserve to be taxed, they say.
Exemption is deserved by those who get the free ride upwards.

19. Flee from assmt. freezes. They recognize neither appreciation nor depreciation.

Appreciation:

Trees -- sapling + 2%
Land -- Base yr. + 2%

19 (cont.)

Depreciation,

Furnishings etc. Equipment, machines. No depreciation allowed!

Colo. just stumbled into this.

Land. If moratorium, or

Natural decline

Tough!

They used to falsely accuse prop. tax of this. Now, P-13 mandates it!

20. Message: Trim up govt. & school admin.

21. In Cal., all prop. tax rev. spoken for, so no new schools can be built! No new areas can grow!

22 Heller says, make sure you're not "overloading" prop. tax. What is overload?

23 Jarvis promises:

a. Schools have 1st call on State money.

(But they didn't. Police & fire do)

b. Rent pass-thru. Ha!

c. New indy. & bldg. No signs.

d. Lower prices of products

e. Lower housing prices

f. He wd. launch new initiative vs. sales & inc. tax. Instead, he went national.

g. Reduce state power. Ha.

h. School quality will rise

i. If buy before 6-6-78, assmt. back to '75

~~j. No raise of assmt~~

24. If bldg. burns down, can it be re-assd? Maybe not!

25. Symbolic acts..

26. To save prop. tax, emphasize.

- big share hits land, fat. ("Land-fat" ≡ rent)
- prop. conc.
- .. absentee-owned
- .. undertaxed in other ways
- .. has public duties. Welfare people can't pay for welfare.
- If cities can't tax new prop., will they let it in? (They may, by shifting burden to it via fees, imposts. Older propty. won't be taxed, either.

But whence will come money for new schools? Streets, sewers, flood controls?

- LDCs, "dictator countries" have had P-13 for centuries. Eng. has no prop. tax as we know it.
- Demand & get data & cases on distress cases. Scare tactic. needs deflating.

27. If voters want to reduce tax base, remove K from base. This wd. correct faults of P-13.

28. Reduce exemptions - they discredit any tax, pile on a few.

Possessory ints — does P-13 exempt them? If so, refutes J's claim, he objected to exempting gov. land.

29. As ~~tax~~ prop. values rose, why didn't t.r. fall, ~~to~~ so levy remain same?

— More bldgs & people & area to serve

— Inflation.

— Slippage. School distr. share from state declined, as tax base rose. Serrano. Few voters understood this.

— t.r. did fall some.

— Maybe some & fat. But many Cal. schools were overcrowded, and on short shifts.

30. Wilson (& Heller) talk about taxes as taking from "earnings". As tho prop. were earned.

Some wd. limit tax to % of personal inc. -- but 2/3 may be corporate.

31. Story of Schenker as test case. v. 42

32. Colo. spending limit, returns surplus to inc. tax payers and schools, 2-1 ratio.

33. If mood is to cut & reform taxes, OK, what to cut?
Cut sales, inc., K tax.
Keep land tax.
Reverse of 13.

34. Call bluff of those who say they don't gain from A l.v. Offer contract, they get life estate & frozen low assmt; r.e. reverts to cty. at frozen value at death.

35. Big boost for PUDs, providing ~~all public~~ street improvements, pvt. schools.
Moratoria on small bldg. bcs. no money for sewer, water, flood, new schools, streets, lighting. Hi fees on bldrs.

36. Cal. has tax deferral for elderly. Also, extra rebate.

37. Land-fat is created by waste in govt.
If tax earnings, except fat, induce people to subvert govt. to create more land fat.

38. One arg. for lower prop. tax is to encourage inv., empl., improvement.

But can achieve this & keep prop. revs. Convert to land tax.

Land fat, fat of the land. Public value = more in public trough.

39. Drop busing.
Reform Colleges of Educ.
Adopt voucher system

40. Is it class legislⁿ? Play on guilt.
Is supported by hearts & flowers treatment of widows w. propty
Aim? To be harsh, reduce welfare prnts. To whom?
Poor w/o propty.

