



Saving Communities

It Matters How Government Raises Its Revenue

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The National Picture is one of Unmet Needs and Growing Challenges

- **Roughly 72% of the residents of the nation's 25 largest metropolitan areas live beyond the core city limits**
- **Over half live in suburban communities considered at risk because of growing social needs, aging or insufficient infrastructure, and stagnant tax resources.**



*Source: Myron Orfield.
American Metropolitcs: The
New Suburban Reality*

The Central Political Reality: Communities Are Largely On Their Own

**“In Pennsylvania ...
fragmented government
remains a way of life. Anything
smacking of regionalism is
still a tough sell ...”**



*Larry Eichel,
Philadelphia Inquirer
June 14, 2002*

- Communities in all states share much the same fiscal reality
- The era of Federal revenue sharing is gone
- State governments face huge revenue shortfall already and are unable to fund many community needs



Regional Cooperation: A Key Policy Response?

“There is much to recommend our region’s decentralized system of public finance. But when there are important economic interdependencies across local jurisdictions, fiscal cooperation ... is required.”



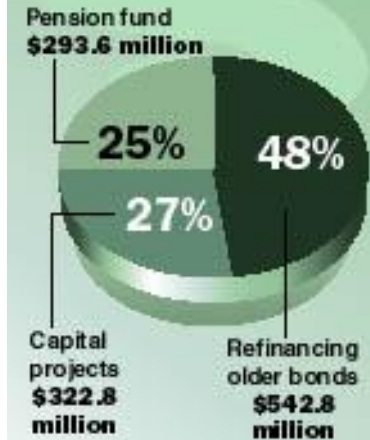
*Robert P. Inman. “Should Philadelphia’s Suburbs Help Their Central City? Business Review, Q2 2003
June 14, 2002*

Public Policy Challenges

- **Many communities face the burden of increasing debt and the need to raise revenue to service this debt**
- **Expenditures are in some cases outpacing revenues and have been for some time**

Where the bond money went

Almost half the money borrowed during the last decade went toward paying off old debt.



Total: \$1.16 billion

Source: Moody's Municipal and Government Manual

Bob Newel/Tribune-Review

At the same time...

Public Policy Challenges (continued)

At the same time...

1

As the local tax base has contracted, local government is forced to increase tax rates on remaining residents, businesses and commuters.

2

Local government is less able today to rely on state and federal revenue sharing to balance budgets.

Public Policy Challenges (continued)

Our elected representatives have over a long period passed legislation permitting each level of government to impose taxes on virtually all forms of assets, income flows and activities – then set up elaborate mechanisms for exemptions, rebates and revenue distribution.



*But there is growing debate ...
over*

Public Policy Challenges (continued)

*But there is growing debate ...
over*

1

Whether it matters that government taxes everything, so long as nothing is too heavily taxed; or

2

Whether some assets, income flows and activities should be exempted from taxation and others relied upon exclusively

The Public Policy Debate:

How should government raise needed revenue?

- Individual incomes?
- Business profits?
- Sales of goods?
- Fees for services?
- Real property?
- Personal property?
- Sales of real and personal property?
- Other?



What Do Our Communities Provide?

- Most importantly, communities provide locations for housing, business, education, culture, medical care and recreation -- an inventory of amenities and a regulatory environment in which to function



Yet, Community Leaders Face Many Challenges



- The methods by which a community raises its revenue are an important factor in location decisions by existing and potential residents and others
- A growing concern in virtually every community is the impact of rising property taxes on residents and businesses
- Communities are in competition with one another based on real or perceived advantages or disadvantages

There is a Solution:

The Case for a Restructured Property Tax ...

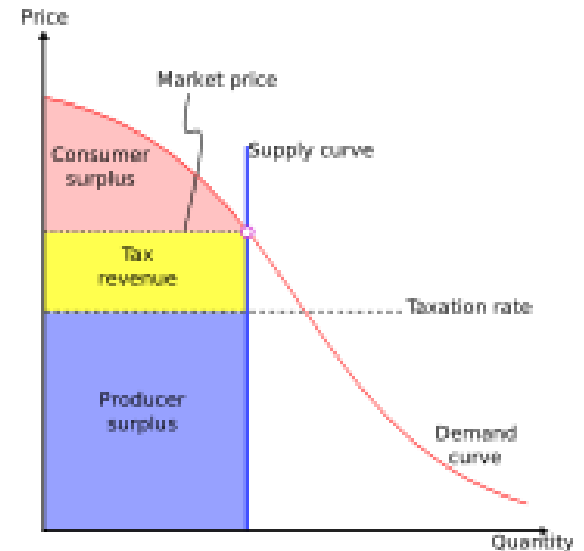
- That gradually exempts buildings of all types
- That simultaneously shifts the tax obligation to assessed land values
- That results initially in what is generally termed the “two-rate property tax”; and
- That eventually results in “land-value taxation”



The Property Tax is Really Two Distinct Forms of Taxation – One Constructive, One Destructive

- **An annual tax on buildings tends to discourage new construction and the renovation of older buildings. Abatement programs attempt to address this problem piecemeal but with limited success**
- **An annual tax on land values, when sufficiently high, encourages owners of vacant or underutilized parcels to develop the land they own or sell it to someone who will**

- **Economists observe that land *prices* reflect a capitalization of the rental value of land; and, a growing number make a strong case that this value should be captured by the community via taxation**
- **Gradually shifting to a land only property tax base sends the right signals to potential investors, employers, retail store owners, office building owners, apartment building owners and home owners –
“Investment is rewarded rather than penalized in our community.”**



Support from Academia



Nicolaus Tideman, Professor of Economics, Virginia Polytechnic Institute

“A very important effect of taxing land is the opportunity it provides for removing non-neutral taxes such as those on improvements. This is highly stimulative of development. A related stimulative opportunity that is created by taxing land is the opportunity to provide services such as water, sewerage and electricity at marginal cost.”

