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Testimony Given June 28, 2011 at Harrisburg High School commenting on the Act 47 Recovery Plan

I am Joshua Vincent, Executive Director of the Center for the Study of Economics, and I respectfully disagree with the Act 47 Plan for Harrisburg to eliminate the split-rate or land value tax.

Having worked with city administrators since 1975, CSE has adjusted and formulated rates that have helped the city meet fiscal goals and tax liability outcomes in a small, landlocked city that is nearly half-exempt from taxation. Since then, land value tax has served - both in tax theory and in practice - the city well since 1975. Taxes have remained reasonably low for an impoverished city, but at the same time, cut taxes for appropriate commercial uses of land, such as Strawberry Square, the recent building boom in both lodging and office facilities.

We believe that that Harrisburg and its hard-pressed residents and productive businesses need the incentive effect of a permanent abatement on capital investment in structures, instead of an incentive to hold land vacant or underused.

Specifically, the recommendation to remove the split rate is predicated on the benefit of *"Increased competitiveness and tax efficiency."* Yet, economists know that the most efficient tax, that is the tax with the least "drag" or deadweight loss on an economy, are taxes on those items which cannot be moved or destroyed through taxation. Land value is the one taxable entity in the Commonwealth that fits that description.

A higher tax on buildings will have the effect of reducing incentives to build and maintain buildings. As noted in the report, taxes will go up for homeowners, multi-family properties, as well as desirable urban non-residential uses that build up, rather than out. The report's concern for firms that may require lots of open land or exurban densities does not fit in with current paradigms of urban revival and spaces; this is not an issue of real property but one factor of real property: land.

Harrisburg's CBD needs to be encouraged to build densely, without costly subsidies; a lower tax on buildings provides that.

Yet, a lower tax on land as proposed will encourage vacant landowners to hold onto their land for a longer period waiting for their speculative price and avoiding paying a fair share of taxation for city services.

Remember, it was at the recommendation of the DCA (now DCED), that in 1975 Mayor Swenson and Council implemented the split rate land value tax. Since that time, the city has expanded the tax on land to six times the rate of buildings starting from a two to one ratio.

Our first two attachments indicate several changes in the Harrisburg CBD since introduction of LVT. The difference is startling, with the newer skyline. Residential building permits issuances measured against an analog city, Albany, NY are but the latest of a line of studies that have indicated that Harrisburg's economy was able to take advantage of the real estate boom, unlike most aging post-industrial northeastern cities.

The report notes that the city now collects nearly 65% of tax revenue from land values. Again, that revenue source is fixed and immobile. Reverting will cause an opposite collection rate, that is to say the majority from buildings in the order of 75%. That means that what Harrisburg will need to recover: buildings, neighborhoods and a strong CBD will be adversely impacted.

The last two charts show the significant change in tax on structures and improvements if this recommendation is followed.

The Center would suggest that a tax structure in place for 36 years is likely not as confusing as some might think. Nearly 20 cities of the 3rd and 2nd Class use the tax on land values. I should note that Altoona, is now the first city in the USA to have no tax on buildings, and revenues have stabilized during their 10-year implementation.

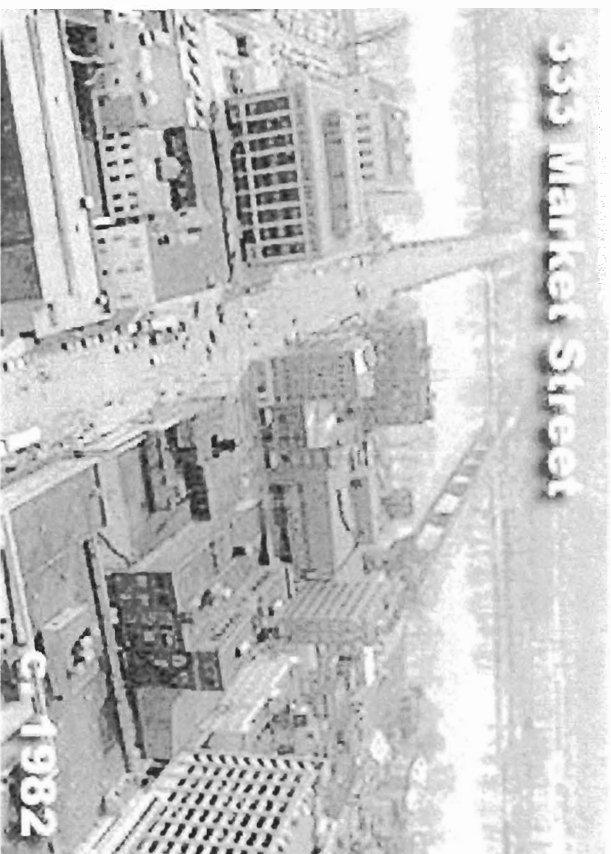
We would recommend that land value tax be expanded to raise revenues and plug budget holes, much like Altoona and Washington, PA have done. We would recommend that the school district finally be permitted to use a split rate on real property.

