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APPENDIX II: PART B

REPORT OF THE WORKING GROUP ON STATE AND
LOCAL GOVERNMENT WEALTH

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PREFACE

Meetings of the Working Group on State and Local Government Wealth were held on July 23 and September 30, 1963. This report attempts to reflect the consensus of the group, but no member should be held responsible for all the views expressed therein. All the members of the working group, except Mr. Moor, reviewed a preliminary draft of the report and were free to submit supplementary statements for inclusion in the final report to clarify their individual views if they so desired. However, sole responsibility for the final wording of the report rests with the secretary.

The secretary wishes to acknowledge the assistance of John W. Kendrick and Joel Popkin in the preparation of this report.

ERIN M. WOODALL.

STATE AND LOCAL GOVERNMENTS

I. SCOPE OF STATE AND LOCAL GOVERNMENT SECTOR

The definition of governments used by the Bureau of the Census in its census of governments reports was adopted by the working group to delineate the scope of its sector. According to this definition, State and local governments include the governments of the 50 States and those of cities, counties, townships, school districts, and special districts, as well as the departments, boards, commissions, and other organizational units of these governments which are subject to their administrative and fiscal control through the appointment of officers, determination of budgets, approval of plans, and other devices.

As thus comprehensively defined, the State and local government sector is not limited to agencies or activities which are tax supported but includes, in addition, public agencies which engage in selling goods or services to the public. Census Bureau reports distinguish five kinds of such enterprises from the "general government" category: Alcoholic beverage stores, and local utilities providing water supply, electric power, transit, and gas supply services. Other activities of State and local governments which involve sizable amounts of revenue from charges or which are quasi-commercial in nature include: The dormitories and other auxiliary activities of public colleges; public housing projects; publicly operated hospitals; port facilities; airports; ferries; and toll roads and bridges. Under the proposed definition, all such agencies and activities would be included in a wealth inventory of State and local government; none would be omitted merely on the basis of its resemblance to nongovernmental enterprises, or its self-supporting nature.

Adoption of this definition throughout the inventory would prevent duplication of the assets of business-type government enterprises.

II. SPECIAL USES OF STATE AND LOCAL GOVERNMENT WEALTH DATA

Property accounting historically has had a low priority in State and local government circles. In spite of this, the working group believes that the respondent governments would find the data produced by a wealth inventory useful for internal management purposes. A better knowledge of the functional and geographic distribution of existing assets, for example, would facilitate the making of capital budget decisions. An accounting of changes in capital stock in the government sector would also be helpful in connection with productivity analysis.

Published data on State and local government finances compare revenues with expenditures in dollar terms but are not related to assets. An inventory of State and local government assets would indicate the magnitude of public investment within the sector. Taxpayers, armed with information on what their tax dollars are buying, would

be able more intelligently to influence decisions regarding government acquisition of additional assets.

In the realm of public education, an inventory of public school assets would provide valuable information on the status of facilities in the various school districts and make it possible to set regional, State, and local school district norms. This information also would be useful for the evaluation of school management practices, such as the accumulation of current funds for capital outlays, and the planning of future investments in educational facilities.

An inventory of State and local government wealth with detail on the composition and the functional and geographic distribution of government property would enable planners and public officials to determine the comparative level of public facilities and thus better assess public accomplishments and needs. This information also would greatly facilitate capital improvements program planning in the public sector.

Lastly, such an inventory is an essential part of a system of national wealth estimates.

III. SUMMARY REVIEW OF AVAILABLE DATA ON STATE AND LOCAL GOVERNMENT WEALTH

This review indicates most, though not necessarily all, of the kinds of information on the intangible and tangible assets of State and local governments which have been collected and published. Information on the financial assets of State and local governments has been gathered by the Bureau of the Census but no such comprehensive body of data on the tangible assets exist. A few Federal agencies administering Federal aid programs in certain functional areas, such as education and highways, and related organizations in other areas have assembled some data on the tangible assets of State and local governments in their particular spheres of interest, but the completeness of the data varies substantially.

