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STATE OF NEW YORK
TEMPORARY STATE COMMISSION
ON THE REAL PROPERTY TAX

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April 17, 1986

TO: The Honorable Mario M. Cuomo,
Governor of the State of New York;
Honorable Warren M. Anderson,
President Pro Tem of the Senate;
Honorable Stanley Fink,
Speaker of the Assembly
Honorable Members of the Legislature
of the State of New York

Chapter 688 of the Laws of 1984, directs this Commission to "conduct a study on the feasibility of implementing a two-rate real property tax system in the State of New York particularly urbanized areas".

Pursuant to this directive, the Commission has studied this issue in detail and found that the effects of a two-rate real property tax system in the cities of Pennsylvania that implemented it by local option are disputed. This may be attributable, in part, to the fact that it only applies to the city component of their real property tax.

Moeover, the Commission staff prepared simulations of the projected impact of a two-rate real property tax system for three typical localities in New York -rural town, a suburban town and a "big 5" city. The simulations for these localities revealed that significant, unpredictable class tax shifts would occur and that some of these shifts (both inter and intra-class) may run counter to current state policies.

For these reasons, which are discussed in detail in our report, the Commission cannot recommend the implementation of a two-rate real property tax system in this State.

We trust that this report will serve to inform you on this complex subject and assist you in your deliberations in this respect.

Respectfully submitted,

George S. Gerber

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COMMENTS ON THE 1986 STUDY

ENTITLED "A TWO-RATE REAL PROPERTY TAX SYSTEM"

ISSUED BY THE TEMPORARY COMMISSION ON THE REAL PROPERTY TAX

This study stated, in its "Conclusions and Recommendations," that it "cannot recommend the implementation of a two-rate system of taxation in New York State" (p.3). However, in its next paragraph, the Commission's study urges that land values be up-assessed closer to market value -- a good idea, except that it contradicts the just-prior non-recommendation. A careful scrutiny of the study reveals that, in fact, it in no way recommends rejection of a two-rate property tax shift; although, to be sure, it nowhere clearly recommends acceptance.

The study asserts that the Pennsylvania cities that adopted a two-rate tax did, indeed, enjoy a significant construction resurgence, but it attributes that resurgence primarily to tax abatement on new construction and also to federal investment tax credits and accelerated depreciation (p.3). We see a problem in that, however:

(a) Even these Pennsylvania cities without tax abatement for new construction experienced significant new construction; and, in any case, if such tax abatement is good, the kind made possible by a building-to-land tax switch is much better because it applies to all construction (not only post-law) and could apply for the life of a building, not just for its first few years.

(b) As for the federal tax credits and accelerated depreciation, those benefits apply to all cities, including the non-two-rate ones, and could hardly explain why the two-rate cities have produced so much new construction.

The study asserted that poor homeowners in Pittsburgh paid more property tax because of the building-to-land property tax switch.

However, an in-depth study by the Center for the Study of Economics (10329 Log Raft, Columbia, MD 21044, 301-740-1177) demonstrated that, in fact, poor people paid less, not more. CSE found that homeowners in the poorer half of the wards in Pittsburgh save at least $728,000 a year (probably much more) because of the city's two-rate tax. Census and assessment data were used by CSE. In addition, tenants (many of whom are poor) would surely pay less in rent if buildings are taxed less (there would be less tax to be passed on to the tenants in their apartment rent), and the increased tax on land values cannot be passed on to the tenants but, in the long run, must be paid by the landowners. (Check any basic economics textbook.)

The complete CSE study (based on primary source evidence) is available on request. (Write on letterhead.)

The Temporary State Commission study asserts that utilities would pay much less with a two-rate approach (p.4), which is true, but that is advantageous. It would allow for a reduction in utility rates, and that would benefit the poor even more than the rich.

The study asserts that multi-family units would pay more with a building-to-land tax switch (p.4), but it cites four studies substantiating exactly the opposite (pp. 36, 37-8, 40, 43). The Commission did what it called a "simulation" in three New York State localities -- unfortunately unnamed -- and stated that smaller apartment buildings would pay more with a building-to-land tax shift (p.50); but the data in the appendix support no such conclusion at all. (See Appendix C.) This tends to bring the whole study into question.

The study does contain a lengthy summary (85 pages) of the theoretical arguments pro-and-con regarding land-value taxation. Because of space limitations we will not comment here on them, but those readers wanting our views on specific arguments need only write us and we will oblige. We will also be happy to send empirical studies on the actual applications in the real world of a two-rate tax (or equivalent) to those readers requesting them.

