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**Property Tax Reform and Intergovernmental Relations - Remarks
by Senator Edmund S. Muskie to the Northeastern Conference on
Assessment and Administration**

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PROPERTY TAX REFORM AND INTERGOVERNMENTAL RELATIONS

Remarks by Senator Edmund S. Muskie (D-Maine)
Chairman, Senate Subcommittee on Intergovernmental
Relations.

Before the Northeastern Conference on Assess-
ment and Administration - Portland, Maine, at the
Eastland Hotel - April 29, 1963.

AT THE OUTSET, I WANT TO COMMEND YOUR PROGRAM COMMITTEE FOR
RESERVING PART OF YOUR TIME FOR CONSIDERATION OF PROPERTY TAX ADMINIS-
TRATION. IT WOULD BE DIFFICULT TO FIND A LEGAL OR ADMINISTRATIVE PROB-
LEM IN THE AREA OF PUBLIC FINANCE TO EQUAL IT. THIS MUCH-CRITICIZED
TAX AND ITS ADMINISTRATION CRUCIALLY AFFECTS THE ENTIRE FIELD OF INTER-
GOVERNMENTAL RELATIONS AS WELL AS LOCAL GOVERNMENT OPERATIONS. IT AC-
COUNTS FOR APPROXIMATELY SEVEN OUT OF EIGHT DOLLARS OF LOCAL REVENUE,
AND NEARLY ONE-HALF OF ALL STATE AND LOCAL TAX COLLECTIONS. THIS 20
BILLION DOLLAR ANNUAL YIELD NEARLY EQUALS THE COMBINED REVENUES OF ALL
STATE-IMPOSED TAXES. NATIONWIDE, ALMOST HALF OF THE GREATLY INCREASED
STATE AND LOCAL TAX BURDEN REQUIRED TO FINANCE THE POST-WAR DEMANDS FOR

INCREASED LOCAL SERVICES HAS BEEN BORNE BY THIS 200 YEAR OLD TAX.

AT FIRST GLANCE, THE NEED FOR STRENGTHENING THE PROPERTY TAX WOULD SEEM TO BE PRIMARILY A LOCAL FINANCING PROBLEM. NOTHING COULD BE FURTHER FROM THE TRUTH. THE PERFORMANCE OF THIS TAX AT THE LOCAL LEVEL CLEARLY INFLUENCES BOTH THE CAPACITY OF LOCAL GOVERNMENTS TO CARRY OUT THEIR STATE-ASSIGNED TASKS AND THE STATES' ALLOCATION OF THEIR OWN REVENUES. THE STATES' INTEREST, THEREFORE, IN THE CALIBER OF LOCAL PROPERTY TAX ADMINISTRATION IS DIRECT AND INESCAPABLE.

INTERSTATE RELATIONS ARE ALSO AFFECTED. TAX DIFFERENTIALS, ALONG WITH THE COURSE OF INTERSTATE TRADE AND THE LOCATION OF INDUSTRY, ARE OBVIOUSLY CONDITIONED BY PROPERTY ASSESSMENTS. FROM THE NATIONAL VANTAGE POINT, IT IS OVERWHELMINGLY APPARENT TO THE DISCERNING OBSERVER THAT PROPERTY TAX ADMINISTRATION EXERTS A STRONG IMPACT ON FEDERAL-STATE RELATIONS. THE ABILITY OF THE STATES AND THEIR LOCAL GOVERNMENTS TO FINANCE ESSENTIAL DOMESTIC SERVICES -- MOST NOTABLY IN THE FIELD OF EDUCATION -- IS VITAL IN PROMOTING THE NATIONAL INTEREST. FURTHER, IT IS A MAJOR FACTOR IN DETERMINING THE NEED FOR FEDERAL GRANTS AND OTHER

FINANCIAL AIDS. WHEN VIEWED FROM THESE ANGLES, THE NEED FOR STRENGTHENING THIS TAX AND ITS ADMINISTRATION NO LONGER DISGUISES ITSELF AS A PURELY LOCAL PROBLEM. INSTEAD, ITS INTERGOVERNMENTAL IMPLICATIONS ARE HIGHLIGHTED AND THE GROWING CONCERN FOR REFORM AMONG FEDERAL AND STATE AS WELL AS LOCAL OFFICIALS CAN BE MORE EASILY UNDERSTOOD.