BUREAU OF THE CENSUS SURVEYS

The Bureau of the Census regularly assembles comprehensive data on the financial assets of State and local governments, and has done so annually since 1952. These figures are based upon substantially 100 percent coverage for census of governments years; i.e., 1957, 1962, etc. For other years, the data include sample-based estimates for local governments along with State government figures based on complete enumeration. The 1961 local government estimates were computed on the basis of a sample of 10,000 local governments out of a U.S. total of 90,000 such units and included all 310 cities with populations of 50,000 or more, all special districts with a debt in excess of \$1 million in 1957, and all of the larger local government units in each of the 50 States. Of these included in the sample, approximately 90 percent actually responded to the mail questionnaire.

The Census Bureau data are available in relatively summary form by States but in greater detail nationally, by level of government. For example, financial holdings are classified by type of fund :

- Employee retirement.
- Unemployment compensation.
- Other insurance trust funds.
- Debt offsets.
- Bond funds.
- All other funds.

Cross classification is provided by type of asset :

- Cash on hand and on deposit.
- Federal Government securities.
- State and local government securities.
- Nongovernmental securities.

A further breakdown for the nongovernmental securities by type is also developed regularly for the retirement system, which accounts for the bulk of all such State-local holdings.

Some background information for measuring the tangible assets of State and local governments is available from Census Bureau statistics on State and local government expenditures, especially their capital outlays. These data are developed annually in terms of amounts spent in the categories of new construction, equipment, and land and existing structures, cross-classified by function and by level of government. Local government data consist of sample-based estimates except for census of governments years. National totals with detail by type, by function, and by levels of government are available on a consistent basis for each year since 1952. Capital outlay statistics for individual States with less detail have been compiled annually since 1957. Summary national totals by level of government also are available for selected earlier years back to 1902. These data include an undetermined amount of spending for expendible items used in connection with capital investments.

OFFICE OF EDUCATION SURVEYS OF SCHOOL PROPERTY

The U.S. Office of Education compiles data on the value of elementary and secondary school property in the public school system on the basis of reports submitted by State departments of education. States are requested to report the original cost of school property plus the cost of all additions and alterations, but are permitted to report replacement cost or insurance coverage figures if original cost data are not available. Hence, data from individual States are not always comparable. Biennial Surveys of Education in the United States between 1929-30 and 1950-51 gave totals by State. Subsequent surveys include additional detail by State in three categories of property, i.e., sites, buildings, and equipment, but not for every State. Thirty-seven States and the District of Columbia reported property values for their public school systems in the 1959-60 survey but several of these reported the total of site and buildings values only and two others reported estimates of the aggregate value of school property only. A list of the major categories of wealth data included in the property

accounting system recommended for public school systems by the U.S. Office of Education is found in annex A of this report.

Similar data on the property of publicly controlled institutions of higher learning are available in the Biennial Survey of Education in the United States. These data are based on a comprehensive survey of all such institutions. Response to a 1957-58 questionnaire represented 93.6 percent of the entire group. The value of tangible assets was reported by State in the categories of land, buildings, improvements other than buildings, and equipment. These surveys also give amounts of intangible assets by State including dollar amounts of plant funds added during the year, and of plant fund liabilities at the end of the year.

A 1962 National Inventory of School Facilities conducted in conjunction with a civil defense survey of shelter facilities provides information on the total number of instructional rooms in public school systems by State with detail on the number of rooms in nonpermanent buildings, offsite facilities, and in permanent buildings.

A further breakdown of instructional rooms in permanent buildings shows the number of rooms completed prior to and after 1920 cross-classified by combustibility characteristics.

Some jurisdictional problems complicate the collection of wealth data in public school districts. Legally independent districts maintain separate property records, but the property records for legally dependent school districts are kept by the county or municipality and may not be kept separate from other local government records. In addition, there are some school districts, primarily in the South, which are legally independent except for ownership of property whose property records are an integral part of the records of the respective local governments concerned.