Finally, the Center, with its long history of helping and assisting Harrisburg will conduct research on a parcel-by-parcel basis for the city. Granular analysis, including patterns of exempt and absentee ownership will be examined. We believe that a higher tax on land values may prove to be a better solution to the revenue issue from property taxes as Harrisburg recovers from its recent problems. Thank you.

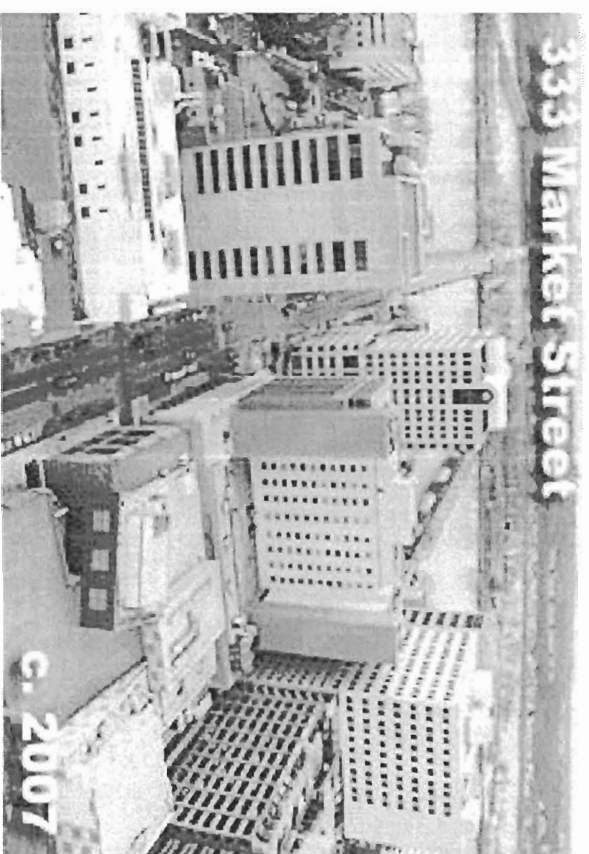
The Center for the Study of Economics is a 501 c (3) non-profit educational research foundation that has worked with dozens of municipalities over the past 30 years to research, make recommendation and - if appropriate – assist in administration and implementation of the split-rate tax, more appropriately known as the land value tax.

