

SCA 12, Rodda, 2/77
Feb. 23

Presentation in Support of SCA 12
Before Senate Revenue and Taxation Committee
by William B. Truehart, Ph. D.
Sacramento, California, Feb. 23, 1977

I am testifying as an economist who did a major study of property taxes and land value taxes applied to Los Angeles County a few years ago, in connection with my doctoral dissertation in economics at Claremont Graduate School.

During the course of my presentation, I shall submit a small amount of data from my study which I believe to be significant. The study itself was a computerized simulation of replacing both the real and personal property taxes in L. A. County by a land-based property tax, which would raise the same revenue for each of the County's 1,800 taxing agencies. It involved the entire population of approximately one million, eight-hundred-thousand privately owned land parcels. The land tax rate had to be a little higher than would be required under SCA 12, on account of eliminating the personal property tax. For the 1971-1972 tax year studied, personal property values amounted to about 16 percent of real property values. Even so, the land-only tax rate was just slightly more than twice the composite property tax rate existing then.

My study measured the percentage change in tax impact on some 90 land use categories, and on 77 cities, besides the unincorporated area--as well as on all the land use categories within each of these 78 geographical areas. As you might suspect, the computer printouts are formidable. However, some very interesting

results were forthcoming, a little of which I think you'd like to have.

But first I'd like to deal with a few theoretical points. One is that economists consider the tax on land values, irrespective of improvements, as a neutral tax. By this we mean that it does not affect the marginal allocation of resources. In other words, the optimal use or development on a given site, without any tax at all, would still be optimal under a land value tax. This is so in part because of the inelasticity, or fixity of supply of land, wherein the incidence of the tax is squarely on the landholder. He cannot shift it.

This is certainly not the case with a tax on improvements, including buildings. This tax definitely does affect the allocation of resources. It does so by discouraging the investment of capital in the development of land, including construction. Unfortunately, time does not permit an elaboration of this. But it is based on the long-run elastic supply of improvements. Taxes on any other kind of capital, of course, discourage investment in it. The land value tax stands practically by itself, as being neutral.

But by removing the improvement tax, a great encouragement can be given to capital investment in all kinds of land improvement, where the market would justify them.

The land value tax, however, as it impacts on holders of vacant, or underimproved land, might initially act as a discouragement to hold such sites idle or inadequately improved. And a double stimulus would exist by removing the improvement tax.

This brings up a common objection to land value taxation. It is often asserted that high rise buildings, or some form of structure, would appear on almost every vacant piece of land, including those way out in the boondocks. The conclusion: too intensive land development. But remember, first of all, that the land tax is neutral, and what would be optimal without any tax at all would also be optimal under the land value tax.

But a moment's reflection will show that the too intensive development argument is really absurd. Assemblyman Willie Brown recently sent me a copy of a letter he wrote to Gordon Tucker in San Francisco, regarding land value taxation. Mr. Brown, although doubtful of the desirability of land value taxation, stated, in regard to it:

"Land with the highest tax value would be developed the most intensively--provided it is not already optimally developed--simply because this high value is a measure of the potential productivity of income."

This is most correct. Such land is usually in the urban centers. The reason such sites are not developed optimally today is largely a result of our lopsided property tax system. The tax on improvements discourages optimal development, at the same time that land speculators hold valuable sites, not for what they are worth in use value today, but what they hope or anticipate they will be worth years hence. The result is a leap-frogging pattern, wherein developers skip over these sites to find cheaper land in the suburbs.

There is a double result. Downtown becomes blighted, and we have urban sprawl. By taking taxes off improvements, and by having a land tax high enough to discourage speculation or slum use, it would pay to develop and renew downtown urban centers. Willie Brown is right. The high land value is indicative of high productivity or income available from the optimal use of valuable sites. They would be developed first, and most intensively.

One result could easily be a reversal of suburban flight, with people living closer to work, and more services available closer in. This could result in considerably reduced air pollution, from reducing commuting distances.

With development again turning in on cities, which could make possible meaningful mass-transit again, inflated values of suburban land would probably fall, with the result that taxes based on those values would also fall. And it would pay not to develop suburban land so intensively. This could even help to create more greenery, with the real country again closer in to the city.

But our present lopsided property tax system, which penalizes optimal land development and encourages blight and sprawl, largely prevents this. House and Home Magazine has said that it harnesses the profit motive backward.

Now, I'm going to make a rather startling statement. The land-based property tax is actually progressive. First let me say that I have seen studies which show that the value of land owned tends to rise at a faster rate than income. Dr. Gaffney

can tell you something of these studies. But I want to offer some data from my Los Angeles study in substantiation of the progressivity of the site value tax.

The California Supreme Court recently sustained the original Serrano-Priest decision. Two cities in L.A. County figured prominently in the original case: Baldwin Park and Beverly Hills. Baldwin Park is a working-family-type suburb in the San Gabriel Valley, almost 18 miles east of downtown L.A., with a population of over 47,000. In the 1971-1972 tax year, the total tax rate there, due to a relatively low base, ranged from 14 to 15 percent. It is, however, a typical dormitory suburb, with assessed value of land around \$19 1/3 million, compared with assessed value of improvements of over \$32 million.

Now I'm going to concentrate on the effects of land value taxes on homeowners. At the time of my study, the homeowner's exemption was only \$750. But in the computer simulation, I also gave the then-existing business inventory exemption to homeowners. The sum of the two was still less than the present \$1,750 exemption. And remember that the land tax rate had to be high enough--over 6½% of full value, to replace both the improvement tax and the personal property tax.