For those Legislators in New York State who are wondering whether localities should be allowed to adopt a two-rate tax (no one suggests they be forced to adopt it), we quote Research Monograph #4 (p.28) of the Urban Land Institute, which describes a higher tax rate on land values as "a golden key to urban renewal, to the automatic regeneration of the city -- and not at public expense."

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INTRODUCTION

During 1985, local government in New York State derived over $10 billion in revenue from real property taxation. This revenue source, however, is being stretched by local government's increasing reliance upon it to fund governmental services on one hand, and taxpayer unwillingness to pay increased taxes on the other. As a result, numerous proposals have been made to the State Legislature to modify New York's system of real property taxation, including shifting to land value taxation.

The real property tax system in this State has two components. An assessment on improvements which, theoretically, is the value of what past and present owners of the land have expended to improve it and an assessment on the land itself, based on the value of its location or site alone, irrespective of anything its owners may have done to improve it.

In response to land value taxation proposals, the Legislature has directed this Commission to study the feasibility of implementing a "two-rate" system of real property taxation (i.e., taxing land at a higher tax rate than improvements) in this state. The Legislature based their directive, in part, on the premise that a two-rate system of taxation could result in a more equitable distribution of the real property tax burden as well as a more productive utilization of the real property of the state, particularly in urbanized areas. The Commission was further directed to evaluate the experience of seven cities in

Pennsylvania that are using a two-rate tax and to project the impact of a similar system of taxation in New York State.

The Commission has also examined the theories and arguments of those who both support and reject the concept of land value taxation and reviewed the experience of Australia, New Zealand and the State of Hawaii, which have implemented forms of land value taxation. In the interest of brevity the results of this research is set forth in Appendix A and B, infra.

The Commission, pursuant to its legislative mandate, has prepared this report as follows:

I. Conclusions and Recommendations

II. The Proposal for a Two-Rate System of Taxation

III. The Experience of Pennsylvania with the Two-Rate System of Taxation

IV. The Simulated Impact of a Two-Rate System of Taxation in New York State

V. Appendix A - A discussion of the Economic, Socio-economic, Legal and Administrative Arguments For and Against a System of Land Value Taxation.

VI. Appendix B - A Brief Overview of the Experience of Foreign Countries and the State of Hawaii that have Implemented some form of land value taxation.

VII. Appendix C - The Algorithms and Computer Assisted Simulations that Projected the Impact of Both Two-Rate and Total Land Value Taxation Systems on Three Typical Localities in New York State

I. Conclusions and Recommendations

A. Conclusions

1. Analysis of the Experience of the Two-Rate System of Taxation in Seven Pennsylvania Cities Indicates the Following:

a. The two-rate system applies only to the city portion and represents, on average, only about one-third of a typical real property owner's total tax bill.

b. The increases in development activity in these cities during the time periods analyzed was impressive. However, in at least three of the seven cities (Scranton, McKeesport and New Castle) tax abatement policies for new construction were implemented at the same time and it is unclear as to the extent these abatement policies may also have stimulated development activity. Moreover, the period analyzed coincided with the Federal Tax Reform Act of 1981 which, with its more generous investment tax credits and accelerated depreciation schedules, has been credited with stimulating development activity in these cities.

c. The tax shifts that occurred under the two-rate system were generally favorable (i.e., an aggregate shift from residential to non-residential and vacant land). However, one Pittsburgh study indicates that significant residential intra-class shifting occurred from more affluent homeowners to the less affluent homeowners.

d. The two-rate system in Pennsylvania has been confined to urban areas. It has never been tested in any of Pennsylvania's non-urban areas since, from the information made available to the Commission, none of these areas has requested authorization to use this system. However, legislation has been implemented protecting farm land and open spaces by providing tax abatements for dedicating open space lands and exempting farmers from a two-rate system.