Harrisburg

Early LVT

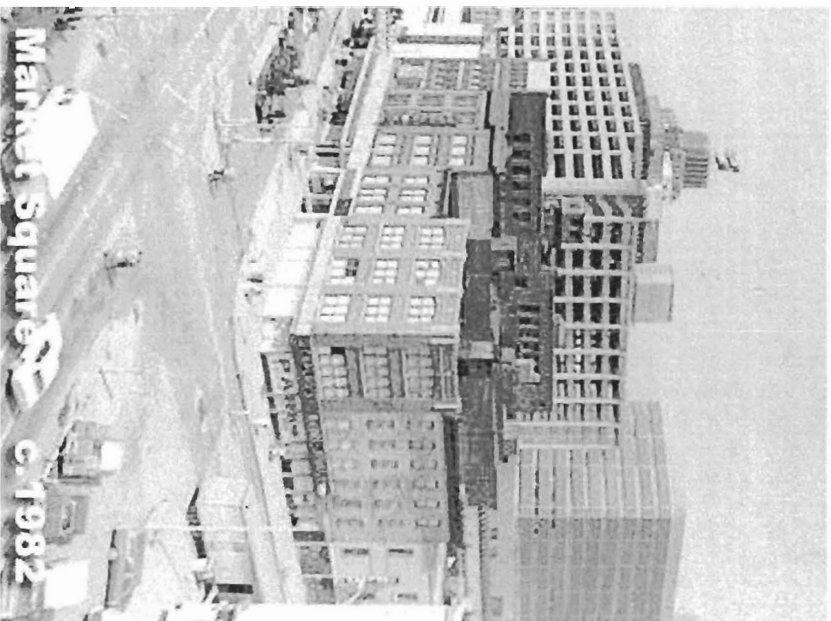


Late LVT

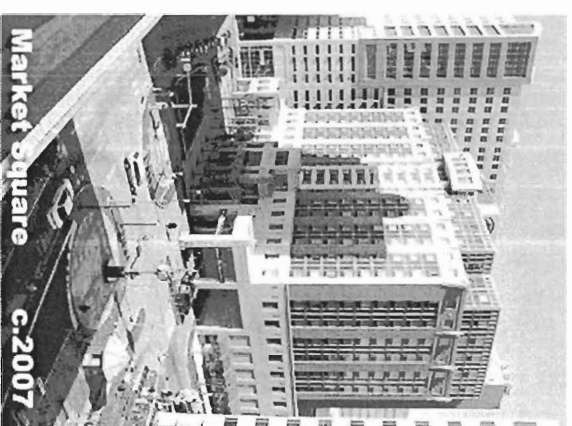


Harrisburg

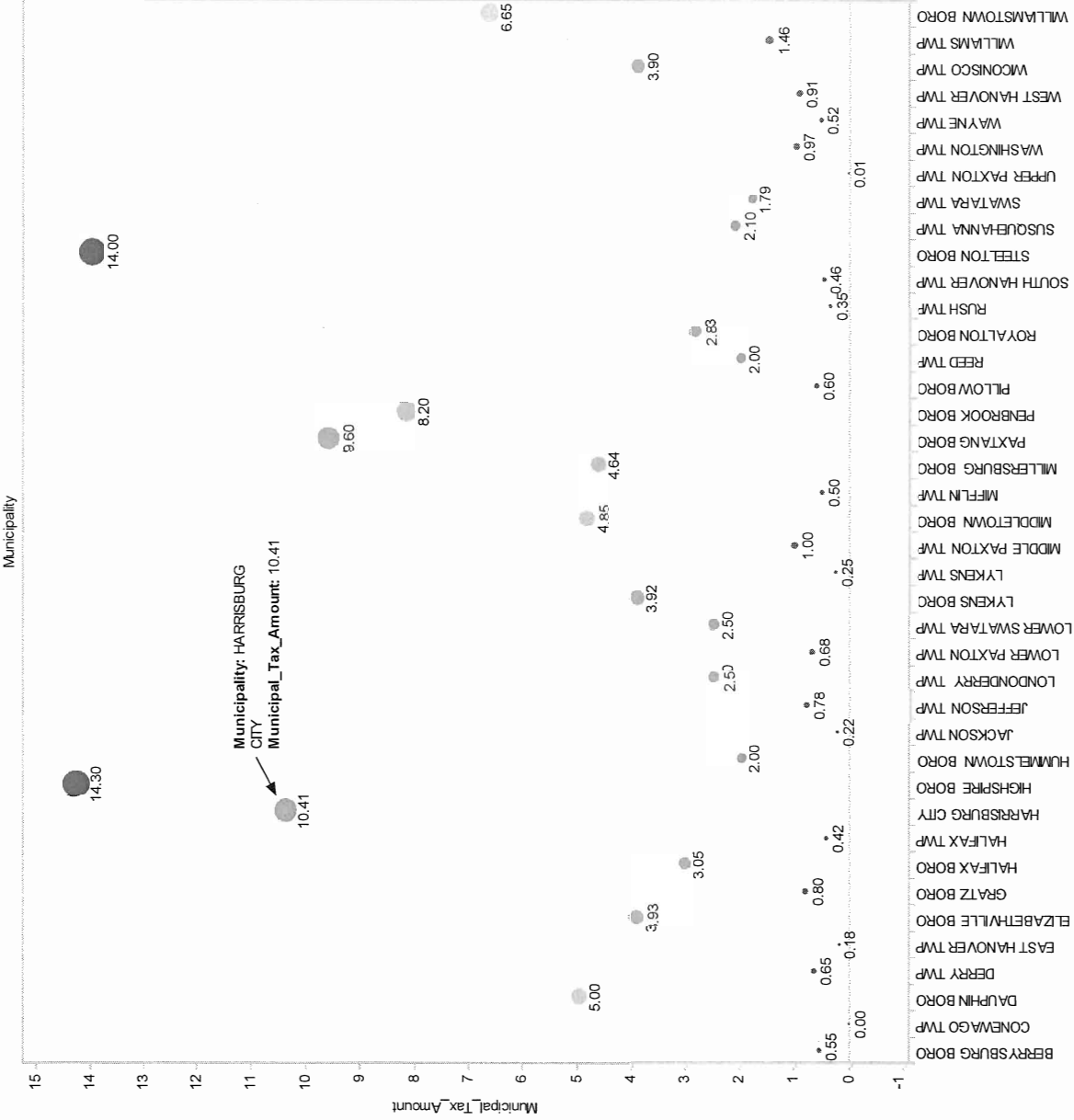
Early LVT



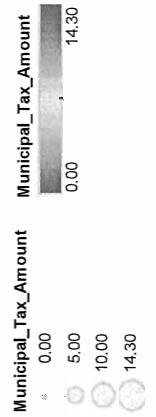
Late LVT



Harrisburg Blended Rate

