

1-1978

Review of Applied Urban Research 1978, Vol. 06, No. 01

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Recommended Citation

(CPAR), Center for Public Affairs Research, "Review of Applied Urban Research 1978, Vol. 06, No. 01" (1978). *Publications Archives, 1963-2000*. 513.
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REVIEW OF APPLIED URBAN RESEARCH



Center for Applied Urban Research/University of Nebraska at Omaha

Volume 6

JANUARY 1978

Number 1

PROPERTY TAXATION: A CASE FOR REFORM

BY
RALPH H. TODD

(The following article is comprised of excerpts from a talk given to the Nebraska Tax Forum on December 7, 1977 by Ralph H. Todd, Director of the Center for Applied Urban Research.)

Introduction

National public opinion polls taken annually during the past five years by the Advisory Commission on Intergovernmental Relations have consistently and decisively shown the most unpopular of all taxes to be the property tax.¹ Why is the property tax so unpopular?

No other major tax in our public finance system bears down so harshly on low income households, or is so capriciously related to ability to pay.²

No other major tax is more difficult to administer. The tax as administered today is at best discriminatory and is even more so when we are experiencing high rates of inflation.³

No other tax is more painful to pay. This is especially true for those property taxpayers who are not able to build up savings or are not in a position to pay the tax on a monthly installment basis.

Still in more general terms:

No other major tax reflects and promotes so many unsound public policies. It encourages urban blight, suburban sprawl

and land speculation. It stymies urban rehabilitation, and housing and commercial investments. It prevents orderly development and planning. It breeds horrendous waste in the economy. It induces the movement of business and people from cities to suburbs and it brings about premature abandonment of capital investments in roads, sewers, fire stations, houses, schools, electrical, gas, water and other utilities.

The property tax as now applied both "undertaxes" and "overtaxes." It "undertaxes" and acts as an incentive for what we don't want and "overtaxes" and acts as a disincentive for what we do want. The property tax penalizes those who put property to good social purpose while rewarding slum lords and speculators.

The property tax is not just one tax, but instead two completely opposite and conflicting taxes. One is the tax on what the owners of the property have spent on improvements. Obviously, the heavier the tax on improvements the more likely it will discourage, inhibit or prevent them.

The other part of the property tax is on land--the tax levied on the location value of the site, i.e., the tax on what the property would be worth if the owners had never improved it. This tax is on value that is derived largely from an enormous investment of other taxpayers' money.⁴ Obviously, heavy taxes on the location will not discourage or inhibit improvements; on the contrary, heavy taxes on location should put effective pressure on the owners to put their sites to better use. A heavier tax on unimproved land would allow a city to expand in an orderly manner without relying on growth policies and

¹Public Opinion and Taxes, Advisory Commission on Intergovernmental Relations (Washington, D.C.: Government Printing Office, 1972-1977).

²See: *The Property Tax in a Changing Environment: Selected State Studies*. Advisory Commission on Intergovernmental Relations, March, 1974, pp. 280-281. Based on real estate taxes as a percentage of family income, for single family homeowners, the tax varied from 15.8 percent to 2.7 percent on elderly and from 18.9 percent to 2.9 percent on non-elderly homeowners. The highest rate of property tax being on families with reported incomes of less than \$2,000. This situation can be attributed almost entirely to poor administration of the current property tax. Since property wealth is highly concentrated in the hands of high income families, a properly administered tax should be progressive rather than regressive. Furthermore, a shift in the tax off improvements on to land would tend to make the tax more progressive since ownership of land is more highly concentrated in the hands of high income families than is the ownership of any other form of wealth.

³As administered, the property tax discriminates between classes of property (residential, commercial, industrial, agricultural and urban vacant lots), between areas within the same taxing jurisdiction, as well as between different taxing jurisdictions. This is contrary to the fact that Nebraska law requires all property to be valued at its actual value and be assessed at 35 percent of its actual value.

⁴Information from the Southern California Real Estate Research Center indicates that to provide for two homes per acre, it would cost the taxpayers more than \$50,000 per acre to pay the capital costs of public improvements needed to enable the landowner to get \$25,000 an acre for land.

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huge subsidies, by simply allowing the profit motive and the free enterprise market system to function more effectively.⁵

The Case of Nebraska

One might assume that the widespread attack and unpopularity of the property tax would result in elimination of the tax or at least in major reform. Neither has occurred. Simply stated, the unpopular property tax has not been eliminated because there is no good substitute for a tax that currently produces nearly 90 percent of our local tax revenues.⁶

The reason there has been no property tax reform in nearly a century is much more complex, but a major part of the explanation can be attributed to lack of support from either civic leaders or elected officials.