BUREAU OF PUBLIC ROADS

Data on the physical volume of State and local highways and the cost of selected portions of these highway systems are assembled annually by the Bureau of Public Roads in the report, "Highway Statistics." This report contains a complete inventory of road and street mileage by State, classified by the level of government responsible for it. Additional detail on the type of system and type of surface is given for State-administered highways. Data on the physical volume of all new construction are available, but cost data are available only for those portions built under contract by State highway departments or administered by State agencies. Expenditures of State or quasi-State toll authorities which are administered separately are not included.

Certain inconsistencies in reporting road mileage distort these statistics. Some State highway departments report additional mileage when new lanes are added to existing routes, while other State and all federally aided highway mileage is recorded on the basis of distance only, with no increments for additional width. Differences also exist in the definition of "new construction"; all federally aided work is classified as "new construction" since Federal law specifically prohibits the use of Federal funds for maintenance or repair work, but similar work which is not federally aided may be classified as "maintenance" and excluded from the new construction figures reported by the State highway department. The construction of publicly owned or managed

toll road authorities also is excluded. The annual construction cost data are a fairly accurate measure of State-administered capital investment in highways during the past 20 years but do not include any of the investment of local governments in most States. Exceptions include all counties in Delaware, North Carolina, and West Virginia, and eight counties in Alabama where road construction is under State control.

PUBLIC UTILITY WEALTH DATA

An inventory of water and sewage facilities in incorporated communities with 100 or more population and in unincorporated communities with 500 or more population was made by the Public Health Service in 1945. Subsequent inventories in 1948, 1955, and 1960-61 were restricted to communities of 25,000 or more population. These inventories contain information by State on the type of ownership, plant capacity, population served, and the dates the system was installed and put into operation but do not include any cost or value data for these facilities.

The book value of private and public water supply and treatment facilities was estimated by the American Water Works Association in 1950, 1955, and 1960 on the basis of information collected from a sample group of companies comprising 2.5 percent of all such companies. Data collected included original cost, year completed, and amounts and rates of depreciation.

Some idea of the cost of water and sewage facilities constructed under contract can be obtained from the construction expenditure figures published annually in the *Engineering News Record*. The usefulness of these figures for a State and local government wealth inventory is limited, however, by the fact that much of the construction work on publicly owned facilities is not done under contract.

Data on the tangible and intangible assets of public electric companies is compiled annually by the Federal Power Commission. These surveys encompass all companies with a capital investment of \$100,000 or more and give information on total financial reserves, reserves for depreciation, and the value of plant, equipment, and other tangible assets.

HOSPITAL INVENTORY

The American Hospital Association annually compiles and publishes an inventory of all licensed hospitals with information on the value of tangible assets, such as land, buildings, equipment, the value of intangible assets less liabilities, the year operations began, and the number of beds. These data are available by State and locality and are classified by type of ownership, private or public, and by the level of government in the case of publicly owned hospitals.

RECREATION SPACE SURVEY

An inventory of the net acreage of public nonurban outdoor recreation space was made by the U.S. Outdoor Recreation Resources Review Commission. The Federal- and State-managed recreation area acreage figures were verified directly by the administering agencies but nonurban local government recreation area acreage figures were compiled from published sources and State agency information without

verification by the local governments involved. This survey covered only a portion of public recreation landholdings of State and local governments since it excluded all such space within the boundaries of cities and towns. Acreage totals were tabulated by State and classified by level of government.

IV. SUMMARY OF RECOMMENDATIONS

A. DATA OBJECTIVES

The working group recommends that a wealth inventory of State and local governments include all types of tangible and intangible assets in terms of their current market value, classified insofar as possible by function, by type of asset, by level of government, and by State and standard metropolitan statistical area. However, decisions regarding the feasibility of this amount of detail have to be postponed until more information is obtained from pilot studies regarding the types of records and wealth data available in this sector.¹

1. Detail by function

The classification of State and local government assets according to the broad functional use categories currently used by the Bureau of the Budget to classify Federal expenditures and realty and personalty was recommended in order to maintain comparability between the two public sectors of the wealth inventory. Allocation of assets used in more than one functional use category should be made on the basis of predominant use.