MY OWN INTEREST IN THIS MOVEMENT TO UPGRADE PROPERTY TAX ADMINISTRATION STEMS FROM MY SERVICE AT THE THREE LEVELS OF GOVERNMENT AND FROM MEMBERSHIP ON THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS. AS I SEE IT, THE PRESERVATION OF OUR FEDERAL SYSTEM DEPENDS TO NO SMALL DEGREE ON HOW ALL OF US RESPOND TO THIS CHALLENGE.

ANY OBJECTIVE ANALYSIS OF PROPERTY TAX ADMINISTRATION, I BELIEVE, WOULD INDICATE THAT THE FOLLOWING ARE SOME OF THE BASIC FACTS THAT MUST BE DEALT WITH IN ATTEMPTING REFORM:

1. ALTHOUGH IT IS UNIVERSALLY RECOGNIZED THAT INEQUALITY IN ASSESSING IS WIDESPREAD AND THAT PROPERTY TAX RATES ARE TOO HIGH, THIS ANCIENT LEVY REMAINS THE MOST IMPORTANT SINGLE SOURCE OF LOCAL REVENUE.

I WOULD BE MISLEADING YOU IF I CONVEYED THE IDEA THAT THERE IS A
SUBSTITUTE TAX CAPABLE OF PRODUCING ANNUALLY EVEN A SIZEABLE FRAC-
TION OF ITS \$20 BILLION.

2. IN RETROSPECT, IT IS NOW APPARENT THAT THE EXTENSION
OF THE SEPARATION OF REVENUE PRINCIPLE INTO THE PROPERTY TAX AREA
RAISED CERTAIN PROBLEMS. THIS ACTION DILUTED, IF IT DID NOT ELIMINATE,
THE STATES' MOTIVATION FOR INITIATING IMPROVEMENTS IN PROPERTY TAX AD-
MINISTRATION. BUT, ALTHOUGH THE STATES HAVE REMOVED THEMSELVES FROM
THE PROPERTY TAX FIELD AS A SOURCE OF REVENUE, THEY HAVE NOT RELIEVED
THEMSELVES OF THEIR RESPONSIBILITIES. STATE GOVERNMENTS ARE OBLIGATED
TO FILL LOCAL AS WELL AS STATE REVENUE GAPS - AND NOW MORE THAN EVER
BEFORE.

3. THE INCORPORATION OF MANY NINETEENTH CENTURY PRINCIPLES
INTO OUR STATE CONSTITUTIONS REGARDING THE ORGANIZATION AND CONDUCT OF
PROPERTY TAX ADMINISTRATION HAS SERIOUSLY HINDERED ITS RENABILITATION.
THESE INCLUDE POPULAR ELECTION OF PART-TIME OFFICIALS WITH UNCERTAIN
TENURE, LOW PAY, LOCAL RESIDENCE REQUIREMENTS, AND THE ABSENCE OF PRO-

FESSIONAL REQUIREMENTS. TO COMPLICATE MATTERS, THE STAND-PAT ATTITUDE OF SOME OF OUR STATE LEGISLATURES HAS SERVED TO MAINTAIN IN MANY AREAS THE RATHER PRIMITIVE TAX ADMINISTRATION OF A MUCH EARLIER PERIOD IN OUR HISTORY.

4. WITH THE BENEFIT OF 20-20 HINDSIGHT, THE APPLICATION OF THE HOME RULE CONCEPT TO THE AREA OF PROPERTY TAXES ALSO CREATED PROBLEMS. TO LEAVE EACH LOCAL JURISDICTION FREE TO APPLY ITS OWN POLITICAL EVALUATION AS TO THE WAY PROPERTY SHOULD BE ASSESSED AND TAXED CAN AFFECT THE QUALITY OF ITS ADMINISTRATION. IN ADDITION, UNDER MODERN CONDITIONS, PROPERTY IS BECOMING PROGRESSIVELY MORE SPECIALIZED AND INTER-COMMUNITY RELATIONSHIPS MORE SENSITIVE. THESE DEVELOPMENTS FURTHER COMPLICATE THIS HOME RULE PROBLEM.

THOUGH IN MANY PLACES THE PROPERTY TAX IS POORLY ADMINISTERED AND VIOLATES ALL ELEMENTS OF TAX FAIRNESS AMONG TAXPAYERS, SEVERAL CITIES AND SOME STATES HAVE DEMONSTRATED THAT THE TAX IS CAPABLE OF COMPETENT AND EQUITABLE ADMINISTRATION. THANKS TO THEM AND TO GROUPS LIKE YOUR OWN, WE HAVE A PRETTY GOOD IDEA OF WHAT MUST BE DONE HERE. WHAT WE LACK--

ALL TOO FREQUENTLY -- ARE THE POLITICAL COURAGE AND THE AROUSED BODY OF PUBLIC OPINION THAT ARE NECESSARY TO APPLY THIS KNOW-HOW.