To seek insight into the attitudes of civic leaders toward property tax reform, more than 25 of the top leaders of Omaha and Lincoln were asked if they considered property tax reform to be necessary. Eighty-six percent of those who expressed an opinion said yes. However, when asked whether civic leaders as a group have been visible enough in promoting property tax change, nearly all of those interviewed said no.⁷

The civic leaders differed widely in their reasons why tax reform has been given so little attention. Lack of knowledge about how to effect tax reform was prevalent, with most viewing tax reform as an extremely complex issue. Related to this was a perceived inability to bring leaders from diverse backgrounds together on the issue. Other civic leaders admitted they were not concerned enough or were unable to find the time to worry about community wide tax problems, with one stating that private leaders hesitate because "the politicians don't listen to us."

Ironically, these are the same individuals who have spent and will continue to spend many hours of volunteer time seeking to promote their cities as good places to live, work and do business. While seeking to attract people and industry, these individuals push for different types of incentives to bolster investments into their respective communities. These persons also indirectly commit millions of private and public dollars in the name of making our cities and downtowns viable again. (For example, Lincoln's Centrum and downtown physical renovation and Omaha's educational center, mall and library would not have been possible without visible support from persons such as the civic leaders interviewed.)

Elected officials also tend to avoid the subject of property tax reform. On the one hand, many voters do not understand that property tax reform could be in their best interest. Most taxpayers' interest in property taxation stops with wishing their own tax bills were smaller. There is little evidence that politicians believe that they can win more votes by supporting property tax reform. The political problem is further complicated by the

⁵For a thorough discussion see: *Property Taxation, Housing and Urban Growth*. Report of a round table conference co-sponsored by the National League of Cities, the Council of State Governments, the Conference of Mayors, the American Institute of Architects, the International City Management Association and the National Association of Counties (Washington, D.C.: Urban Land Institute, 1970). Also for an up to date review of the literature see Rybeck, Walter, "Site Value Taxation," *Journal of Housing*, 34:9 (October, 1977) pp. 454-456.

⁶U.S. Department of Commerce, *Local Government Finances in Selected Metropolitan Areas and Large Counties: 1974-75* (Washington, D.C.: Government Printing Office, 1977).

⁷Staff from the Center for Applied Urban Research interviewed a total of 27 civic leaders between October 31 and November 21 from Omaha, Council Bluffs and Lincoln. The specific questions asked were as follows: "Do you feel there should be property tax reform?" If yes: "What types of change would you like to see?" "What do you think leaders in the community can do to help bring about these changes?" "Do you think civic leaders as a group have been visible enough in promoting property tax change?" If no: "What do you feel is the reason for that?"

strong position of those with vested interests in land speculation.

Property tax reform is needed not only generally throughout Nebraska but is particularly needed in the metropolitan areas of the State. Although today's property tax cannot be assigned the sole responsibility for decentralized and poor urban land use patterns, its impact has been powerful and pervasive. The Nebraska State Constitution could be changed to make available to metropolitan counties on a local option basis the right to tax the land more heavily than the private investment in improvements. It would give local governments (e.g., Omaha) a means to encourage the private market to embark on programs for urban betterment.

Since current property taxes are relatively high the impact on investment and urban renewal should be great. Property taxes represent a larger share of total state-local revenues in Nebraska than in any state except for New Jersey, Massachusetts, New Hampshire and Connecticut.⁸ The average effective property tax rate in Nebraska on existing single family homes with FHA insured mortgages is 2.5 percent (1975). Only Wisconsin, New York, Massachusetts, and New Jersey had higher effective property tax rates in 1975.⁹ This is strong justification for applying the relatively heavy property tax in a way that will contribute positively to rational land use in Nebraska.

Prior to property tax reform the assessment process in Nebraska is in need of change to promote the equity and uniformity that currently does not exist. Although Nebraska law requires that all property be valued at its actual value and be assessed at 35 percent of its actual value, the fact is, similar valued properties are not treated equally. It is not difficult to find examples where one parcel of property is being taxed at double the rate at which another parcel with similar market value is taxed. The tax as applied discriminates both between classes of property and between properties of the same class.