In spite of these facts, the average Baldwin Park homeowner would have experienced a tax decrease of almost 34 percent, with over 90 percent of them having their property taxes fall by 40 percent!

Now let's look at Beverly Hills, It is an upper-middle-class and wealthy city of 33.5 thousand, located 11 miles west

of downtown L.A. Due to a high tax base, the tax rate ranged from slightly less than 9 up to almost 12 percent --compared with Baldwin Park's range of 14 to 15 percent. Beverly Hills had assessed land values of almost \$162 million, with improvement values assessed at only \$132.5 million.

Using the same formula as for Baldwin Park, the average Beverly Hills homeowner would have experienced a tax increase of 21.6 percent--an average property tax increase of \$546. Capital-intensive land sites would have experienced some tax decrease, but the overall, average property tax, including all kinds of land use in Beverly Hills, would have increased by 15.4 percent, or by \$546. Similar results as with Baldwin Park and Beverly Hills are to be found in other relatively poor and relatively wealthy cities and neighborhoods.

Here's one more example: Watts, which is almost entirely black. It is part of the City of L.A., located 8.5 miles south of the downtown area. Assessed values for land were almost \$4 million, while those for improvements were about \$7 million. The result of land value taxation would have been an average property tax decrease, over all types of land use, of over 19 percent. I believe these data tend to substantiate my statement that the land-based property tax is progressive.

While we're on the subject of data from my dissertation, I'll give figures for the Los Angeles City center itself--an area bounded roughly by First and Olympic Streets north and south, and by Main Street and the Harbor Freeway east and west. Assessed values for the 721 parcels of land in downtown L.A. were: land, about \$81.5 million; and improvements, around

\$111 million. Remember that assessed values are supposed to be 25 percent of true value. But, in spite of improvements being slightly more than land values, the average property tax, overall, on account of replacing the personal property tax as well as the improvement tax, would have increased by 1.4 percent. But this is not the main thing.

I found that 615 parcels, or 85.3 percent of the total, would have experienced average tax increases of \$13,894, or 36.5 percent. These are the older, more land-intensive parcels, including a few parking lots. Since these older properties, which are greatly in the majority, would have been faced with increased taxes averaging slightly more than one-third, it appears that strong tax incentives (coupled, of course with the remission of improvement taxes) would have been set in motion to redevelop with modern, more capital-intensive structures on the otherwise quite valuable land. This tends to reinforce the statement I made earlier about more intensive development being concentrated in or near the urban centers.

The remaining 106 parcels of land in downtown Los Angeles were capital-intensive. They represented 14.7 percent of the total of 721 parcels. And they would have enjoyed tax cuts averaging \$71,477 per parcel--a decrease of 202.4 percent!

It is sometimes alleged that site value taxation would be all right if it could be applied, but that it is extremely difficult to separate land from improvement values. Of course our assessors do it all the time here in California. But if we are looking for theoretical perfection, let's consider the following.

In a good part of Australia and New Zealand, as far as local municipal property taxes go, the residents have adopted land value taxation by referendum, and have rarely ever rescinded their choice. Assessors are appointed, not elected, and have to take extensive university training and serve long apprenticeships before being given complete responsibility. And almost to a man, they greatly prefer to value land exclusively. They contend that it is administratively simpler, easier, and cheaper. Here are a few quotations.

Bruce Brown, Valuer-General for New Zealand, stated:

"The assessment of the unimproved value only, involves by far the least amount of work, both administratively and in terms of time spent in making each valuation. For one thing, the value of urban land can generally be updated without recourse to regular inspections of the property. In arriving at an assessment of capital or annual value [which include improvements], however, the position is very different. A great deal more work is involved. . . The technical content of the valuation process is much more detailed than for land alone."

This opinion is shared by J. F. N. Murray, a leading assessor in Australia, and author of a popular textbook there on appraising. He states that: (1) equity in valuation is much more easily achieved when assessing land only rather than both land and improvements, (2) considerable economies are possible if land only is valued, and (3) most of the errors in valuation involve buildings, not land.

While the caliber of assessors in the down-under countries may be better, on the average, than some of our elected assess-

ors, there is no reason why we cannot attain to as high a standard as they. And it would be easier if land only is to be assessed.

It is sometimes feared that land value taxation would impact especially hard on farmers, and one or two studies have tended to suggest this. This is probably because under our present system of assessing, much of what should be improvement value is lumped in with the value of land. For one thing, a farm is often literally a chemical factory, with the value of increased fertility definitely due to capital added to the land.

Still other types of improvements may be incorrectly lumped with land values. But I strongly suspect that the studies, including my own, involved land near a large, growing city, which farm land had high, speculative value as urban building sites. Possibly the highest and best use of such sites, in the absence of something like the Williamson Act, is for urban use. But I also suspect that, with the reversal of development--turning in again on urban centers, that such farm land, if the optimal use is for farming, will lose much of this speculative value, and high taxes will consequently go down.

I firmly believe that real farm land, way out in the boon-docks, where it is not handicapped by urban speculative value, will see property taxes go down under land value taxation. Let me offer one case from my study. While it does not pertain to farm land, per se, it is an area far enough removed from the City of Los Angeles that it is indicative of what might be expected in a rural community. It is the City of Palmdale, in the Antelope Valley, located 48 miles from the city center of L.A.

