

Testimony for the Philadelphia City Council

On the subject of FY2013 City Budget and Actual Value Initiative (AVI)

Provided by R. Joshua Vincent

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On behalf of the Center for the Study of Economics at 413 South 10th Street, I would like to thank City Council Members for holding this hearing. The Center for the Study of Economics is a nonpartisan educational outreach and consulting organization that focuses on issues of taxation, finance and assessment.

Among other things, CSE does extensive work with government, School Districts throughout Pennsylvania as well as global communities, to ensure property tax burdens are equitably distributed among taxpayers.

The Center does extensive work on land value taxation and when equitable, implementation, including conducting studies and publishing reports. We provide assistance to State and Local bodies with responsibilities over property tax policy and implementation. I would like to use this opportunity to discuss three issues relevant to City Council's responsibilities as it relates to the Actual Value Initiative.

We believe that these three issues, if unaddressed, may lead to mass property assessment appeals and tax burdens inequitably distributed among Philadelphia taxpayers.

I. CITY COUNCIL SHOULD TAKE CORRECTIVE ACTION TO PREVENT MASS PROPERTY TAX APPEALS

After a court-ordered reassessment earlier this year, Allegheny County's Office of Property Assessment Office instituted a comprehensive process that included informal hearings, town hall meetings, and detailed booklets entitled "Making Sense of the 2013 Court-Ordered Reassessment^[1]". That process resulted in nearly 60% of property owners receiving a value reduction.

II. CITY COUNCIL SHOULD ADOPT A BASIC ANTI-WINDFALL PROVISION

The provision would serve as a check to unsustainable increases; Allegheny County's is 5% to complement their FY 2013 revenue goal.

III. CITY COUNCIL SHOULD ADOPT A DIFFERENTIAL MILLAGE RATE ON LAND AND BUILDINGS.

Adopt a differential millage rate on land and buildings will ensure the Homestead Exclusion will apply to buildings only.

In 2008, Kevin Gillen of Econsult Corporation provided an updated, comprehensive report^[2] relative to Philadelphia's Ten-Year Abatement. Within that report, Mr. Gillen clearly stated the need to address inequity issues with expired/expiring abatement properties.

Remember, the property tax is truly two taxes with various different dynamics -- a tax on land values and a tax on improvements. The former has no harmful effects and actually fosters constructive behavior whereas the latter, tax on improvements, has many detrimental impacts. Buildings depreciate in value, just like cars, computers or refrigerators. Only land appreciates in value. The rise in market value of real estate (beyond inflation) is due to the increase in land values. The productivity of a community's total enterprise is reflected in its land values (economic rent).

Taxing land values^[3] stabilizes real estate prices (i.e., insulates them from bubbles), even as it encourages the efficient use of locations by maintaining commensurate carrying costs.

Ensure property tax burdens are equitably distributed among taxpayers

The Center for the Study of Economics stands ready to assist Philadelphia City Council in any way we can.

[1] <http://www.alleghenycounty.us/Reassess/THBooklet.pdf>

[2] http://www.econsult.com/articles/041609_Abatement.pdf

[3] http://www.urbantoolsconsult.org/upload/Incentive%20Taxation_Sept%202010_final.pdf