

Center for the Study of Economics Proposal for a Universal Abatement for Lancaster, Pennsylvania



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Universal Abatement for Lancaster, Pennsylvania

What is a Universal Abatement?

Many cities offer tax abatements as an incentive to build or renovate buildings, yet there are disadvantages to the conventional approach, including reduced tax revenue, complicated applications, limited qualifications, and fixed durations. This often restricts their use to new construction and excludes the majority of existing properties, making them unpopular with voters as a tax liability.

To improve abatements, CSE has developed an alternative approach, universal abatements, which gradually reduce the tax burden on all buildings across the city through a simple exemption on the property tax. This allows for revenue neutrality, automatic enrollment, retroactive eligibility, and permanent establishment. All buildings, old and new, would be included, with a streamlined and permanent incentive to build and maintain property in the city.

How would a Universal Abatement Work?

A universal abatement would be phased in over several years by abating a percentage of the city-wide median building value from every property, coupled with an increase in the property tax rate to remain revenue neutral. This shift would reduce the effective taxable value of most properties while raising the tax levied from remaining land value.

How would a Universal Abatement benefit Lancaster?

A universal abatement implemented as proposed by CSE in the City of Lancaster would:

1. Provide the most competitive property tax environment in the region
2. Help to attract new development and repurposing of the existing building stock
3. Reward reinvestment and stimulate turn-over of vacant and speculative holdings
4. Act as homestead exemption for existing residents, especially in low-value homes in poor neighborhoods.

This research brief will summarize the potential of a universal abatement for the City of Lancaster using current tax data to demonstrate the potential outcomes.

Acknowledgements:

We thank the County of Lancaster GIS Department for their data, Mayor Grey, City Administrator Patrick Hopkins and their staff for their interest in reshaping tax policy so that it may benefit all Lancasterians.

Their encouragement has motivated CSE to explore new ways to implement fairly the taxation of land values.

Universal Abatement for Lancaster, Pennsylvania

| Year | Abatement Allowance | Amount Abated | Tax Base | Tax Rate | Tax Revenue |
|------|---------------------|---------------|-----------------|------------|--------------|
| 1 | \$17,867 | \$301,501,467 | \$1,613,317,533 | 0.01144155 | \$18,458,855 |
| 2 | \$35,733 | \$589,130,233 | \$1,325,688,767 | 0.01392397 | \$18,458,855 |
| 3 | \$53,600 | \$808,048,400 | \$1,106,770,600 | 0.01667812 | \$18,458,855 |

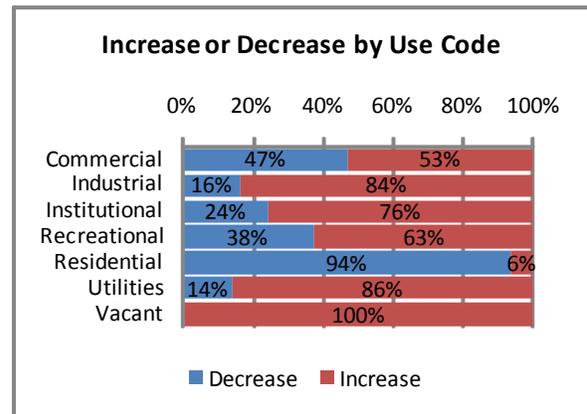
Table 1: tax base, tax rate, and tax revenue changes over a three year transition

Providing Tax Relief and Reinvestment Incentives

A universal abatement can be implemented over 3 years, as shown in Table 1. Starting with a tax base of about \$1.9 Billion, over \$800 Million, or 42%, of the base is abated away such that land accounts for over a third of the remaining value.

By the third year of the shift:

- 85% of the entire city will pay less on their property taxes and only 15% will pay more
- the average annual decrease will be \$292 and the average annual increase will be \$1,668
- over 60% of the city will have nearly their entire buildings abated from the property tax, with another 33% having at least half of their buildings abated
- 94% of residential properties will pay less than their current property tax, and only 6% will pay more, and
- 100% of vacant property will pay more than their current property tax.

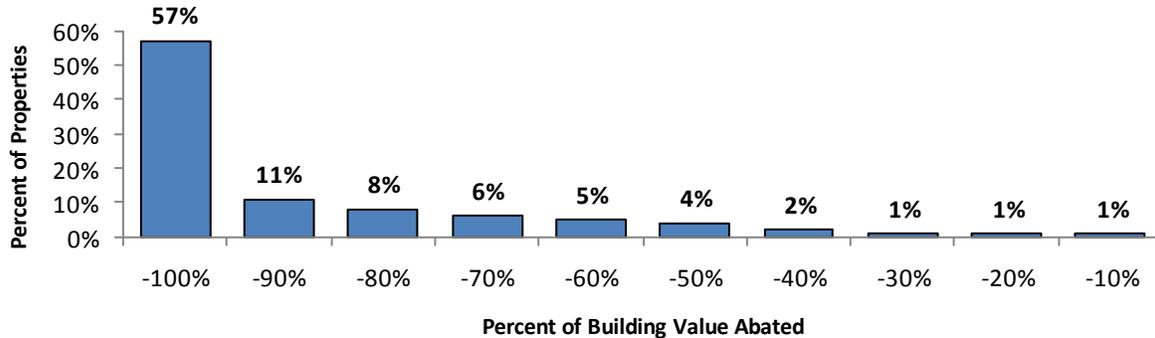


As these figures above show, a universal abatement will provide a significant majority of the city's homes and small businesses with property tax relief, bringing the benefits of homestead exemptions and business tax credits in a more simple and uniform way.

Residents will be rewarded for maintaining their homes while businesses will be rewarded for reinvesting in their shops and offices. These reductions in the effective tax burden combined with the city's existing amenities can serve as an attractive advantage over other communities in the county.

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% of Building Abatements by Third Year



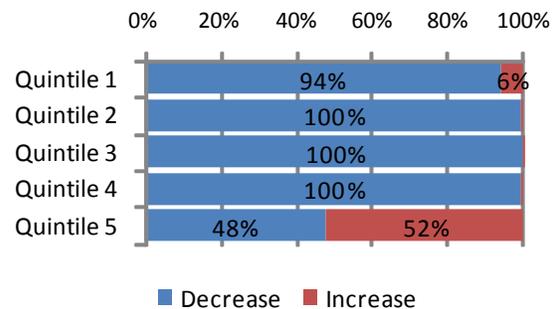
Providing a Fairer Property Tax

Under a universal abatement, the property tax can be made much more progressive, reducing the tax burden on the poorest sections of the city by shifting to those benefitting most from Lancaster's public investments and quality of life.

This can be seen by grouping all properties into quintiles based on their total value.

- The first quintile (up to \$52,500): 94% pay less and only 6% pay more.
- The second quintile (up to \$64,800): Nearly 100% pay less.
- The third quintile (up to \$76,600): Nearly 100% pay less.
- The fourth quintile (up to \$96,700): Nearly 100% pay less.
- The fifth quintile (up to \$142,152,600): 48% pay less and 52% pay more.

**Increase and Decrease by Quintile
Excluding Vacant Lots**



The poor, if they own any property at all, live in low-valued properties in the first quintile. A universal abatement therefore can also be seen as useful policy to address the challenges of poverty and housing affordability.

Because most low-valued properties fall below the city median, their buildings would see complete abatements while being left with generally low taxable land values.

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