Take the case of homeowners. Their assessed land values were \$1.5 million, while their improvement values were almost \$5 million. Palmdale homeowners would have experienced a huge tax decrease, under land value taxation, of about 74 percent!

One more thought. Tax capitalization theory holds that, since the land value tax cannot be shifted, it is capitalized, reducing the selling value of land. One possible conclusion: those investing in land would suffer a large capital loss. Even so, the land is still as usable as it was--even more so, since capital invested in improvements would not be penalized by the improvement tax. And, if land values fell, more land could be purchased--for use--at a lower price.

However, there is another side to the coin. The process of untaxing buildings actually serves, in many cases, to increase the land value base--the use or rental value--especially on desirable locations. Time doesn't permit proving this, but it is true. And it is entirely possible that, in cases of at least a number of sites, this increase in land value resulting from untaxing buildings will practically counteract the decrease in value due to the capitalization effect.

Experience in Australia tends to bear this out. Land values in Sydney, for example, tend to be about the same, in relation to building values, as similar land in the United States. The only difference is that land in downtown Sydney is more highly developed, and is in a constant state of redevelopment. And, there tend to be fewer slums and blighted areas--even though Sydney does not capture nearly all of the economic rent of land in taxes. I could cite eye-witnesses to back up these statements, but feel I have used enough time. I'll be glad to answer questions.

Wm. Truehart, Box 2815, La Mesa, Ca. 92041
Feb. 12, 1977

Dear Mase:

(arrived at 8:20 AM) Sacramento airport, Bill

I called PSA, and got the following information re
air fare & times to Sacramento from both Ontario
& L.A. One flight leaves Ontario at 7:15 a.m.,
arriving Sacramento at 9:00 a.m. Another leaves
L.A. (Intnl., I guess) at 10:20 a.m., arriving
Sac. at 11:20. The latter might be more conveni-
ent, but makes the time close on arrival. We'd like
to have lunch at Senator ^{Hotel} by or before 12, and be
at Rodda's office by 1. I didn't get return flites.
R.T. fare (Ont.) is \$55. I think L.A. is same.
Ontario is closer, of course, to Riverside. I'm
suggesting to Lincoln a total of \$375, including
honorarium. Does this sound near the mark? Let me
know, as the figure is approx. I'll arrive.



Caesar Rodney

Patriot



U.S. Postage 9¢

Dr. M. Mason Gaffney
30540 Tyler Ave.
Riverside, Ca. 92503

Introduced by Senator Rodda

January 5, 1977

Senate Constitutional Amendment No. 12— A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Section 37 to Article XIII thereof, relating to property taxation.

LEGISLATIVE COUNSEL'S DIGEST

SCA 12, as introduced, Rodda. Property taxation: improvements.

(1) Existing constitutional law requires all property to be assessed at the same percentage of fair market value. Property is presently assessed at 25% of fair market value.

This measure would provide that the assessment ratio applied to improvements and tangible personal property will be lower than the assessment ratio applied to land and will decline according to a specified schedule.

(2) Existing law provides a \$1,750 homeowners' exemption and a \$1,000 veterans' exemption.

This measure would require the Legislature to adjust the value of those exemptions so that they would have the same value as if the taxation of improvements were not changed.

(3) This measure would provide for the revenue loss to local government by authorizing the Legislature to take appropriate action, including (1) adjustment of the assessed value of land, (2) adjustment of tax rate limits, and (3) adjustment of limits on bonded indebtedness.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

1 land and improvements used for residential purposes in
2 the state for the 1976-77 fiscal year, times the following
3 percentages:

- 4 (1) For the 1979-80 fiscal year, 20 percent.
- 5 (2) For the 1980-81 fiscal year, 40 percent.
- 6 (3) For the 1981-82 fiscal year, 60 percent.
- 7 (4) For the 1982-83 fiscal year, 80 percent.
- 8 (5) For the 1983-84 fiscal year and thereafter, 100
9 percent.

10 (d) In order to insure that local agencies,
11 redevelopment agencies, and other public agencies will
12 derive property tax revenues approximately equivalent
13 to those revenues in the 1976-77 fiscal year, the
14 Legislature, during each year in which the assessment
15 ratio applied to the full value of improvements is reduced
16 from the ratio applied in the prior year, shall review the
17 adequacy of the property tax revenues of all local
18 agencies, redevelopment agencies and other public
19 agencies and may provide for one or more of the
20 following: *This should be automatic*

21 (1) An adjustment of the assessment ratio applied to
22 the market value of land.

23 (2) An adjustment of the tax rate limits established by
24 statute for districts, counties, city and counties, and cities,
25 both chartered and general law.

26 (3) An adjustment of limitations on bonded
27 indebtedness.

28 (4) Any other action as the Legislature deems
29 appropriate.

30 (e) The Legislature may make any adjustments and
31 take any action deemed appropriate to insure that during
32 each year in which the assessment ratio applied to the full
33 value of improvements is reduced from the ratio applied
34 in the prior year, local agencies receiving property tax
35 revenues pursuant to Section 11 will derive revenues
36 approximately equivalent to those revenues received in
37 the 1976-77 fiscal year.