41. P-13 was sold by brass, bluster & bilgewater. Demagogue

2 42. J. told voters to have a good tantrum, strike blindly.
But he wasn't blind. Wrote P-13 for rich propty owners.
Used ideologues, took into camp. Does he want low taxes? of course not. He wants others to pay, so he won't have to!

43. Message muddled, bec. J. seldom met points re P-13.
Criticized other things. Campaigned vs. spending, not prop. tax.
Distrib. Laffer & Friedman, who prefer prop. tax.
Jarvis leaned on Netzer, who likes land tax.

44 Wurf & McGovern confused. They say they want propty. tax relief. Now they have it, don't want it. Why? It must be what they really wanted all along was higher inc. tax!

45. Leakages: Fed. inc. tax
Lower matching
absentee propty.
Higher i.r. muni bonds
Fewer sales, muni bonds.
Maybe reduced inv., b.c. of less infrastructure pvt.
Higher prop. to import, by pvt. than public spenders

46. Prior prop. tax relief in Cal.
a. Δ other taxes. Prop. % dropped. 38% to 34%
b. 6% limit on School Δs
c. Freezing t.r. for other purposes.
d. 2/3 vote for local bonds
e. 7,000 owner exemption, pd. for by state
f. Relief for low-inc. & elderly
g. Deferment for elderly
h. Farm & timber preferences.
i. Open space.
Etc. But property rampant is insatiable.

Idea. NCS – Denver. July 7

1. "Using Prop. Tax to Achieve Tax Equity".

2. What is the Message?

a. Anti-prop. tax? This was an element, but soft-pedalled.

Laffer pro prop. tax.
Friedman " " , mildly
Jacoby cites Netzer pro LVT.
Jarvis & fellow debaters avoided discussing Prop. 13
Instead, attacked waste, inflm.

b. Vs. waste.

Jarvis opportunistically seized occasion to help his constituents.

"Prop. never sleeps

c. Opportunistic grabbing of state surplus.
State was attacked for waste, but parsimony was the cause.

d. In s.r., message was cut taxes; it was sold this way.
Punish ~~the~~ bureaucrats, legislators.

In l.r., message was shift taxes off prop; onto inc. & sales?
No, the message differs from the reality. This shows weakness of the reality. It had to be slipped thru under smoke screen.

Shannon

Reduce irritants

Centralize responsibility. Truth in taxes.

Circuit breaker.

Renters as well as homeowners

No constl. problems.

State mandates shld. not be used.

Keep prop. tax moderate. 1 to 1½%. (Political. Depends how people feel.)

Straehle (Colo.)

Colo. indexed inc. tax.

Steel (Pa.)

Eliminate prop. taxes for schools.

Destroy all incentives?

Mutz

Psycho. needs of voters must be cared for.

20% reduction across the board. Doubled sales tax. Credit shown on tax bill.

Responsibility also to convey info.

Oregon. Deferral not used. Martin, Minority leader.

Maine. Circuit breaker lost. No one knew what it wd. cost.

NO TREES WERE DESTROYED.
This card and envelope are printed on 100% recycled paper, made entirely from reclaimed waste paper.

Kulture Kards

"Highbrow down to our toes"

50TY-7108

©MCMLXXVII RECYCLED PAPER PRODUCTS, INC.

Box 11384, Chicago, Illinois

Canada—60

N. Euvala — 31 ark full of aards splinters (hand-hewn)

How can I ever thank you?

Boynton

Dear Dr. Gaffney –

A long overdue note of gratitude for your wonderful talk in St. Paul. Not only did you hit the important policy issues, but you were also delightfully humorous in doing so.

I certainly hope you have received both reimbursement checks by now. My secretary tells me that your Annual Meeting check was mailed a month ago and that your St. Paul check was processed also. Please call me if you're still having trouble.

In the meantime, you're the greatest! My best to your kind wife, and good luck with your Alaska project!

Phone booth curtains? ——

You "wowed" 'em in St. Paul, Dr. Gaffney. I can't tell you how much I appreciated your taking the time to be with us.

Lois Lane
(alias Winnie Austerman)