For example, the October 13, 1977, *Omaha World-Herald* quoted the Douglas County Assessor as saying that the tax value to market value is 90 percent in North Omaha, compared to 70 percent for the City as a whole and compared to 40 percent for the Ak-Sar-Ben area. Put in other terms this means an average assessment-sales price ratio of 32.0 in North Omaha compared to 25.0 for the City as a whole and 14.0 in the Ak-Sar-Ben area. This is equivalent to an actual property tax rate 28 percent greater in North Omaha than for the City as a whole and 129 percent greater when compared with the Ak-Sar-Ben housing market area. The effective property tax rate in Omaha is currently 2.8 percent (i.e., on an average, \$2.80 is paid annually in the form of local property taxes per hundred dollars of property value). North Omahans on the average are surcharged an additional 28 percent making the effective local property tax nearly \$3.60 per each \$100 of property value. This rate is so high it is undermining the capability of an area of the City that is in urgent need of housing to improve the quality of its housing stock.¹⁰

Clearly, assessments are not uniform among areas of the City and the tax as administered is inequitable. What about uniformity of assessments among different classes of property? Here again, assessments by class of property are not uniform and the tax is badly administered. For example, although Douglas County does not report assessment and sales information separately on vacant land for Omaha, a sample taken of 43 lots sold during the month of April, 1976, indicates an assessment-sales ratio of 14.3. This compares to the City-wide assessment-sales

⁸Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism: 1976-77* (Washington, D.C.: Government Printing Office, March, 1977) p. 124. Property taxes in Nebraska amounted to 28.5 percent of total state-local general revenues in 1975.

⁹Ibid.

¹⁰David Beeder, "Bemis Taxes Pinch North Omahans," *Omaha World-Herald* (October 13, 1977) p. 6.

ratio of 25.0. Thus, property, on an average, is paying a property tax rate 75 percent higher than that on vacant lots.¹¹

This is not an unusual situation in Nebraska. Based on assessment-sales price ratios generated by the Nebraska Department of Revenue this is a serious State-wide problem. In 1976, average assessment-sales ratios on non-agricultural property ranged from 13.56 on vacant lots to 23.37 or 72 percent higher on commercial property.¹² The Department of Revenue study shows that property taxes in Nebraska, on an average, are 38 percent higher on improved residential property, 55 percent higher on industrial property, and 72 percent higher on commercial property compared to taxes on vacant residential lots with similar market value. On the other hand, agricultural land is being taxed, on an average, 5.2 percent less than are vacant lots.

Is this just a recent development due to inflation? Perhaps the overall decline in the assessment ratio reflects the inability of assessors to make adjustments to rapidly rising real property values. However, the nonuniformity in assessments between different housing market areas and among different classes of property is not a new development. In an earlier study: *An Evaluation of the Effective Property Tax Rates in Omaha*,¹³ published in 1972, a total of 1,122 parcels of residential property that exchanged hands during 1971 were examined. Using the sales and assessment information on each property, individual and aggregate sales ratios were computed. Interestingly enough, the conclusions of that study were almost identical to those reported in the *World-Herald* of October 13, 1977. In 1971 the lowest mean average assessment-sales ratio was in southcentral Omaha (Ak-Sar-Ben) and the highest in northeast Omaha. The amount of uniformity of assessments within each of six subareas studied was also evaluated. It was found that individual assessment ratios in the City of Omaha in the area west of 42nd Street differed on an average from the median sales assessment ratio by 12 percent. However, when the assessment-sales price ratios were examined on residential properties east of 42nd Street, the coefficient of dispersion (measure of uniformity) indicated on an average individual assessment-sales ratios differed on an average from the median ratio by 27 percent in southeast Omaha and 25 percent in northeast Omaha.¹⁴

Site Value Taxation: Studies and Results

One frequently asked question is, "How can we be sure that shifting the weight of the property tax off improvements onto land will result in a cut in the overall property tax the homeowner must pay?"

Although additional empirical evidence is needed, based on what we do know it is likely that the majority of taxpayers would benefit. Simulation models and experience of other cities as well as theory indicate a shift would result in a cut in the (total) property tax the homeowner must pay.

Washington, D.C. In the District of Columbia land is assessed first at a uniform percentage of market value and assessments are probably better than most other places. Dr. Margaret Reuss, chairperson of the economics department at the University

¹¹Beeder reported a city-wide ratio of 25.0. Percentage difference was computed by author.

¹²Compiled from data provided by the Nebraska Department of Revenue, Property Tax Division, 1976.

	Vacant Lots	Residential Improved Property	Industrial	Commercial	Agri- cultural
Sales (Number)	2476	16,686	43	1075	1331
Ratio (Average)	13.56	18.64	20.99	23.37	12.85

¹³Ralph H. Todd, *An Evaluation of the Effective Property Tax Rates in Omaha*, (Center for Applied Urban Research, University of Nebraska at Omaha, November, 1972).