1 Resolved by the Senate, the Assembly concurring, That
2 the Legislature of the State of California at its 1977-78
3 Regular Session commencing on the sixth day of
4 December, 1976, two-thirds of the members elected to
5 each of the two houses of the Legislature voting therefor,
6 hereby proposes to the people of the State of California
7 that the Constitution of the state be amended by adding
8 Section 37 to Article XIII thereof, to read:

9 SEC. 37. (a) Notwithstanding any provisions of this
10 article to the contrary, the assessment ratio applied to the
11 full value of improvements, and to the full value of
12 tangible personal property, unless another percentage is
13 provided or such property is exempted by law, shall be
14 the percentages set forth below multiplied by the
15 assessment ratio applied to the full value of land within
16 the same taxing jurisdiction:

17 (1) On the lien date in 1979, 80 percent.

18 (2) On the lien date in 1980, 60 percent.

19 (3) On the lien date in 1981, 40 percent.

20 (4) On the lien date in 1982, 20 percent.

21 (5) On and after the lien date in 1983, improvements
22 and personal property shall be exempt from taxation.

23 (b) By a two-thirds vote of all the members elected to
24 each of the two houses voting in favor thereof, the
25 Legislature may provide for either of the following after
26 the lien date in 1981:

27 (1) That there shall be no reduction in the ratio of
28 assessed to full value of improvements below 40 percent
29 of the assessment ratio applied to the full value of land.

30 (2) That the schedule for further reductions in the
31 ratio of assessed to full value of improvements and
32 personal property below 40 percent of the assessment
33 ratio applied to the full value of land may be different
34 than as specified in paragraphs (4) and (5) of subdivision
35 (a) of this section.

36 (c) The Legislature shall provide for adjustments in
37 the value of the property tax exemptions provided for in
38 subdivisions (k), (o), (p), (q), and (r) of Section 3, by
39 multiplying the exemption by the ratio of the full value
40 of land used for residential purposes to the full value of

Open up whole disc. of econ., & we can't cover this all.

SCA 12

Tax unearned inc. higher than earned.

- ✓ — Equity. Recomp windfalls. ^{Tax unearned inc. higher than earned.} Compensate non-owners for exclusion: in town, in service, & in empl. Progressivity, give dates.
- Efficiency Conc., & not passed on.

✗ Immigration

K first, labor only later & as a result

✓ — Land use.

City center: revival. Close the removal gap. ^{Sacto. as e.g.}
Fringe: Economy, bcs. of ΔL effect at edge.
Farm: from east side to west side. From indivs. to corps.
^{in commerce small, inter-state agri.}
Forest: not much change bcs. already exempt
Mined: slight positive effect (large equity effect likely);
large Δ of rev.

✓ — Adequacy: No change; (except get more money from devalued land.)
~~Prop~~ Bldg. exemption Δ s capax. of land. (Analogy of leasing policy.)
(We don't assume people are rational - just that they're not idiots.) Δ s capax. of

✓ — Bus. & empl. land even tho it has no bldg. on it.

Δ comstr

Low ~~intensive~~ uses shifted from center. (Nobody goes to Sutter's)

Δ inv. & $\therefore$ Δ empl. ^{cap.}

Δ capt. formation, & immigration (not the imm. of people w/o K)

✓ — Open space.

By containing cities, make more.

E.g. now L.A. is shrinking. Orange is tied up by Wilson Act, so they're destroying open space in R-side

✓ — Environment:

Autos, smog; noise, parking, destroy small neighborhoods
Cf. Geneva, rabbit warren; Whitef. Bay, 50' lots
Can be pleasant b/c fewer autos and is

✓ Open space open to public shd. be ^{untaxed} also
policed — no vehicles. Put. spec. open space merely
with auto motorcycles.

— Uniformity:

Tax on K can't be. Is selective. Omits vehicles, aircraft,
public capl., consumer K, Timber, orchards & vines, canals. Some boats, no
doubt. Livestock? Trucks. Forest roads.

— Administrable? Is done now.

But isn't done right. Can do much by keeping
assessm. current. Sects. as e.g.

Beware repeal by assm. overassg bldgs, as in B.C.

— Need to broaden concept of "land". Vehicles that preempt
common land. Water rts. Cigarettes

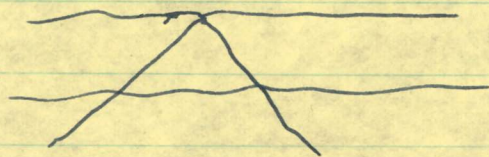
— Highest use: Not, not grow
Today, not tomorrow

Urban fringe - premature use?

1. Cities shd. not extend services & boundaries so far.

~~Renewal gap~~

Central revival, rejuvenation reduces pressure.



Renewal gap

✓ My Urban. study -- Rpt. to U.L.I. & Klutznick -- showed ratio of renewal value to extant value highest in certain central areas.

✓ Natural progress of renewal is contiguous, bcs. of need for anchors. R. Hand, l.v. marked by continuity, both concentric & axial. (planning shd. foster the concentric)

Land assmt. puts most pressure on the edge of the best developed area

✓ 2. Demand focuses on certain areas, more than others. They shd. be developed, so Mkt. causes them to be developed. 'Natural zoning'. The reason ~~is~~ demand spreads so diffusely is slow response of owners of ripest land.

3. Is a way of making mkt. work better. If we can presuppose legislation ~~we~~ believe in free mkt. w/o govt. intervention, case is closed.

4. The very term "premature use" is loaded, & unbalanced.

It encourages use. Encourages it most where upgrading has been most deferred - where use is most premature.

5. Land tax does not begin from a presumption ~~that~~ ~~use~~ of hostility to cities & bldgs.

We already exempt many forms of farm capt: trees & vines, notably. This has helped make Cal. No. 1 in agric.