Support from Academia (continued)



“The unique, remarkable quality of a property tax based on land ex buildings is that you may raise the rate with no fear of driving away business, construction, people, jobs, or capital! You certainly will not drive away the land. However high the tax rate, not one square foot of it will put on a track shoe and hop out of town. The only bad thing to say about this tax's incentive effects is that it stimulates revitalization, and makes jobs. If some people think that is bad, maybe this attitude is the problem.”

*Mason Gaffney, Prof. Of
Economics, University of
California, Riverside*

And A Widely Used College Text

“The striking result is that a tax on rent will lead to no distortions or economic inefficiencies. Why not? Because a tax on pure economic rent does not change anyone's economic behavior. Demanders are unaffected because their price is unchanged. The behavior of suppliers is unaffected because the supply of land is fixed and cannot react. Hence, the economy operates after the tax exactly as it did before the tax -- with no distortions or inefficiencies arising as a result of the land tax.”



***Paul Samuelson and William D. Nordhaus.
Economics, 16th edition, p.250.***

Case Study: Pennsylvania



Pennsylvania is the U.S. state with the most extensive use of the two-rate property tax.

- Several years ago, the Pennsylvania legislature passed legislation extending local option authority for the two-rate property tax to boroughs and school districts, in addition to first and second class cities
- Pittsburgh was one of the earliest cities to adopt a mild version of the two-rate property tax structure; however, the impact was initially modest because the change affected only the city-levied property tax and not that levied by the school district or by Allegheny County

Case Study: Pittsburgh

- **After Pittsburgh accelerated its shift in tax rates from *improvements* to *land values* in the late 1970s, its building activity greatly outpaced many other comparable cities (the value of building permits in 13 cities studied by economists Oates and Schwab* declined during the same period)**
- **Remarkably, in the Pittsburgh area during this period increased building activity occurred largely in the city, while the suburban markets experienced a construction decline.**



* Wallace Oates and Robert Schwab, Robert. "The Impact of Urban Land Taxes: The Pittsburgh Experience." *National Tax Journal* L1 (March 1997) p. 2

Case Study: Pittsburgh (continued)

- **Following a serious public outcry over property tax increases after a countywide reassessment in 2000, Pittsburgh's City Council voted to return to the single rate structure**
- **The effect of this rescission was to lower the amount of tax revenue derived from land value; however, the overall rate had to be increased. Most residential and business property owners ended up with higher tax burdens than under the two-rate approach.**

Jan. 9, 2001 -- The county Property Assessment Oversight Board certified new values for 552,000 properties at \$57.1 billion across the county, up 48 percent from 2000. This led to more than 90,000 appeals.

Jan. 2, 2002 – Corrected new county assessment figures showed an overall increase of 11 percent, again leading to more than 90,000 appeals.

Case Study: Pittsburgh (continue)

- Almost immediately, construction activity fell. Comparing the two years before rescission with the two years after (2001-2002), pre-rescission construction spending was 21% higher than post-rescission. In both the U.S. and the suburbs of Pittsburgh, construction activity was higher in the two years 2001 and 2002.



Case Study: Harrisburg

Despite what happened in Pittsburgh, a growing list of Pennsylvania cities have continued to move along the two-rate path. Harrisburg, the state capital, is one of the cities with significant experience:

- **The city (but not the school district or county) today taxes assessed land values at a rate six times higher than that applied to improvement values**



Case Study: Harrisburg (continued)

- The city was described 20 years ago as the second most distressed in the nation.
- In the last decade, with continuous increases in the tax rate on land values, the city has attracted over \$3 billion in new investment.



Case Study: Harrisburg (continued)

- **The number of businesses in Harrisburg has increased from under 2,000 to over 6,000 since the change in its property tax structure.**
- **Taxable real estate values have increased from \$212 million to nearly \$2 billion.**



Case Study: Harrisburg (continued)

- **The crime rate has fallen by 54% and the incidence of fires by 76%**
- **The number of vacant properties has fallen by 85%**



Case Study: Harrisburg (continued)



Stephen R. Reed
Mayor, City of Harrisburg

"The City of Harrisburg continues in the view that a land value taxation system, which places a much higher tax rate on land than on improvements, is an important incentive for the highest and best use of land...and continues to be one of the key local policies that has been factored into this initial economic success here."

Process Change

Annual assessment updates are an integral component to achieving and maintaining equitable tax burdens

75-80% of all homeowners will experience a reduction in annual tax liability

Step 1

Step 2

Step 3

RESULT

Computerized Assessment

Set Schedule for Shift To LVT

Owners of valuable vacant lots experience tax increases

Set Rates to Balance Budget

Investment is Rewarded

County

County, School District and City

Establish Appeals Process for Deferment

n

Case Study: Pennsylvania

Where the two-rate property tax has been adopted:

- **Aliquippa School District (1993)**
- **Aliquippa (1988)**
- **Altoona (2002)**
- **Clairton (1989)**
- **Clairton School District (2005)**
- **Coatesville (1991)**
- **Connellsville (1992)**
- **DuBois (1991)**
- **Duquesne (1985)**
- **Harrisburg (1975)**
- **Lock Haven (1991)**
- **McKeesport (1980)**
- **New Castle (1982)**
- **Oil City (1989)**
- **Pittsburgh (1913-2001)**
- **Scranton (1913)**
- **Titusville (1990)**
- **Washington (1985)**