



Reply to Messrs Schmit and Whittow

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Reply to Messrs. Schmit and Whittow

M. Mason Gaffney
September 9, 1970

I have been asked to comment on the letter by Messrs. Schmit and Whittow (henceforth S & W). I did not write the report on "Better Assessments," but I supplied research findings for Milwaukee. I generally endorse the report as written, and find S & W to be seriously wrong on many points.

My co-workers and I established working contact with the Tax Commissioner's Office in 1963, before Mr. Schmit entered it. His predecessor, Thomas Byrne, seeing the need to catch up on land assessments, initiated the land value studies (for which Mr. Schmit should credit him) and graciously availed us of sales data. We maintained contacts with civil service professionals in the Office from 1962-69. Our work benefited greatly from their constructive, competent criticism which has always been thoughtful and factual. (We differed on questions of policy and principle--matters determined at the political level.) Surely the Tax Commissioner knew of these contacts. His cooperation was acknowledged in the Nation's Cities, 3-69; the Milwaukee Journal, 3-21-69; and the Wall Street Journal, 3-19-69.

I was discussant for Mr. Schmit's paper on tax-exemptions on September 4, 1968 at the 61st Annual Conference of the National Tax Association in San Francisco, presented by his Deputy Marvin Boucha. On page 267 of the Proceedings I state that Milwaukee assessors do not consistently value

land on the basis of market value. I cite the finding of my study that assessors on the eve of demolition were generally allocating half or more of value to the worthless building. On pages 270 and 275-76 Mr. Boucha, speaking for Mr. Schmit, acknowledges that these findings are valid. He seems to agree that market value should be used, but suggests Milwaukee is not Heaven--his metaphor.

On June 19, 1969, Mr. Schmit and I appeared before the Special Committee on Taxation, Common Council, City of Milwaukee (Councilman James McCann, Chairman). I suggested to the Committee that it urge Mr. Schmit to exercise the latitude in the assessment process to assess land higher, instead of, as now, to assess it much lower. I brought with me Mr. Ted Gwartney, then Deputy Assessor of Sacramento County and former Assessor of Southfield, Michigan, who explained how he had done that. Mr. Schmit circulated a prepared paper attacking the idea as of interest to "theorists," and virtually "impossible." He showed no interest in following up on Gwartney's techniques or my data.

In light of this background, S & W's pose of surprised innocence is not called for.

Mayor Maier, who appointed Mr. Schmit and at whose pleasure he serves, attended the round table reported in Nation's Cities, March 1969, and reviewed the manuscript with its long discussion of my Milwaukee study. On April 7, 1969 I made a personal pilgrimage to tell Mayor Maier he was welcome to my findings. He was cordial but showed no more interest than his Tax Commissioner.

The reassessment of May 1, 1969 is common knowledge. I take it S & W are conceding that assessments were off before then. They should. Some land had not been reassessed for over 20 years, and Mr. Schmit issued a brochure for taxpayers stating "Because of the City's desire to maintain a fairly stable assessment pattern in the face of an ever-changing market value, the Milwaukee assessment level is not presently at full value."

(n. d., ca. 1968) I constructed land value maps showing current land values to be more than double equalized assessed values. Detail on this finding has just been published in my chapter in Daniel Holland (ed.), The Assessment of Land Value (Madison: The University of Wisconsin Press, 1970).

The favorable (low) coefficient of dispersion rating S & W cite has no bearing on land assessments, the point at issue. Census dispersion coefficients are based solely on non-farm houses compared to each other. Land assessments are not evaluated or compared to buildings.

The more relevant U.S. Census datum is that showing Wisconsin mercantile and industrial property assessed 2.4 times too high relative to vacant lots. (1967 Census of Governments, Vol. 2, p. 47) It is not generally realized that Wisconsin's reputation for better-than-average assessment is based only on non-farm houses. As to land, Wisconsin has been below average, and its SMSAs, dominated by Milwaukee, even more. It is this that justified using Milwaukee as an example of bad land assessment. The report of March, 1969 said that underassessment of land was "less notorious in Milwaukee than elsewhere," but it may have been too generous. At any rate the effects of mediocre assessment in Milwaukee are outstandingly counterproductive because of Milwaukee's outstandingly high real tax rate.

I would be overjoyed to be forced to concede that this is all in the past and that on May 1, 1969, Milwaukee land assessments became just .04% short of perfect, as claimed. I am pleased to concede that many land assessments were raised. I freely note my belief that City of Milwaukee land assessments are of higher quality than most of its suburbs (although some of them are currently redressing that balance). But I have several reasons for doubting that the 1969 changes were as good as claimed.

1. Land values have also risen since my study ended. They may have risen more than land assessments.

2. The sole evidence given is a report by the State Bureau of Property Taxation. This Bureau is not concerned with comparisons among classes of property, only among jurisdictions. It has made no specific study of land sales in the City of Milwaukee after May 1, 1969, according to Director Robert Wood (9-9-70), and never has done so on any comprehensive scale. It does not report on vacant land as a separate class. There is no earthly reason to cite this report to four digits except the lack of relevant evidence.

3. The reassessment of 1969 raised taxable values by only 5%. (Milwaukee Sentinel, 6-30-69) The mountain labored and brought forth a mouse. That's better than the noisy campaign to assess exempt buildings, which added $\frac{1}{2}$ of 1%. But land values which had not been reassessed for years have been rising at 5% annually. The cumulated neglect of a generation is not corrected by one 5% change. In the outlying speculative areas where the city has been pouring most of its capital budget while neglecting the inner city, I found underassessment so bad that the market value of

land alone was nearly twice the equalized assessed value of land and buildings together! (1963-67 data)

4. The techniques and principles which city assessors told me they were applying in 1969, and defended, do not progress but retrogress from the standards of previous years. I am overjoyed that S & W agree with the N.C.'s roundtable that one should value land first and assign any residual value to buildings. I would be ecstatic if they practised this preachment, and hewed to the Wisconsin Supreme Court in the Markarian case that the best evidence of market value is the price paid for a comparable property which has recently been sold. But here are some items.