The working group recognized that these functional categories differ from those currently employed by the Bureau of the Census in reporting State and local government finances but feels that reconciliation of these two schemes of classification should present no special difficulties. Categories which are common to both include education, public welfare, highways, aviation, water transportation, parks and recreational resources, courts, fiscal operations, and interest on debts. Some of the Bureau of the Census functional categories such as police protection, fire protection, sewage, sanitation, and utility expenditures do not appear as separate headings in the Bureau of the Budget classification but assets in these categories can be included in the general government category.

Assets of public agencies engaged in selling goods or services to the public included in the State and local government sector would not conform to the above-functional classification. The working group recommends that these be treated like the assets in the private sector

¹The following qualifying statement was submitted by Dick Netzer: "In view of State and local government practices with regard to property accounting, it is highly likely that even a relatively lavish commitment of resources to the development of wealth data for the State-local sector will produce results which are incomplete and of doubtful reliability as benchmark estimates. I suspect that the principal usable result for tangible assets would be a set of physical volume data which, however, would have some major holes in it. Since even this would be a costly undertaking, it may be considered questionable, although I think it justifiable to pursue it on a pilot and preliminary basis as one step in a long-range program of fostering improvements in wealth data for this sector. A far more favorable benefit-cost ratio, in my opinion, would attach to efforts to improve the quality of *indirect* estimates of State-local wealth, by intensive exploitation of detailed expenditure data for earlier years and improvements in expenditure data in connection with current Federal statistical programs involving State-local governments (Census, Public Roads, Office of Education, etc.) especially the 1967 Census of Governments.

and classified according to standard industrial classifications to facilitate cross-classification between these portions of the wealth inventory.

2. Detail by type of asset

The working group recommends use of the following major categories:

- Land.
- Buildings.
- Facilities and other structures.
- Machinery and equipment.
- Inventories.
- Mineral resources.
- Financial assets.

The classification of tangible assets should correspond insofar as possible to that used by the General Services Administration in reporting the assets of the Federal Government.

3. Detail by level of government

The working group recommends that national aggregates be classified by level of government and by type of local government, i.e., counties, municipalities, townships, school districts, and special districts, and that totals for individual States be broken down by level of government. Additional detail by type of local government for individual States, although desirable, would not be feasible if local government data are based on estimates derived from a survey of a stratified sample of such units. If, as indicated in a later section of this report dealing with collection techniques, the costs of canvassing each and every local government do prove to be prohibitively high, local governments not included in the sample should be encouraged to compile their own wealth inventories.

4. Regional detail

Assets should be reported for States and for standard metropolitan statistical areas, if possible. Detail for counties in certain functional categories such as education probably would prove useful, but the advisability of collecting this additional detail for each of the States is doubtful in view of the substantially larger cost this would entail.

5. Physical volume data

A general belief that many users of State and local government wealth data would be interested in the physical volume as well as the value of major types of assets in this sector led the working group to recommend that land be reported in terms of acres, and buildings and other structures in terms of square feet of floor space. A pilot study would be needed to determine the feasibility of developing physical volume data on machinery and equipment used in connection with the various broad functional use categories at least on a sample basis. Standard definitions regarding the classification of physical volume data would have to be applied in the collection stage in order to maintain comparability in the reporting of machinery and equipment. The small amounts of diverse assets included in the inventories category makes the collection of physical volume data in this category inadvisable.

6. Leased assets

The working group recommends that the inventory of State and local government wealth include assets leased by State and local governments from owners outside the sector as well as assets owned by State-local governments and leased to parties outside the sector in order that the amount of assets used in the sector as well as that owned by it is shown. However, assets owned by individuals and business enterprises outside the State-local sector should be reported separately so that these can be deducted from the totals of this sector when overall national aggregates are compiled. In the absence of value data for assets leased from outside the State and local government sector, current market values of these assets might be estimated on the basis of standard ratios which exist between gross rentals and market value for a number of types of rental property. However, caution should be exercised to avoid the use of subsidy rentals or the application of "standard" ratios to nonstandard properties.

It was recommended that leased assets be classified by function, if possible.

B. COLLECTION PROCEDURES

The number of reporting units included in a wealth inventory of the State and local government sector depends in part on the amount of resources which can be devoted to data collection and in part on the amount of fieldwork needed to verify the raw data received from the respondents. A pilot study of the types of property records which exist in this sector is needed to clarify the latter requirement.