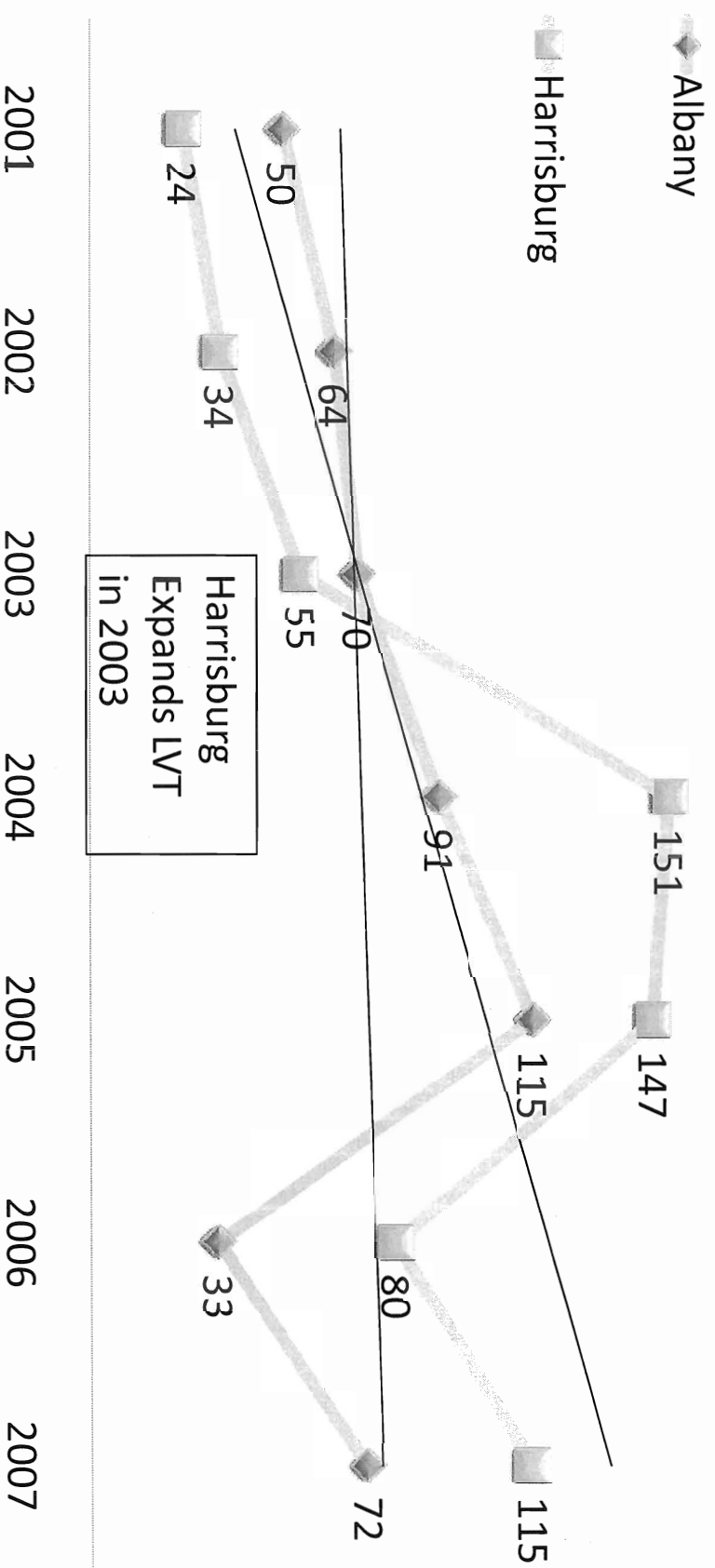


Sum of Municipal_Tax_Amount for each Municipality. Color shows sum of Municipal_Tax_Amount. Size shows sum of Municipal_Tax_Amount. The data is filtered on Tax_Name, which keeps Real Estate - General Purpose (mills).