¹⁴Ibid., Table II, p. 6.

of the District of Columbia, constructed a computer simulation model to determine the impact of a shift in the property tax to land. She presented her results in December, 1976, to the National Association of Housing Redevelopment Officials. "Single family homes would enjoy an average annual tax reduction of 11 percent citywide." Multi-family units would receive still larger reductions, 23 percent for elevator apartments and 39 percent for walkup apartments. Lower income neighborhoods would receive among the highest percentage decreases.¹⁵

Southfield, Michigan. Mayor James Clarkson of Southfield, Michigan stated, "just correcting the gross underassessment of idle and underused land enabled us to reduce the taxes on many homes by as much as 22 percent."¹⁶

Harrisburg, Pennsylvania. Harrisburg offers considerable evidence of what would happen if a city would adopt site value taxation. In 1974 the public and local politicians were upset about the prospects of increasing the property tax from 17 to 18 mills. In 1976, Mayor Swenson sold the idea to the public of keeping the tax at 17 mills on improvements and increasing the tax to 23 mills on land. While the city raised its total revenue, most of the residential properties and a substantial number of commercial properties actually got a small reduction. Then, in 1977, Harrisburg raised the land value portion of its tax to 29 mills, dropping the building tax to 16 mills. As a result of the latest change, half of Harrisburg's 8,000 property owners got a slight decrease in their tax bills. Meanwhile, assessment on vacant land increased from 23 to 29 mills, about a 25 percent increase.¹⁷

Two other studies suggest similar results:

Eugene, Oregon. Dr. Richard Lindholm, founding director of the University of Oregon College of Business Administration has found that in Eugene shifting the tax to land values alone would reduce the tax on the voter/taxpayer homes by an average of 28 percent.¹⁸

Omaha, Nebraska. Last year Gary Carlson, program coordinator for the Omaha Housing and Community Development Department, researched the issue and completed a detailed fiscal impact study of site value taxation for Omaha and Douglas County.¹⁹ He found that 36 percent of developed properties would enjoy tax decreases of 21 percent or greater and another 23 percent would get tax decreases of from 5 to 20 percent if the tax were shifted off improvements onto land. In the case of apartments, 47 percent of the properties would get reductions of 21 percent or greater and 22 percent of them would get reductions of 5 to 20 percent under site value taxation. Industrial property in Douglas County would receive the largest decrease in taxes. Vacant land and underused property would, of course, experience the greatest increase.

A constitutional amendment is needed for this reform in Nebraska and it is now under consideration by the Nebraska Legislature (LB 76). However, even though there are constitutional restraints that prevent removing or reducing the tax rates on improvements, we could start in that direction simply by living up to existing law by taxing all classes of property equally. In Nebraska our State motto is "Equality before the law" and it's time we start applying that to the property tax.

¹⁵See: Walter Rybeck, op cit.

¹⁶Ted Gwartney, "The Southfield Story: A Lesson in Creative Taxation" (Southfield, Michigan: City Assessors Office) Reprinted by Robert Schalkenbach Foundation, New York, N.Y.

¹⁷Walter Rybeck, op cit.

¹⁸*Still More State and Local Studies Are Spelling Out the Wisdom of Taxing Land More and Improvements Much Less*, Robert Schalkenbach Foundation, New York, N.Y.

¹⁹Gary Carlson, *Land-Value Taxation: Impact Analysis on Omaha/Douglas County, Nebraska* (Housing and Community Development Department, City of Omaha, July, 1976).

NEW HOME MORTGAGES: NINTH MONTHLY REPORT

TABLE 1
OUTSTANDING LOANS FOR NEW HOUSING UNITS IN SUBDIVISIONS OF DOUGLAS AND SAPPY COUNTIES, NOVEMBER 1 TO NOVEMBER 30, 1977

[illegible]

RESEARCH AND THE URBAN UNIVERSITY

BY
ROBERT HENLEY WOODY*

It is commonly accepted that universities have three missions: education, community service, and research. By tradition, it is usual to emphasize the first two--education and community service--and to minimize the third--research. Indeed, the fear of acknowledging the research mission leads many administrators to disguise financial support for research, presumably in order to appease legislators and the public citizenry. The assumption is that the public does not accept research as a bona fide responsibility and will declare, through state legislators, that funds should not be appropriated to support research. Further, it is reasoned that to "come out of the closet" about research will be admitting to pampering the personal interests of professors and will, therefore, jeopardize all other funding, such as for the basic education program.