Activities are mutually supportive. In agr. we have seen farm towns grow along w. volume of farm output, & payrolls, farmer ~~income~~ gross products. Same is also true of all kinds of prodn. of goods & services.

6. Freq. reassmt. - do not lock assmt. at low use.

Re SCA 12

1 Tax on cap. is not uniform, a prereq. for neutrality.

If it were uniform, it wd. be uniformly good at discouraging economy of land. Is same as making land more ungod., by making capt. artificially expensive.

Result is to favor those uses requiring less K.

In practise, due to non-uniformity, this means less prot. K. But this means more public K, since whole interdependent fabric of ec. is stretched out.

1/15/77

Mase:

Here is a copy of Sen. Rodda's LVT bill.

In a letter to Stan Sapiro, Rodda mentions that the bill will probably be heard before the Senate Revenue and Taxation Committee late in February. Please keep this in mind, and plan to be there to testify on it. I'll let you know date more definitely later. I can arrange reimbursement for travel expenses, and, most probably, a small honorarium. This would probably come, not from Legislature funds, but from limited funds I can arrange from Lincoln Institute of Land Policy. Maybe we can arrange to have supper together somewhere convenient on Feb. 4, when I'm in Riverside, if there's anything to discuss--which there probably will be. Sincerely,

Bill

P. O. Box 2815
La Mesa, Ca. 92041
Jan. 14, 1977

Dr. Mason Gaffney
3040 Tyler Ave.
Riverside, Ca. 92503
3040 Tyler Ave.
Dear Mase:

Thanks for your letter of Jan. 5.

I sincerely appreciate the remarks you made about Chap. 5 of my dissertation. I hope it can be helpful. Feel free to use part or all of it, if it fits in.

I still havn't heard from Senator Rodda about a hearing date for his SCA 12 (land value tax ^{amendment} initiative) which has recently been introduced. I don't have a copy yet, but have asked him to send me several. Would you like one?

I doubt if any hearing would occur before early Feb., at the earlie st. I'll keep you informed. The thought occurred to me that it might be helpful to you, if you're going to testify in Sacramento, to have a copy of the vicious lies that the real estate lobby gave in their testimony a couple of years ago. Sen. Rodda gave me a transcript of the whole thing, including the Georgists' contribution (Perry Prentice, Bryan Stevens, Lowell Harriss, Wm. Filante, Polly Roberts, and Robt. Goodier). The entire thing is lengthy, but I thought maybe I could zerox just the testimony of Dugald Gillies, the real estate lobby's representative. Even this is quite a few pages.

The next time I'll be in Riverside is Friday afternoon, Feb. 4, when both my daughter and I have dental appointments. My wife, who just came home from being hospitalized with lung surgery, will also be along, and we'll go on to our desert retreat later on Friday. I don't know if Fri. afternoon, either before or after the 2:30 dental appointment (which will last about an hour) would be convenient for you. Maybe we can work around this time, if we need to get together. Of course, I'd like to see you, anyway.

I'll keep in touch regarding the Rodda bill. With best wishes,

Cordially,

Bill

Bill Truehart

1/24/77

Dear Mase:

Attached is a list of questions that Senator Rodda prepared as a guide to the testimony on his previous (1974) land value tax bill. I thought maybe this would be helpful. When I come to Riverside on Fri., Feb. 4, I'll bring along the testimony of the real estate lobbyist for you to look over (or possibly the transcript of the entire testimony, including Georgists). As I said, our dental appointment is at 2:30, and it should take at least an hour. But I would probably be free about 4 p.m., and/or to have an early dinner with you somewhere. My wife and daughter would eat with another friend of theirs. Drop me a line as to your convenience. Cordially,

Bill

I. ISSUES

1. Is it possible to achieve economical and accurate land assessment?

2. Will land value taxation produce an excessive density of population and capital structures in urban areas to the detriment of the area because of lack of social amenities, excessive vehicular traffic, and air pollution?

3. Do not studies of the probable effects of land value taxation on tax payments indicate a shift of the tax burden to low-income housing in urban areas where the ratio of land value to total assessed value is greater than average? Is not, also, another probability, a tax shift away from residential housing in the suburbs where the ratio is below average? If such is the case, what justification is there from the perspective of tax equality for site value taxation?

4. If capital improvements are eliminated from the property tax, obviously the effect of the property tax on land use will be changed; otherwise, there is hardly a substantive argument in favor of land value taxation. The question is: Will the impact of land taxation be more socially desirable or is it not possible that land taxation will produce a more intensive development of land directed toward the maximization of the return from land, the effect of which will be to eliminate low-income rental housing occupied by the poor and also to eliminate such non-competitive uses of land as are provided by historic structures, restaurants, retail stores, etc? If the latter is the case, how can a socially desirable tax impact effect be achieved if land value taxation is introduced?

Would more effective land use planning and zoning be the answer?

5. Would the change effected by land value taxation on non-urban land operate in such a manner as to increase the intensity of land use in scenic areas, such as Lake Tahoe? Would more intensive land use produce adverse effects on the environment and scenic beauty? If so, how can such effects be prevented or mitigated?

6. What is the probable effect of land value taxation on the costs of local government which are associated with the provision of land related government services--streets, transportation, power, sewage, water, etc?

7. What is the relationship between land use planning and land value taxation? Is it more positive than the existing property tax base? Can one reconcile site value taxation with effective master planning and zoning of land?

8. Since the elimination of the tax on improvements will tremendously benefit the providers of utility services, railroads and power, for example, what justification is there for such an outcome? If there is, what action may be taken to offset the tax shift?