WHAT ARE THE MEASURES THAT THE EXPERIENCE OF PROGRESSIVE STATES, COUNTIES AND MUNICIPALITIES INDICATES ARE REQUIRED TO REVAMP THE PROPERTY TAX? TIME DOES NOT PERMIT ME TO DISCUSS ALL OF THE LINES OF ACTION THAT SHOULD BE EXPLORED. FOR A DETAILED ASSESSMENT OF THE OVERALL PROBLEM, MAY I RECOMMEND A COMPREHENSIVE REPORT ENTITLED "THE ROLE OF THE STATES IN STRENGTHENING THE PROPERTY TAX", WHICH WAS RECENTLY PREPARED FOR THE ADVISORY COMMISSION.

I DO FEEL IT APPROPRIATE, HOWEVER, TO NARROW THE FIELD OF INQUIRY AND EXAMINE WITH YOU THE MOST SERIOUS PROBLEMS INHERENT IN THE PROPERTY TAX AND SOME OF THE PROVEN WAYS TO ENCOURAGE GREATER PROFESSIONALISM AMONG ASSESSORS.

AS I SEE IT, THE MOST SERIOUS PROBLEMS IN THE PROPERTY TAX INCLUDE THE BASIC LACK OF CORRELATION BETWEEN PROPERTY AND REAL INCOME, THE DIFFICULTY OF IDENTIFYING AND TAXING INTANGIBLE PROPERTY,

UNDER-ASSESSMENT, SPECIAL EXEMPTIONS, AND IMPOSSIBLE ADMINISTRATIVE OBLIGATIONS. EACH OF THESE FACTORS TENDS TO UNDERMINE THE BASIC PRINCIPLES OF TAX EQUITY. SOME FACTORS CAN BE CORRECTED.

IF FORCED TO CHOOSE, HOWEVER, I WOULD SELECT UNDER-ASSESSMENT AS THE MOST SERIOUS PROBLEM. IT MUST BE ELIMINATED. WHEN PROPERTY IS ASSESSED AT LEVELS BELOW THOSE LEGALLY REQUIRED BY STATUTE OR A CONSTITUTION -- AS IS THE CASE IN MOST STATES -- INJUSTICE IS THE USUAL RESULT. THE DEGREE OF UNDER-ASSESSMENT COMMONLY VARIES WIDELY AMONG LOCAL ASSESSMENT UNITS. MOREOVER, NON-UNIFORMITY OF ASSESSMENT USUALLY INCREASES WHEN PROPERTY IS TAXED AT A LOW FRACTION OF FULL VALUE. IT IS CRUCIAL, THEN, THAT AS HIGH A FLOOR AS POSSIBLE BE SET FOR MINIMUM ASSESSMENT LEVELS.

THE SECOND MAJOR PROBLEM AREA IS CREATED BY SPECIAL EXEMPTIONS. ALTHOUGH THESE EXEMPTIONS ARE OFTEN WORTHWHILE AND DESIRABLE, THEY TEND TO UNDERMINE THE LOCAL TAX BASE. A GOOD EXAMPLE OF THIS IS THE ACTION OF SOME STATES IN PROVIDING PROPERTY TAX EXEMPTIONS TO NEW INDUSTRIES AS A SPUR TO ECONOMIC DEVELOPMENT.

SUCH EXEMPTIONS INVOLVE A SUBSIDY TO AID PRIVATE CAUSES, PROVIDE WELFARE ASSISTANCE, INCREASE ECONOMIC AND SOCIAL REFORM, AND COMPETE FOR INDUSTRIAL DEVELOPMENT. IF STATE LEGISLATURES INTEND TO RETAIN SUCH SUBSIDIES, THEY SHOULD ASSUME SOME OF THE FINANCIAL BURDEN BY REIMBURSING LOCAL GOVERNMENTS FOR THE REVENUE LOST. THE FEDERAL GOVERNMENT HAS, IN EFFECT, PROVIDED SUCH REIMBURSEMENT TO LOCAL COMMUNITIES THROUGH IMPACTED AREAS SCHOOL AID.

ANOTHER AREA OF DIFFICULTY INCLUDES THOSE FEATURES OF THE PROPERTY TAX THAT ARE IMPOSSIBLE TO ADMINISTER. WE SHOULD SCRAP THOSE STATUTORY AND UNCONSTITUTIONAL PROVISIONS THAT FORCE ADMINISTRATORS TO SANCTION EVASION, THAT TEND TO GENERATE DISHONESTY AMONG TAXPAYERS, AND THAT WOULD CREATE ECONOMIC HAVOC IF ENFORCED. THEY PRODUCE A SYSTEM OF DUAL STANDARDS.