2. Analysis of the Projected Impact of a Two-Rate System of Taxation in Three Typical New York Localities Indicates the Following:

a. The two-rate tax simulation prepared by the Commission staff for three typical New York localities indicates that for the suburban and rural town studied, significant tax shifting occurs in both the vacant land and farm land classes, with the utility class being the major beneficiary. The shift to farmland would run counter to State policy to both preserve and encourage agricultural production. The State of Pennsylvania action in exempting farmland from a two-rate taxation system is instructive in this regard. Moreover, the tax shift to commercial property may run counter to State tax abatement policy (i.e., Real Property Tax Law Sec. 485 B), which seeks to encourage new commercial development.

b. The two-rate system of taxation would be beneficial to the residential class in New York's urban areas. However, even in an urban setting where the tax shift is from residential to vacant and commercial classes, its use would not be without social policy implications. If, as in Pittsburgh, residential intra-class shifting occurs from more affluent neighborhoods to the less affluent neighborhoods, use of such a system could have a serious impact on the poorer homeowner's ability to maintain his homestead, thus running counter to State policy. Moreover, shifting tax burden to commercial and industrial classes could also be non-uniform, with the luxury high rise office buildings and apartment houses receiving tax reductions, while smaller apartment buildings and neighborhood commercial establishments receiving a higher tax burden. This impact would run counter to the State policy of promoting neighborhood commercial development and affordable housing through existing tax abatement programs (i.e., Real Property Tax Law, Sec. 485 B, J-51, etc).

c. The Commission's impact simulations, in the suburban and rural towns, could not address the impact of a two-rate system of taxation on school taxes due to the lack of the necessary data. Moreover, given the recent Court of Appeals decision in <u>Foss</u> v. <u>City of Rochester</u>, 65 NY2d 247 (1985) and _____ NY2d _____ 1985, it is unclear whether any type of "local option" two-rate system can be legally used for county and non-coterminous school district tax levies.

3. Analysis of the Economic, Socioeconomic, Legal and Administrative Arguments For and Against a System of Land Value Taxation Indicates the Following:

   a. It is uncertain whether the alleged benefits of land value (or two-rate) taxation are worth the possible trade off disadvantages of the arbitrary losses landowners and other could suffer as well as the general confusion of transition to such a system.

   b. To reiterate, the Commission notes that significant redevelopment and new development throughout New York State has been accomplished by such means as tax incentive and abatement programs and, therefore, puts into question the necessity or desirability of shifting to land value (or two-rate) taxation.

B. Recommendations

1. In view of the foregoing the Commission cannot recommend the implementation of a two-rate system of taxation in New York State. Based upon available data, it appears from the simulations prepared by the Commission staff it would result in unpredictable tax shifts across the State. Further, the Commission has concluded that in the Pennsylvania cities that adopted a two-rate system, their experience suggests the benefits of this system are more theoretical than real.

2. The Commission notes from some of its other studies, that the assessed values on land, in particular vacant land, are often at a lower percentage of market value than other real property. The Commission therefore recommends that assessors review assessments on vacant land parcels, as well as the land component of improved parcels, to assure that all assessments are made in accordance with the Real Property Tax Law.

II. The Proposal For A Two-Rate System of Taxation

Many groups within and without the State of New York, comprised primarily of the proponents of the land value taxation theories of Henry George (Georgists), have proposed changing the State's system of real property tax by taxing land at a rate greater than that for improvements or, in the extreme, taxing land alone rather than improvements. One of the best known and respected representatives of these groups is C. Lowell Harris, Professor of Economics at Columbia University, who has written advocating the more moderate approach of adopting a two-rate system of taxation.[1] For purposes of discussion in this report, Professor Harris' proposal will be considered representative in this regard.

A. What is Proposed

Specifically, Professor Harris has proposed a substantial reduction in tax rates on improvements, (i.e., buildings) including capital investments by the landowner, coupled with a corresponding tax increase on land (location) values. He concedes that the definition of "land" for purposes of this proposal presents problems, but believes they are not beyond solution and, in any event, believes this to be merely one of the "temporary" problems of transition to the new system.

The term "location value" is intended to convey a distinction between the results of the use of capital and labor by the present and past owners of the land to make it more valuable, and the results of community action (government spending and rising demand for space) affecting the amount a person would pay for the use of the location of a given parcel of land, as opposed to other possible locations.

Professor Harris further proposed that the shift from taxation of improvements to land be made in stages over a period of years, with no change in total revenue requirements. The goal being not to totally exempt improvements, but to tax land locational values at a rate of about three or four times that on improvements. Further, it is proposed that the tax on improvements become more logically related to the cost of local government services (e.g., size). Land would also be taxed to some extent on a basis related to the cost of local governmental services (e.g., area, distance from a population center). This he believes would help to prevent shifting of the tax burden to farmers as a group, although there would still be tax differences among individual farms, dependent upon the amount of capital invested by their past and present owners to enhance their worth.