10. Will the application of a site value taxation result in a tax shift to agriculture and, as a consequence, adversely affect that industry? Is it reasonable to argue for arable land use restrictions in order to provide a land assessment based on land use restricted to agricultural production?

11. Is there evidence or theory to indicate with reasonable assurance the impact of land value taxation on the taxation of industrial and commercial property vis-a-vis owner-occupied residential homes?

Western Air 682-0137. 5:30 p or so.

PSA

824-1500. (10:15-12:20)

Air Cal.

825-6900

7:00 AM

FL 101

7:55 PM return

762

Senate Constitutional Amendment

No. 12

Introduced by Senator Rodda

January 5, 1977

Senate Constitutional Amendment No. 12— A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Section 37 to Article XIII thereof, relating to property taxation.

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(2) Existing law provides a \$1,750 homeowners' exemption and a \$1,000 veterans' exemption.

This measure would require the Legislature to adjust the value of those exemptions so that they would have the same value as if the taxation of improvements were not changed.

(3) This measure would provide for the revenue loss to local government by authorizing the Legislature to take appropriate action, including (1) adjustment of the assessed value of land, (2) adjustment of tax rate limits, and (3) adjustment of limits on bonded indebtedness.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

1 *Resolved by the Senate, the Assembly concurring,* That
2 the Legislature of the State of California at its 1977-78
3 Regular Session commencing on the sixth day of
4 December, 1976, two-thirds of the members elected to
5 each of the two houses of the Legislature voting therefor,
6 hereby proposes to the people of the State of California
7 that the Constitution of the state be amended by adding
8 Section 37 to Article XIII thereof, to read:

9 SEC. 37. (a) Notwithstanding any provisions of this
10 article to the contrary, the assessment ratio applied to the
11 full value of improvements, and to the full value of
12 tangible personal property, unless another percentage is
13 provided or such property is exempted by law, shall be
14 the percentages set forth below multiplied by the
15 assessment ratio applied to the full value of land within
16 the same taxing jurisdiction:

17 (1) On the lien date in 1979, 80 percent.

18 (2) On the lien date in 1980, 60 percent.

19 (3) On the lien date in 1981, 40 percent.

20 (4) On the lien date in 1982, 20 percent.

21 (5) On and after the lien date in 1983, improvements
22 and personal property shall be exempt from taxation.

23 (b) By a two-thirds vote of all the members elected to
24 each of the two houses voting in favor thereof, the
25 Legislature may provide for either of the following after
26 the lien date in 1981:

27 (1) That there shall be no reduction in the ratio of
28 assessed to full value of improvements below 40 percent
29 of the assessment ratio applied to the full value of land.

30 (2) That the schedule for further reductions in the
31 ratio of assessed to full value of improvements and
32 personal property below 40 percent of the assessment
33 ratio applied to the full value of land may be different
34 than as specified in paragraphs (4) and (5) of subdivision
35 (a) of this section.

36 (c) The Legislature shall provide for adjustments in
37 the value of the property tax exemptions provided for in
38 subdivisions (k), (o), (p), (q), and (r) of Section 3, by
39 multiplying the exemption by the ratio of the full value
40 of land used for residential purposes to the full value of

1 land and improvements used for residential purposes in
2 the state for the 1976-77 fiscal year, times the following
3 percentages:

4 (1) For the 1979-80 fiscal year, 20 percent.

5 (2) For the 1980-81 fiscal year, 40 percent.

6 (3) For the 1981-82 fiscal year, 60 percent.

7 (4) For the 1982-83 fiscal year, 80 percent.

8 (5) For the 1983-84 fiscal year and thereafter, 100
9 percent.

10 ~~(d) In order to insure that local agencies,~~
11 ~~redevelopment agencies, and other public agencies will~~
12 ~~derive property tax revenues approximately equivalent~~
13 ~~to those revenues in the 1976/77 fiscal year, the~~

14 (d) The Legislature during each year in which the
15 assessment ratio applied to the full value of
16 improvements is reduced from the ratio applied in the
17 prior year, shall review the adequacy of the property tax
18 revenues of all local agencies, redevelopment agencies
19 and other public agencies and may provide for one or
20 more of the following:

21 (1) An adjustment of the assessment ratio applied to
22 the market value of land.

23 (2) An adjustment of the tax rate limits established by
24 statute for districts, counties, city and counties, and cities,
25 both chartered and general law.

26 (3) An adjustment of limitations on bonded
27 indebtedness.

28 (4) Any other action as the Legislature deems
29 appropriate.

30 ~~(e) The Legislature may make any adjustments and~~
31 ~~take any action deemed appropriate to insure that during~~
32 ~~each year in which the assessment ratio applied to the full~~
33 ~~value of improvements is reduced from the ratio applied~~
34 ~~in the prior year, local agencies receiving property tax~~
35 ~~revenues pursuant to Section 11 will derive revenues~~
36 ~~approximately equivalent to those revenues received in~~
37 ~~the 1976/77 fiscal year.~~

Topic: Adequacy

1. Will developers crowd in too much, to exploit infrastructure?

Yes, w/o user charges.

But now, we have no defense vs. bldgs. growing old & doing same. So taxing bldgs is no subst. for user charges.

Bigger changes are schools & welfare. Both redistrib. zoning is 0-sum game.

Re schools, state vouchers, Linn

Re welfare, old bldgs. generate this. (plus unempl.)