In the absence of sufficient information regarding the availability of wealth data in the State and local government sector, detailed recommendations regarding collection procedures were not possible. The working group tentatively suggests that all State governments and a sample of local governments, including at the minimum the 100 largest counties, the largest local government in each State, and a representative group of all other local governments be included in a survey of wealth data. The sampling procedures currently used by the Bureau of the Census in its census of governments were endorsed as a generally sound approach to this problem.

C. COLLECTION AGENCY

The working group recommends the use of a single collection agency on the Federal level which can establish standard reporting definitions and procedures, such as the Bureau of the Census, as the best means of maintaining consistency in the collection and reporting stages of a national wealth inventory. However, consultation with Federal agencies with previous experience in data collection in this sector, such as the Office of Education and the Bureau of Public Roads, during the planning stage was considered advisable.

D. PILOT STUDIES

1. Pilot study of property records

There was a general consensus in the working group that more information on the quality and types of property records in the State and local government sector as well as a better knowledge of the rela-

tive magnitude of the various assets in this sector was needed in order to evaluate the collection and reporting problems that a wealth inventory in this sector would entail. Without such information only tentative suggestions regarding the feasibility of a wealth inventory are possible.

The working group therefore recommends that a pilot study of the property records and assets of a sample group of State and local governments be made. Some governments with relatively poor property records as well as some of those with better ones should be included in such a pilot study since it is quite likely that these differ significantly.

A field study was considered the best method of obtaining the necessary information because of the great diversity in accounting procedures and organizational structures among local governments. It was felt that a mail questionnaire would produce very little in the way of useful information regarding the property records of local governments without a field evaluation of the results because of the lack of standardized terminology and reporting procedures. However, a mail survey conducted by the State Budget Officers Association was suggested as a possible source of information on property records and assets of State governments. The president of this organization, who was a member of the working group, indicated his willingness to cooperate with such a venture.

2. Pretests of inventory questionnaires

In view of the relative lack of prior experience in the collection of wealth data in the State and local government sector, the working group recommends that some pretests of the proposed inventory questionnaires for this sector be made. This would facilitate the planning of the actual inventory and point out some of the trouble spots ahead of time.

3. Planning studies

In addition to pilot studies of property records in a sample group of State and local governments, the working group suggests that additional information useful in the planning of a wealth inventory in this sector may be obtained from management consulting firms, who have conducted surveys of financial and other records for State and local governments, and from public officials responsible for keeping these records.

V. VALUATION PROBLEMS AND RECOMMENDATIONS

The working group agrees that ideally the value of assets included in the wealth inventory of this sector should represent current market value. However, the fact that most State and local government property records are kept in terms of original cost and the lack of an active market for most tangible assets in this sector makes it necessary for these values to be estimated on the basis of available data. In general, the working group doubted the feasibility of asking respondents in this sector to make such estimates in view of the limitations of time and resources of most respondents and the lack of comparability of the **raw data in this sector**. The one exception to this generalization is the category of inventories and supplies for which most respondents would have fairly current market value data.

The working group therefore considered a number of alternative methods to estimate the current market value of tangible assets from the data believed to be available in this sector.

A. REPRODUCIBLE ASSETS

Replacement cost less depreciation was recommended as the basis for estimating the current market value of most reproducible assets such as buildings, facilities, and other structures, and equipment. This method would require as a minimum, the collection of data from a subsample of governmental units on the book value or original cost of depreciable assets, by types, and by year or period of acquisition. Then the estimating agency in the Federal Government could apply appropriate price indexes for each type of asset in order to revalue to current gross reproduction cost. To obtain estimates net of depreciation as an approximation to market price, the initial outlays at reproduction cost would have to be depreciated by the estimator using the best available information on average lengths of life of the durables. These problems are discussed in some detail in the report of the Working Group on Federal Government Wealth and need not be repeated here. It is obvious that additional information should be sought on the prices paid by governments for construction equipment and on the useful lengths of life of these durables.