An alternative to this proposal, he suggests, would involve increasing the tax on land in stages over a period of time, while maintaining the existing rate on improvements. This is not favored, however, since it could result in merely increasing tax burdens without granting relief to improvements. Another alternative would be to exempt, entirely or partially, new improvements or other capital investments for a period of several years by which time all improvements would be subject to reduced tax rates. A drawback of this proposal, would be that the owners of older improvements would have a legitimate complaint of unfair treatment because of being forced to compete with new improvements receiving the exemption.

B. The Transitionary Period

Provided no change in total tax is made, Professor Harris believes that the vast majority of property owners and users would not have their total tax bills changed significantly by adoption of the two-rate system he proposes. The few cases in which reduction of the tax on improvements would raise equity issues, (e.g., new, modern, highly valued buildings where the land is owned by others, public utilities, businesses where land area is high relative to improvements, low income victims of short-run increases in land values and rents, owners of vacant or under utilized land with deteriorated structures whether occupied for residential, business or farming purposes or leased to others, and persons who bought property recently at a price which reflected capitalization of then existing real property tax burdens) could be dealt with through a program of selective taxation or tax relief. In any event, he believes that the number of cases requiring tax relief and the magnitude of the cost of such relief would not be great, provided the transition were phased in over a period of years so that the flow of new capital would have an opportunity to provide the necessary adjustments.

Professor Harris believes that the severity of transitionary impacts will depend upon the quality of assessments in a given jurisdiction and the extent of preparation in advance for the shift in tax emphasis. Inevitably, discussion of the shift would extend over a period of years. The approaching transition would tend to be capitalized into the prices of land and buildings. The incorporation of the prospective tax change into land locational values would decline as the reduction of taxes on buildings and increase on land comes closer, so that the change in land prices would not be felt as if the shift suddenly occurred on a single day. If several years precede the shift, the problem of significant gains or losses to landowners would only be a fraction of that which would occur if the shift occurred immediately, as many arguments against land value taxation implicitly assume. In this respect, he believes it should also be noted that the nearer the approach of tax relief for improvements, the greater the probability that construction will increase in anticipation, thus creating benefits that will more than offset any losses.

C. The Extreme Case is not a Good Basis for General Public Policy

Professor Harris cautions that many of the arguments against land value taxation are premised on "worst case" analysis reasoning applied to both ends of the spectrum. Although some cases of large losses and gains are inevitable, these should not be allowed to determine the issue for the general public. He believes that vastly greater weight should be given to those cases with minor impacts, first during the transition and then over the long run.

D. Burden of A Lower Tax on Improvements

Professor Harris argues that a tax on improvements is, generally speaking, a tax on consumption. The bulk of the present real property tax burden is shared more or less in proportion to income, since in the middle income range consumption is roughly proportional to income.

Conversely, Professor Harris argues that taxing land at locational values typically above their present levels should not inflict excessive burdens on landowners. However, landowners would get less of the "unearned increment" of rising land values as the increase in land values is usually the result of governmental investment in community facilities and resultant population growth. The benefits of the increased land values would be returned to the community in the form of higher taxes and thus compensate for past improvements made by government.

E. Equity of a Tax on Land Values

Professor Harris argues that land as a productive resource differs greatly from labor and capital with one outstanding difference being immobility. Space is immobile and local government can tax it without fear that it will move to a lower tax area, as would labor and capital. For this reason, he believes the arguments for neutrality in taxation do not apply to a productive resource, such as land, whose supply is immobile and inelastic. The other difference is the source of worth or the way in which land values come into existence. The value or cost of labor and capital depend in part upon what individuals expect to get in compensation. However, actions by society to tax capital and labor will effect future supply.

The supply of land is not, however, dependent upon the amount paid. The amount of payment, however, makes a difference in what is actually available for use. Ownership of land permits withholding it from use, thus depriving the community of the value of something created by nature. Parcels of land especially as to space and location, differ significantly. Therefore, something is needed to allocate and achieve its most efficient use. Payments for the use of land perform a function of allocation among alternative uses, but a portion of the payment will not as in the case of manmade productive capacity, also serve the function of inducing the creation of productive resource.

Economic justice, he believes, dictates rewards based on accomplishment of human services or for use of capital. This principal does not justify rewards because of mere ownership of land. The essential fault of the present system of real property taxation is the "unmerited" increases in land values in the form of increased land prices and rents that accrue to owners who do nothing, or very little, to enhance the useability land. To recapture these increases by land "location" value taxes to finance local government by whose actions these profits were created is not unreasonable.

III. The Experience of Pennsylvania with Two-Rate Taxation

Seven Pennsylvania cities for the city portion of the real property tax levy only have increased tax rates on land, while imposing lower tax rates on buildings. They are Pittsburgh, Scranton, Harrisburg, McKeesport, New Castle, Washington and Duquesne.