2. Also escaping bldg. tax are low density uses, many of which involve hi user cost. Drive-ins, junkyards, auto dealers, parking lots, lawns to water,

Big energy & water users, & air polluters.

3. Control by zoning - continue to.

Assess zoning - solve dist. equity problem.

4. Reduce need for French equity - thus save money, develop neighborhood specialization.

21

Employment opps.

Effect very positive.

a. Δ bldg. in general.

b. Δ indl. bldg.

attract inventories

Δ office bldg.

c. Encourage subdiv. of gross farms.

History of l.Ds in S.S.f. valley

Restore farm jobs.

d. Now, cities have no "duty to serve", as utilities do. They should. Stewardship: pay taxes, render service, and supply jobs. The Trilogy of stewardship.

15 Housing & Bldg. Prices

The Roman, Cato

Presented as anti-economist, but turned out to be logical conclusion of econ.

A. Housing prices.

1. S & D determine. As S.

2. Structure of prices.

K-int. hsg. wd. have biggest Δ supply.

Land-intensive hsg., effect depends on location

Near-in, wd. become scarcer & dearer, as land developed & intensified. E.g. my place, here & in Whitefish Bay.

Far-out, wd. become cheaper bcs. demand for intensive use of land declines.

B. Other bldgs, non-resid.

1. Commercial, divides easily into low & hi density. They differ extremely.

Low density uses wd. bc — not eliminated — but "driven out", i.e. relocated outwards. Also reduced in total area.

Hi density wd. move in to locations of hi accessibility, owing to all the trips they originate & receive.

16 Effect on land prices.

Mixed, net product of several cross currents.

We are assuming no change in prop'ty. tax levy.

a. Land tax alone lowers price.

b. Exempting bldg. raises price of land.

Analogy: Milw. Harbor

Oil & gas lease bonus.

c. Net result depends on ratio B/L

— not just as is, but potential bldg. Many vacant lots wd. rise.

— best land wd. develop first. In a perfect market that happens.

"Floating value" penumbra wd. shrink.

17

Topic: Incidence

1. Who pays tax is only part of story
Tax will rise on vacant lot, but value rise more.
2. Bldg. taxes make bldgs spread out, subst. land for K.
Scope for this a max. in Cal., bcs. of climate,
encouraging horse farms, etc.
3. "Incidence" means where ~~tax~~ is tax shifted to.
Simple: not shifted. If everything is double barreled,
by satisfying demand, shrinking premonition of floating value.

18

Topic: Progressivity

1. Prop. is more corr. by far than inc.
Only shifting ed. make it other than highly progressive.
Only K base is shifted

2. Regress fallacy.

Inc. & prop. not perfectly correlated

Also, recorded inc. not real inc.

Some e.g.s. - year of sale. Temporary hi income.

big house. The fact that I

live in a big house means my inc. is really \$45,000

Rent & income.

Poor live in declining wharves (or else on land of others)

Special charity cases

a. Shd. not look at part of picture.

b. Many poor live in Calif. Hotel.

19

Containing sprawl
Make cities work

Negative vs. neutral vs. positive

Neg. exclusionary zoning. Doesn't work.

E.g. Tinker - Even - Chance, LA - Coastal zone -
Irvine -- Corona -- Riverside -- San Diego.

Neutral: elim. x. subsidy

Positive: encourage center by LVT.

Remove bias vs. vertical xptn.

Take advantage of Hurd's principle of
continuity.

1 dear. Sacto.

1. Cities shd. have ~~this option~~ to do this. Cities, too.
Now, cities have many powers to exclude
But no "duty to serve" like utilities

2 ~~mgg., job-making, hi K/L ratio.~~

3 ~~Spread.~~

LVT won't prevent spread all by itself.
If you supply new infrastr. in exurbs, LVT will make the
land develop. But then, if you invest public & thus, that
is what you shd. want.

✓ LVT causes mkt. to bld. on strength, in compact Δ s.
L.V. are marked by continuity, axial & concourse.
The message of L.V. is to develop sequentially.
Thus, parachute renewal in slums is counter-mkt;
also, leapfrog in exurbs.

Balt. & previous study showed inc. tax position of
seller determined timing. City must fight this.

4 ~~Renewal & conversion occur when $CH > Def.$~~

20 Rates under LVT

L.V. is ca. $\frac{1}{2}$

So, t.v. required is about double.

But l.v. remain about same. Gov. collect same levy.

Put underused land on rolls as tho it were fully improved. Tax imaginary bldgs. Huge Δ rev.

But then these imaginary bldgs become real, what happens?



LEAF
Land Equality And Freedom

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San Francisco, CA 94115
Tel (415) 777-0484

AGENDA

JOINT HEARING ON SEN. A. RODDA'S SCA 12

before the

SACRAMENTO CITY COUNCIL AND COUNTY BOARD OF SUPERVISORS

MONDAY, SEPTEMBER 26, 1977, 4 p.m.