An alternative source of market value data for buildings and other structures in this sector is insurance figures. Most local governments insure such assets although most State governments do not. The value placed on these assets for insurance purposes is a fairly reliable estimate of their current value and might constitute a valid check on estimates obtained by other means.

B. LAND AND OTHER NONREPRODUCIBLE ASSETS

The estimation of the current value of land owned by State and local governments presents a major problem. Most State and local governments do not maintain value records for land owned by them and those which do exist bear no consistent relationship to current market value. When property tax assessors are required to value tax-exempt property, as they are in a number of States, their assessments have a very low overall reliability. Since the property is exempt from the tax, the owner has no reason to challenge the validity of the assessment, nor has the governing body any incentive to see that reasonable accuracy is maintained. Therefore, the figures tend to be rather arbitrary and hastily considered, and constitute a poor source of information on current market value.

In order to maintain comparability with similar holdings of the Federal Government, the method recommended by the Public Lands Subgroup of the Working Group on Natural Resources for valuing Federal lands should be used to value extensive park and recreation land owned by State and local governments. A fuller explanation of the recommended approach is given in the report of the Working Group on Natural Resources but in brief this method involves the establishment of pricing boards in the various regions who would set "shadow prices" for Federal land exclusive of mineral resources. These

same estimates of market value could be applied to State and local land of a similar nature in these areas.

Some techniques of valuing other types of land owned by State and local governments are described in a separate memorandum found in annex B at the end of this report. Briefly, this memo suggests that land under public improvements can be evaluated in terms of alternative use. However, this approach involves complex calculations which entail a number of uncertainties. The memo suggests that the value of land under streets, which is a special valuation problem of significant proportions in the State-local sector, can be imputed on the basis of the average square foot value of the property facing the streets on both sides. Since the value of the land on two sides of a street may vary, an average value which ignores depth calculations would have to be used. This method assumes that the streets will remain in their present use since the presence of the streets directly influences the value of the land facing them.

From a practical standpoint, calculations of private land values to apply to public holdings in the State and local government sector probably would have to begin from local property tax assessment data, but, in view of the unreliability of such data in many areas, special devices for correcting this raw data would have to be used. Special expert panels made up of competent private appraisers could establish the average value of private land in a stratified sample of State and local government areas and use these figures to carefully check the assessment data obtained from other State-local jurisdictions. The resultant estimate of average square foot value for privately owned land in a local jurisdiction could then be imputed to the total area of publicly owned land. Any such method entails crudities which more refined valuation methods might mitigate but, for wealth inventory purposes, a relatively simple method, even if crude, has advantages.

VI. FINANCIAL ASSETS AND LIABILITIES

The working group recommends that the wealth inventory of the State and local government sector include balance sheet information on financial holdings. If possible, data on types of financial assets of State and local governments currently collected by the Bureau of the Census for the census of governments reports should be expanded to provide the amount of detail on types of assets recommended by the Working Group on Financial Claims for the inventory of financial claims in the nonfarm business sector. Census data also needs to be supplemented with data on corresponding liabilities.

The exact magnitude of the financial assets and liabilities collection problem in the State-local sector cannot be ascertained without additional information on the type of information available in this sector, but on the basis of existing knowledge it would appear that a number of smaller local governments do not keep estimates of the potential claims against assets in funds such as fire and police pension funds. In general, the collection of inventory data for pension funds in the State and local government sector should correspond with the treatment of these assets in the business sector of the wealth inventory recommended by the Working Group on Financial Claims. This

group recommended that the Labor Department expand the information it now receives annually from private pension funds and that this be used as the basis of wealth inventory data.

VII. INVENTORIES

The working group agreed in principle that data on inventories should be included in a wealth inventory of the State and local government sector, but there was some disagreement regarding the practicality of collecting such data in this sector. Some members of the working group felt that the poor quality of inventory records in the State and local government sector and the need to make seasonal adjustments in the values reported would make the collection task more difficult than the relative size of these assets in the sector warranted. A final decision would have to be made on the basis of the results of the recommended pilot study of property records in the State and local government sector.