The following is a summary analysis of the experience of these cities with the two-rate taxation system. Unless otherwise indicated, the data and conclusions set forth, with the exception of that relating to the City of Pittsburgh, were taken from pro-land value taxation publications due to a lack of any other available source.

A. Harrisburg

A study on the effects of the graded tax on the City of Harrisburg's future development conducted in 1980[2] indicated:

1. Vacant lots would be more heavily taxed, with bigger, larger more centrally located lots bearing the heaviest burden. Although this presented landowners with the choice of building or selling out to builders, as compared with the conventional real property tax, the land value tax made it easier to build because improvements were taxed at a much lower rate.

2. Taxes on most residences for all income classes would decrease, thereby promoting new construction and rehabilitation. This benefit would be somewhat offset, however, by the fact that the City School property tax would continue to

apply to both land and improvements based on a uniform tax rate.

3. Apartment houses would experience substantial savings in taxes, since there are typically larger buildings on relatively inexpensive land. This would spur new apartment construction.

4. Manufacturing and wholesaling generally would receive tax reductions, which would both attract new factories and serve as an incentive to expansion and rehabilitation of existing factories and warehousing.

5. Commercial businesses outside the central business would generally experience tax decreases because of their relatively lower land values.

6. New downtown office buildings would receive significant overall tax savings from land value taxation.

7. Retail properties in the central business district would generally pay more taxes than under the current real property tax. This results from the value of their location, which is in essence a community created value that should be taxed. Moreover, increased taxes is not an expense which would be passed on to store owners in the form of higher rentals, since the land value tax increase results in lower land prices and not higher rents. Instead, it could be expected that eventually retail space rentals would decrease, unlike an increase in the improvements tax which invariably results in higher rents. Of indirect benefit to retailers would also be the fact that repairs and

rehabilitation would be cheaper because they are no longer taxed and new apartment and office building construction in the central business district will provide new customers thereby improving business.

(8) Parking lots and gas stations would pay more in taxes because of their minimal improvements in relation to high land values. Parking garages, however, would pay less.

In June of 1985, members of the Commission staff met with a representative of the Pennsylvania Chamber of Commerce in Harrisburg. It is the Chamber's position that the equitable distribution of the real property tax burden is best achieved by levying the tax at a uniform rate in direct proportion to the value of each taxpayers real property. The Chamber opposed classification of real property for tax purposes and the use of a two-rate real property tax system.

The Commission staff also met with a representative of the Pennsylvania State Tax Equalization Board, who explained that, in Pennsylvania, assessments originate with the county. The county certifies, each January or February, its taxable real estate for the coming year. There is a legislative mandate to counties to report every real estate transfer that takes place within that county. These are sent to the state board and their field staff goes into the individual counties and audits the changes and certification of taxable real estate each year. The state board next determines in what property type (i.e., residential, agricultural commercial or industrial) the changes took place. Property taxes are not levied in support of state government.

In addition, Pennsylvania has a preferential assessment law for farm land and open space. These landowners enter into a covenant with the county to keep their land as open space and, in return, receive a reduction in property taxes. Farmers are exempt from the land value tax.

The State Board representative further indicated that a sales ratio study of the City of Harrisburg had found the ratio of residential property assessment to selling price was 15% to 20%, however, land with no improvements was about 3%. He noted that the City had proposed a land value taxation system to the school board, but the school board declined to participate. His major observation was that development in Harrisburg took place only when it was financially feasible or profitable and not because there is a land value taxation in the form of split millage. Moreover, such development was instituted because often there were government funds subsidizing a project or it was a non-subsidized project that would have been undertaken without benefit of a two-rate real property tax system.

B. Scranton[3]

Scranton (population 87,000) is in northeastern Pennsylvania. The declining anthracite coal industry has been a mainstay of its economy. Between 1970 and 1980, Scranton experienced about a 14% decline in population. Since 1925, Scranton had taxed all dwellings and other buildings at one-half of the rate levied on the land.

For the year 1980 Scranton nearly doubled its land tax rate from 51 mills to 96 mills in an effort to raise more city revenue, while it left the building tax rate at 25.5 mills (2.55% of assessed value). After this was done records in Scranton showed that building permits increased in number 14% and 22% in value. This occurred at a time when interest rates were very high and a construction depression had set in (1980-82). Skeptics maintained the land tax rate imposed was too minor to have affected building permit issuance and, concurrently, the city had also passed a Local Economic Revitalization Act in July 1980, granting a 100% property tax exemption for 10 years on all newly constructed commercial and industrial improvements and for one year for residential buildings.