BOARD OF SUPERVISOR'S CHAMBERS

827 Seventh St. Sacramento, CA.

JOHN D'ALFONSO
Executive Director

DR. WILLIAM FILANTE
President

DR. STEVEN CORD
Vice-President

DR. WILLIAM TRUEHART
Secretary

FLOYD MORROW
Board Chairman

NICHOLAS LENTEN
Treasurer

DR. ARTHUR BECKER
Director

HARRY POLLARD
Director

EVERETT SEELEY
Director

ROBERT TIDEMAN
Director

Introductory Testimony by Mr. Terry Newland

1. Reading of Joint Resolutions
2. Reading of Senate Constitutional Amendment 12

Testimony by Senator Albert Rodda

3. Reasons for sponsoring the Amendment
4. Educational value of Joint Hearing
5. LVT and self-supporting urban transit

Testimony by Dr. William J. Filante, Pres. MMWD

6. Financing public works
7. LVT and the Environment
8. Slums, urban blight, decay
9. Effects on farmers
10. Implementation of LVT in Australia, New Zealand, Denmark
11. Efficient resource allocation
12. Re-development and Rehabilitation of the inner city

Testimony by Mr. Terry Newland, Deputy Executive Director LEAF

13. Equity and Justice of LVT
14. Strengthening local government

Testimony by Dr. Mason Gaffney, Economist, U.C. Riverside

15. Effects on housing and building prices
16. Effects on land prices
17. Tax incidence
18. Progressivity. *Slums are no subst. for welfare & income.*
19. Positive sprawl containment policy
20. Rates under LVT

21. Employment opportunities and wages under LVT

Testimony by Dr. William Truehart, Economist

22. His Los Angeles study
23. Incentive nature of LVT, stimulating the private sector
24. Simplification of assessments
25. Anti-inflationary effects of LVT
26. Facilitating sound urban planning

Testimony of Mr. Robert Goodier, Bureau of Mines

27. Local, non-transient, growing tax base
28. Rental or leasing of govt. land/sites, not sale
29. Land speculation and monopoly
30. Mathematics of SCA 12 implementation



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LEAF Board of Directors
From: Terry Newland

August 27, 1977

JOHN D'ALFONSO
Executive Director

DR. WILLIAM FILANTE
President

DR. STEVEN CORD
Vice-President

DR. WILLIAM TRUEHART
Secretary

FLOYD MORROW
Board Chairman

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DR. ARTHUR BECKER
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HARRY POLLARD
Director

EVERETT SEELEY
Director

ROBERT TIDEMAN
Director

Dear Sirs,

This is to inform you that final arrangements are being made for a LEAF presentation on LVT and SCA 12 before a Joint Hearing of the Sacramento City Council and the Sacramento Board of Supervisors at 4 p.m. on September 26, Monday, 1977, at the Chambers of the Board of Supervisors, 827 Seventh St. Sacramento, CA.

Dr. Melarkey has introduced a resolution on behalf of the Board, and Mr. Matsui has introduced a similar resolution on behalf of the City Council. Dr. Melarkey and Mr. Matsui will hold a press conference one week before the hearing. Sen. Rodda will also attend the hearing and offer testimony. I am asking LEAF Directors Morrow, Truehart, Gaffney, and Filante to offer testimony.

Formal letters of invitation are going out to the Senate Comm. on Rev. and Tax., state legislators from the Sacramento, the Governor's Office, and other appropriate people and organizations. Our local LEAF Club will help to promote the Hearing also; they are contacting people throughout the area who might be interested. Mr. Bill Winterbottem, of our Sac. LEAF Club has kindly agreed to be our PR representative and do press releases, etc. to promote the event. City Councilman Lloyd Connolly, Sen. Rodda's office, Mr. Matsui, and Dr. Melarkey have all agreed to send out invitations and press releases and in general help with public promotion of the hearings.

The hearing will last for two-and-a-half hours, there will be no other bills to consider, and the full attendance of both the Council and the Board are very good. A full transcript of the hearing will be provided by the Board of Supervisors.

Needless to say, this offers us an excellent opportunity to promote LEAF, LVT, and SCA 12. I am hoping for a very constructive hearing. I hope to have pictures and copy of the event ready for the October New LEAF.

Cordially

Terry Newland
Terry Newland



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HARRY POLLARD
Director

EVERETT SEELEY
Director

ROBERT TIDEMAN
Director

Dr. Mason Gaffney
3040 Tyler Ave.
Riberside, CA 92503

Sept. 6, 1977

Dear Mason,

Pursuant to our phone conversation of the other day, this is to confirm your attendance at the Joint Hearing before the Sacramento Board of Supervisors and City Council on Monday, September 26, 4 p.m. at the Supervisors' Hearing Chambers, 827 7th St., Sac.

Your travel expenses will, of course, be covered by LEAF, just keep your receipts or vouchers.

The testifiers will be meeting for caucus in Sup. Melarkey's office at 3 p.m., just down the hall from the Hearing Chambers.

Avoiding an overlap of testimony and to insure that we cover all the essential aspects of LVT, I have broken down the LVT issue into catagories and parceled them out to the testifiers. You will be responsible only for those items under your name. I realize it is a lot to cover in a short time, but we have only 2½ hours to do the whole thing, so nothing is to be done. We will have to do our best.

In defference to Sen. Rodda, I have placed him first. Bill Filante has to get back to Marin County for a Water Board meeting, so I put him on early. As you can see, the heaviest burden of testimony falls on you. Knowing your insatiable love of hard work, I am sure you will not protest.

We expect media there and a large audience. If all goes well it should be a shot in the arm for LVT and LEAF in the Sacramento area. Our local LEAF Club is working hard on publicizing the event.

Let me thank you in advance for your participation; it means a great deal to LEAF and the LVT movement.

This will be my last formal communication on the matter; should any thing come up on either, ^{and} lets stay in contact.

Cordially,

Terry Newland
Terry Newland

enc. New Brochure for perusal. Also a thing I put together to answer the "What can we do?" question from national reps.