IN ADDITION, THIS GAP BETWEEN LEGAL REQUIREMENTS AND ACTUAL ADMINISTRATIVE PRACTICE OFTEN UNDERMINES PUBLIC CONFIDENCE IN LOCAL TAXING AUTHORITIES. A GENUINE PROGRAM FOR PROPERTY TAX REFORM MUST INCLUDE THE ELIMINATION OF THESE ENEMIES OF TAX FAIRNESS.

TO IGNORE THEM IS TO PERPETUATE THE MOST CRITICIZED FEATURES OF THIS VITAL SOURCE OF LOCAL REVENUE.

TURNING FROM THE TAX TO ITS ADMINISTRATIVE PERSONNEL, THE NEED FOR DEVELOPING A GREATER DEGREE OF PROFESSIONALISM AMONG LOCAL ASSESSORS LOOMS AS THE OVERRIDING PROBLEM IN THIS AREA. AT THE ROOT OF THIS DIFFICULTY IS OUR INSISTENCE THAT MANY OF THE PRINCIPLES OF JACKSONIAN DEMOCRACY SHOULD CONTINUE TO PREVAIL IN THE FIELD OF PROPERTY TAX ASSESSMENT. AS I SEE IT, EXPERTISE, IMPARTIALITY, CONTINUITY, AND RESPONSIBILITY ARE THE CONTEMPORARY HALLMARKS OF PROFESSIONALISM FOR CAREER ASSESSORS. YET, MISGUIDED DEVOTION TO THE ADMINISTRATIVE PRACTICES OF AN EARLIER PERIOD IN OUR FINANCIAL HISTORY HAS UNDERMINED THESE GOALS OF TWENTIETH CENTURY TAX ADMINISTRATION.

CONSIDER THE AWKWARD AND DIFFICULT POSITION OF THE LOCAL TAX ASSESSOR. HE IS SUBJECT TO POPULAR - OR SHOULD WE SAY, UNPOPULAR? - ELECTION. HE CAN DEVOTE ONLY A PART OF HIS TIME TO THIS TASK, FOR WHICH REMUNERATION IS VERY LOW. HIS TENURE IS UNCERTAIN. AS A LOCAL RESIDENT

HE IS SUBJECT TO MULTIPLE PRESSURES FROM HIS NEIGHBORS, ACQUAINTANCES, AND FRIENDS. HE HAS FEW CLEAR, ESTABLISHED OBJECTIVE FACTS, NOT LIABLE TO SUBJECTIVE JUDGMENT. HE LACKS TRAINING AND LONG-TERM PROFESSIONAL TRAINING.

THESE LEGACIES OF THE NINETEENTH CENTURY, OF COURSE, ARE NOT FOUND IN ALL OUR LOCAL ASSESSING UNITS, BUT THEY ARE STILL SUFFICIENTLY WIDESPREAD TO EXPLAIN WHY ASSESSING IS MEDIOCRE TO POOR IN MANY AREAS. THIS CATALOGUING OF DEFICIENCIES CLEARLY POINTS TO THE SPECIFIC REFORMS THAT LOCAL GOVERNMENTS MUST INITIATE.

LOCAL ACTION ALONE, HOWEVER, WILL NOT SUFFICE. THE STATE ALSO MUST BEAR A MAJOR RESPONSIBILITY FOR IMPROVING PROPERTY TAX ADMINISTRATION. PROFESSIONALISM, AS I HAVE ALREADY INDICATED, MUST BE A JOINT CONCERN OF BOTH LEVELS OF GOVERNMENT. IDEALLY, A STATE DEPARTMENT OF TAXATION SHOULD CONTAIN AN ADMINISTRATIVE DIVISION THAT IS LEGALLY EMPOWERED TO ESTABLISH PROFESSIONAL QUALIFICATIONS FOR ASSESSORS AND TO CERTIFY CANDIDATES ON THE BASIS OF EXAMINATIONS GIVEN BY IT OR BY STATE

OR LOCAL PERSONNEL AGENCIES. THIS SUPERVISORY BODY SHOULD ALSO BE CHARGED WITH THE TASK OF PRESCRIBING AND ENFORCING MINIMUM PROFESSIONAL STAFF REQUIREMENTS IN LOCAL ASSESSMENT DISTRICTS AND TO MAINTAIN A REGULAR TRAINING PROGRAM FOR PROSPECTIVE ASSESSORS. FINALLY, THE STATE LEGISLATURES SHOULD STIPULATE THAT SALARIES PAID TO CERTIFIED LOCAL ASSESSORS SHALL BE NO LOWER THAN THOSE FOR COMPARABLE STATE PERSONNEL.