ANNEX A. CATEGORIES OF WEALTH IN PUBLIC SCHOOL SYSTEMS

A. Reproducible assets and land (see Manual—U.S. Office of Education. "Property Accounting for Local and State School Systems," Bulletin 1959, No. 22).

1. School plant including sites, buildings, and equipment.
2. School system supporting facilities, i.e., garages, parking lots, administration buildings, etc.
3. Equipment unassigned to particular schools.
4. Inventories.

NOTE.—Records are kept primarily in terms of original costs, costs of additions, and a quantitative measurement.

B. Intangible assets—Reference is U.S. Office of Education. "Financial Accounting for Local and State School Systems," Bulletin 1957, No. 4; and "Common Core of State Educational Information," Bulletin 1953, No. 8.

1. Fund balances:
 - (a) Reserves for current operation.
 - (b) Reserves for capital outlay.
 - (c) Reserves for bond interest and redemption.
 - (d) Reserves in clearing accounts.
 2. Employees' retirement systems—portion to which beneficiaries do not have vested rights.
 3. Permanent school funds (State):
 - (a) Land—acreage and value.
 - (b) Principal and accrued interest.
 - (c) State indebtedness for assumption of land or funds from permanent school funds (a few have recognized a perpetual debt).
 4. Permanent school funds (local).
- C. Liabilities:
1. Indebtedness—bonded, short term, tax or State aid anticipation notes, warrants outstanding.
 2. Amounts due under lease contracts with school authorities.
 3. Judgments.
 4. Contracts for construction not yet complete or accepted.

ANNEX B. MEMORANDUM ON LAND VALUATION TECHNIQUES

A number of States require that local assessors place a value on tax-exempt property and these figures are published from time to time. They have, however, a very low overall reliability. Since the property is tax exempt, the owner does not have reason to challenge any figures placed on it by the assessment authorities, nor has the governing body reason to see that the figures are main-

tained at a respectably high level. Therefore, the figures tend to be arbitrary and hastily considered.

The usual tests of a willing buyer, willing seller rule are especially difficult to apply to property held by tax-exempt institutions. During the past 10 years a surprising number of churches have been sold from one congregation to another, but schools and most other types of public property almost never sell.

The land under public improvements or open-space land owned by the public can be evaluated in terms of alternative use. The technical appraisal processes are complex and subject to error but in the hands of competent experts are reliable enough to establish guidelines.

The imputation of a land value to public land, which is used for street purposes, involves a series of assumptions. The value of the property facing the street is dependent upon the existence of the street. The influence of the street may be negative; i.e., in the older sections of some cities the meanderings of ancient streets cut up tracts of land which would be of greater value if assembled. In most cases, however, the street is a positive factor and the land would be worth far less without it.

Land is worth more toward the front of any lot than it is at the rear of the same lot. Appraisers in general follow some variant or other of the "4-3-2-1 rule." This rule holds that 40 percent of the value of any piece of land, 100 feet deep, attaches to the 25 feet closest to the street, 30 percent attaches to the next 25 feet, 20 percent to the third 25 feet and 10 percent to the rear 25 feet. If the land has a depth greater than 100 feet, additional increments of 25-foot depth are worth progressively less as the distance from the street increases. Hence, an immediate question arises whether the land under the street is worth as much as the immediate street frontage or whether it should be valued on the basis of the average of the total depth of the property facing it.

One possible method would rest on an hypothesis that streets could be evaluated on the basis of the average value of private property facing the street on both sides. In many instances the land on one side will have a greater value than that facing the other side. The hypothesis would suggest averaging the value of the two sides as well as a decision to ignore the depth rule.

An alternative approach, which is simpler, would apply an average value for land throughout the city. Assuming for arithmetical convenience that this calculation indicated a value of \$1 per square foot, all streets in the city regardless of location would be valued at \$1 a square foot.

From a practical standpoint, such widespread calculations of land value would start from local assessment data. These could be checked with such sales figures as are available from State tax equalization boards and private sources and a corrected estimate made of total land value in the corporate limits of the municipality. While this latter method entails theoretical crudities which would be absent from some of the more refined methods, the convenience of its use suggests that it receive some consideration.