What Happens With LVT? 2007

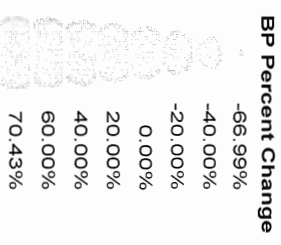
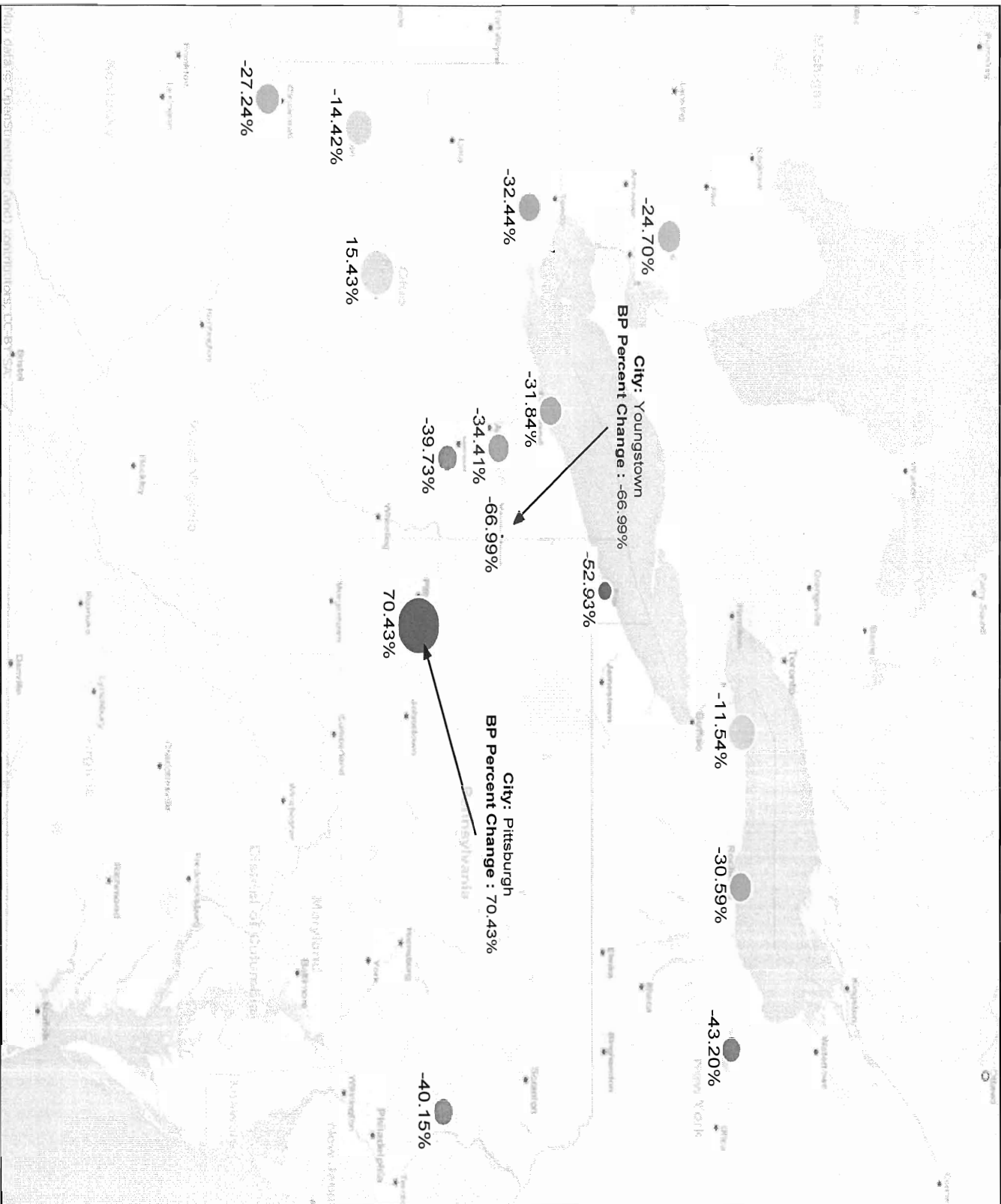
Per Capita Residential Building Permits Harrisburg, PA and Albany, NY



What Happens With LVT?

Building Permit Changes 1979-1982	Average Building Permits From Three Years Before and Three Years After LVT
Scranton (1979 LVT Increase)	23%
Wilkes-Barre	-47%
Building Permit Changes 1980-1983	Average Building Permits From Three Years Before and Three Years After LVT
McKeesport (LVT 1980)	38%
Duquesne	-20%
Clairton	-28%
Building Permit Changes 1982-1985	Average Building Permits From Three Years Before and Three Years After LVT
New Castle (LVT 1982)	70%
Farrell	-66%
Sharon	-90%

Building Permit Change in Pittsburgh compared to analog cities



Color shows sum of Building Permit Percent Change From 1960-1979, and then 1980-1989
 Size shows Percent Change . Details are shown for City and State.