I would like to be able to report that Nebraska does not share this distrust of research within the University, but regretably such is not the case. But it must be promptly asserted that failure to maximize the research efforts of the University--especially a comprehensive urban-oriented university like the University of Nebraska at Omaha--is to fail to fulfill the education and community service missions.

Most basically, research provides the energy for growth and development of the academic mission, whether it be through fostering increased knowledge within the professors for enriching the educational opportunities for students or whether it be by preparing students, and consequently the public, to achieve inquiring minds that can improve conditions for living via using academically-based systems of analysis to enhance decision-making in domestic and vocational spheres.

The connection between research and academics seems clearcut and to deny the supportive linkage is to denigrate the entire University and the society. Recently in Washington, I happened to be in a meeting with Dr. Mary Berry, Assistant Secretary for Education in the Department of Health, Education and Welfare. Dr. Berry stated: "Research is central to academic life; if someone says 'should we have research in universities?' they are really saying 'should we have universities?'"

The urban university has a special mandate to be research-oriented. The complexity of urban living creates a potpourri of potential problem sources, and it is only through examination and testing--in other words, research--that alternatives and solu-

tions can be gained. The research of the University of Nebraska at Omaha's Center for Applied Urban Research provides a prototype for extending the University mission into the urban community. Through demographic studies, the relevance to housing, transportation, and economic conditions, to name but a few, can be crystallized. Within the academic departments, the possibilities for applying research methods to community problems and bringing the results and the investigatory experiences back to enhance the classroom learning are literally countless. Certainly professional educators can complement the school systems' efforts to improve curriculum and counter potentially adverse conditions, such as overcrowding, accommodating the special needs of the handicapped and gifted, and busing to achieve racial integration. Certainly behavioral scientists can join forces with health professionals, law enforcement officers, and a host of other public service personnel to understand conditions that have impact on our everyday lives.

It is important to recognize that the very nature of research mandates controversy. For example, one of my colleagues recently conducted a study of the desirability of living conditions in numerous United States cities. Another colleague went to the public through the newspaper to point out that the mobility of racial subgroups had been a criterion. That is, the lower the change in racial subgroup percentages over a period of time, the more desirable the community. And he asserted that the research reflected a racist quality. Whether that research was or was not racist remains for conjecture, but the important thing is that two academicians used research as a vehicle to educate the public as to possible meanings for racial subgroup mobility and, hopefully, stimulated the public toward a new degree of appreciation of the "desirability" of any community and particularly our Omaha community.

Inherent in the foregoing example is a message, namely that confrontation can be constructive. Indeed, I would assert that progress will be minimal at best for the community in general and the University in particular if confrontation in a knowledge-based realm is avoided in favor of a so-called "public relations" stance. That is, the urban university that truly hopes to contribute to the development of the community or to the advancement of academic knowledge must welcome and encourage inquiry into essentially any topic, communication through unfettered channels, and debate in the quest for improved understanding and functioning.

ANNOUNCEMENTS

The Center for Applied Urban Research has entered into an agreement with the City of Norfolk to assist the City in compiling information about the availability of land for use as residential housing sites. The study will provide the City of Norfolk with a document which will aid them in the fulfillment of the City's Housing Assistance Goals which have been estab-

lished pursuant to the City's participation in programs supported by funds made available under the Housing and Community Development Act of 1974. This cooperative effort has been partially supported by funds made available through the Old West Regional Commission.

* * * * *

The *Proceedings* of the Mid-Continent Research and Development Council's 24th Annual Conference, which was held at Iowa State University in September, 1977, are now available. The theme of the conference was *Energy: New Horizons or Dark Ages?* Covered in the papers presented were such topics as: coal research, waste-to-energy systems, sun power, nuclear power, electric power, natural gas supply, and "research on other

sources." Presenters represented a wide range of private and public individuals, firms, and agencies. Copies of the *Proceedings* may be purchased for \$3.00 each from Ms. Helen Wolfe, Secretary-Treasurer, MCRD Council, Mineral Resources Section, Kansas Geological Survey, University of Kansas, Lawrence, Kansas, 66044.

REVIEW OF APPLIED URBAN RESEARCH

Vol. 6

January 1978

No. 1

Published monthly by the Center for Applied Urban Research as a public service and mailed free upon request in Nebraska. Annual subscription rate outside Nebraska \$3.60. The views and opinions expressed in the *Review* are those of the individual authors and do not necessarily represent those of the University of Nebraska at Omaha. Material in this report may be reproduced with proper credit.

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