IN PRESCRIBING THIS PROGRAM FOR REFORM, I AM FULLY AWARE THAT MANY TIME HONORED PRACTICES ARE BEING QUESTIONED. YET THIS IS NO DRASTIC OVERTURNING OF ALL THAT IS TRADITIONAL IN THIS AREA. QUITE THE REVERSE, IT PRESENTS AN EXCELLENT EXAMPLE OF CONSTRUCTIVE CONSERVATISM. THE REFORMS PROPOSED FOR STATE AND LOCAL GOVERNMENT IMPLEMENTATION ACTUALLY REPRESENT A BLEND OF THE PAST AND THE PRESENT. THE ASSIGNMENT OF DUTIES TO BOTH LEVELS OF GOVERNMENT CONSTITUTES A COMPROMISE BETWEEN THE OLDER PATTERN OF LOCAL AUTONOMY AND THE CONTEMPORARY PROPOSALS FOR CENTRALIZING PROPERTY TAX ADMINISTRATION AT THE STATE CAPITALS. BY REFUSING THE EXTREMES OF EXCESSIVE LOCALISM ON THE ONE HAND AND COMPLETE STATE CONTROL ON THE OTHER, THE ANCIENT CONCEPT OF BALANCE BETWEEN THE

TWO LEVELS OF GOVERNMENT IS REVITALIZED.

NATIONAL INTEREST IN IMPROVING PROPERTY TAX ADMINISTRATION
ARISES FROM A DEVOTION TO AN EVEN GREATER PRINCIPLE OF THE AMERICAN
POLITICAL TRADITION. THE FEDERAL GOVERNMENT, OF COURSE, HAS LITTLE
DIRECT RESPONSIBILITY FOR ACTION IN THIS AREA, BUT IT HAS INDIRECTLY
SOUGHT TO ASSIST THOSE STATES AND LOCAL GOVERNMENTS THAT ARE ATTEMPT-
ING TO COPE WITH THIS PROBLEM. WITNESS THE ENACTMENT LAST YEAR BY THE
87TH CONGRESS OF A MEASURE PROVIDING FOR ADMISSION OF STATE AND LOCAL
TAX PERSONNEL TO INTERNAL REVENUE SERVICE TRAINING PROGRAMS. TO THE
UNRECONSTRUCTED TRADITIONALISTS, I SUPPOSE THIS FEDERAL CONCERN REPRESENTS AN INTEMPERATE DISRUPTING OF CUSTOMARY INTERGOVERNMENTAL RELATIONS.
YET, CONSIDER FOR A MOMENT THE FUNDAMENTAL ISSUE THAT IS AT STAKE HERE.
FEW WOULD DENY THAT THE DEVELOPMENT OF A FULL-FLEDGED CORPS OF CAREER
LOCAL ASSESSORS WOULD SIGNIFICANTLY ENHANCE THE POWER POSITION OF THE STATES
AND THEIR LOCAL GOVERNMENTS. REMARKABLE AS IT MAY SOUND, MOST PEOPLE IN
WASHINGTON UNDERSTAND AND SANCTION THIS.

A DEEP AND ABIDING CONCERN, THEREFORE, FOR PRESERVING THE ANCIENT
DIVISION OF POWERS BETWEEN THE STATES AND THE NATION HAS GENERATED THIS

SENTIMENT FOR REFORM ON ALL LEVELS OF GOVERNMENT. THE DESIRE OF
RADICALS TO CHANGE SOLELY FOR CHANGE'S SAKE IN NO WAY EXPLAINS THE
MOTIVES BEHIND THIS MOVEMENT. THOUGH THE RECOMMENDED COURSE OF ACTION
IS ADMITTEDLY NOVEL, THE UNDERLYING PURPOSE IS EMINENTLY TRADITIONAL.
TO INNOVATE IN LESSER MATTERS IN ORDER TO PRESERVE A VENERABLE PRIN-
CIPLE IS, I SUBMIT, THE PROPER ATTITUDE OF THE GENUINE CONSERVATIVE.
LET US INNOVATE, THEN, THAT WE MIGHT STRENGTHEN THE FEDERAL SYSTEM
WE ALL CHERISH.

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