- a. The assessment manual used for the 1969 reassessment recommends that the building be valued first and the land residually (p. IA-1, para. 10), flatly contradicting their present allegation.
- b. The roundtable recommends discounting zoning restrictions as much as the market does. Milwaukee assessors follow low density zoning, however incredible the market finds it, however freely variances are granted.
- c. Land assessments are raised because of good subdivision; or any subdivision; or a favorable lease; or freedom from a bad covenant. And of course vice versa.
- d. The land assessment is quadrupled when a single is replaced by a new apartment building, but surrounding land is unreassessed. Use conversion of a site is the occasion to reassess it. The neighbor site is left alone.

- e. Mr. Schmit's office assesses the value of tax-exempt land, but can supply me no record of the area. Think about that: they value property independent of its land area! It means they do not know the taxable area, either, nor the values per square foot. Mr. Schmit campaigns against tax-exempt buildings, but never against cemeteries which hold 3% of all the land in town. He has not attacked the city "land bank"--573 acres on ice--nor the 386-acre Harbor Commission which sits on many acres of unneeded land, nor the Park Commission nor the School District which buy ahead of need and take land off the tax rolls, nor the Army land hangup sterilizing over 100 acres, nor the Redevelopment Commission (see below) and its scorched earth. The animus is against old-folks' homes, hospital annexes and dormitories that might serve human needs and compete for tenants.
- f. Rosslyn and Southfield, our good examples, reassessed land annually in dynamic areas, and gave priority to these areas (Rosslyn still does; so does British Columbia.) In Milwaukee the dynamic or transition areas are the last to be reviewed. Here is where assessments lag the most. Exception: in declining areas, land is lowered more promptly. (Evidence ?)
- ✓ g. Corner land may be assessed not as a corner if it has a non-mercantile improvement (Manual, p. LC-2)
- ✓ h. An assessor tells me the landowner's plans affect the valuation. If he plans not to sell for a higher use, he gets a lower assessment.

1. Land value mapping, as taught by Assessor Don Beach for the I.A.A.O., is not used as a primary tool in Milwaukee assessments, because a map is objective, in rem, and repugnant to the in personam approach that suffuses much assessment thinking in Milwaukee, where adjacent parcels are not always valued comparably (although they often are).

I could go on.

5. The clincher is in the S & W letter: abolition of the land unit in 1969. The need to revalue land was acute in 1962 already. Seven years later, while values doubled again, they got around to it--now they close up shop! No poetry can tell more eloquently the lack of intent to stay on top of land values.

As to downtown construction, the gains claimed are pretty small potatoes for our 11th largest city. That's one reason it is now the 12th, in spite of doubling its area by annexation. St. Louis had \$300 millions of new construction since 1965, more than the entire value of downtown Milwaukee. Rosslyn, a town you never heard of, had \$125 m. S & W shamelessly exaggerate their gains by including the increase of land value as though it represented increased building. Their visitors are not only "prone," they are supine to tell local officials they see a great renaissance. Here are some facts.

Downtown rental office space grew from 3.3 million square feet in 1964 to 3.9 msf, 1969. This looks fair until we consider:

- in 1964, 90% of the space was pre-1929. An entire new city is needed.
- less than one-third the space is Class A. Much is Class C, with high vacancies.

- nearly half the incremental space is in the Clark Building, a financial disaster that went through bankruptcy.

-- Other new buildings are subsidized by land write-down (Juneau Square); anticipated tax freeze (M & I); or are exceptional. The rule is you don't get much action downtown without a special deal. Most land is tied up by assembly problems, and taxes hit new buildings like a sledge. Half the new building one sees is public and tax-exempt. The CBD is scattered to the four winds, and they must have drawn a circle larger than Chicago's Loop to find the little increment they did.

More facts (these dated 1964):

✓ -- 31% of city land is vacant; 34% if you count parking; 37% counting cemeteries.

✓ -- 40% of the retail area is auto sales and service, virtually vacant and taxed low.

✓ -- 39% of land in wholesale and storage use is open storage, including junkyards. No buildings, low taxes.

The fact is, Milwaukee is in trouble. The decline in home building over 10 years is simply spectacular. The Milwaukee SMSA dropped further from 8100 units in 1967 to a rate of 5300 in 1970 so far, with most of the drop in Milwaukee County (the inner SMSA), in spite of all its vacant land. It is not even replacing itself. In 1969 more dwelling units were demolished (1982) than built (1487) in the city of Milwaukee, first 9 months (Sentinel, 11-8-69). Meantime Assessor Gwartney, in whose methods S & W find no merit, left Southfield for Sacramento. Under his ministrations the homes in Southfield had tripled in 8 years. And now in Sacramento SMSA housing starts rise from 3600 in 1967 to a rate of 6700 in 1970, outstripping the much larger Milwaukee SMSA.

policies of land assessment. S & W seem to want us to believe that the Clarkson era never was, that Beren can 'disavow' for Clarkson and Gwartney, and that Beren's assessments were in force during Gwartney's tenure. It's on a level with saying JFK was never President because Nixon is. Rather than such tomfoolery I wish S & W showed some concern for the plight of Milwaukee.