A study completed in the fall of 1983 comparing the three years after the Scranton rate tax changes of January, 1980, with the preceding three years concluded that the uptaxing of land and downtaxing on new construction had produced a construction upsurge.

C. McKeesport[4]

In 1980, McKeesport (pop. 31,017) began increasing its tax rate on land and decreasing the rate for buildings. Its tax rate in 1979 had been 2.45% on both land and buildings. In 1980, it raised its tax rate to 9% on land and lowered it to 2% on improvements. The new rates represented an increase of more than 50% in property tax revenue for the city and it was found to have raised the same revenue as would a flat-tax rate of 3.75% on both land and buildings.

McKeesport also introduced another tax reform in 1980. It granted a three year tax exemption to all new construction.

These tax policies were followed by an upsurge in new construction, evident from McKeesport's post-January 1980 record of building permits issued compared with its pre-1980 record.

McKeesport is comparable with two abutting cities, Clairton (pop. 12073) and Duquesne (pop. 10,099). The steel industry is all three of these cities' economic mainstay, each having one large steel mill. They share the same chamber of commerce and have much higher-than-average rates of unemployment. In the last 20 years they have all experienced the same large percentage drop in population. Each of their governments were faced with large deficits and were verging on bankruptcy. There are no other nearby cities, either comparable or non-comparable. These three cities are practically identical, the only relevant difference being that McKeesport began taxing land more heavily than improvements in 1980 and down-taxed new construction, while the other two cities did not.

The 1977-1982 building permit statistics for each of these cities are as follows:

	1977-79	1980-82	
	Annual Average	Annual Average	% Change
McKeesport	$1,716,000	$2,370.191	+38%
Clairton	$ 746,710	$ 539,564	-28%
Duquesne	$1,053,315	$ 839,731	-20%

Even when taking into account the fact that in 1980 Duquesne obtained a federal grant for the subsidizing of storefront alterations in the central business district thereby accounting at least in part for Duquesne an increase in the number of building permits that would otherwise have been issued, these statistics show that in McKeesport new construction increased, whereas in its two neighboring cities construction declined. This is true when construction is measured either in dollar value or number of building permits.

The net effect of the tax rate changes in McKeesport was to increase the total property tax revenues by almost 50%. Although this increased property tax burden should have reduced new construction and rehabilitation, the reverse occurred and permits for new construction and rehabilitation for the next three year period averaged 38% more than in the previous three year period this did not include tax exempt construction because it is not affected by tax considerations.

When this is compared with Clairton and Duquesne, Clairton's new construction and rehabilitation fell off 28% in 1980-82 as compared to 1977-79, while Duquesne fell 20%.

In 1985, although McKeesport increased its tax rate on buildings to 2.5%, it also increased its tax rate on land to 10%, or almost five times that on buildings.

D. New Castle[5]

New Castle was the fifth city in Pennsylvania to adopt a two rate property tax, with a higher tax rate on land than on buildings.

New Castle is situated about 60 miles north of Pittsburgh on the state border with Ohio. It has a population of approximately 31,000. Its economy, relying on heavy industry, especially steel, has been hard hit by job layoffs and plant closings.

In late 1981, the city adopted an ordinance exempting new residential construction, except for underlying land value for three years from the city property tax. New commercial and industrial construction was exempted for 10 years on a 10% per year decreasing basis. Effective January 1982, the city adopted a two-rate property tax. The rates were 4.0% on land, 2.28% on buildings.

Examination of New Castle's building permits for the first seven months of 1982 as compared to the same period in 1981 reveals a 13% increase in the number of building permits issued and a 3.4% increase in the dollar value of buildings permits issued. This was in the face of a more depressed economy in 1982, as compared to 1981. The city's assessment ratio of building-to-land is 4.26:1, so that homeowners whose building-to-land ratio is more than 4.26:1 pay less taxes and those whose ratio is less pays more. A recent study found that 218 out of a random sample of 279 homeowners, (i.e., 78%), paid less in property taxes with that city's building-to-land property tax shift.

A study was made to determine how much the average New Castle homeowner saved each year with the land tax. It was first ascertained what land tax rate would be needed to raise the same property tax revenue for the city as the current land-and-building tax raises. This was found by multiplying New Castle's then current property tax rate - 27.6 mills x 5.16 = 145 mills which, when levied on land only, raised the same revenue as 27.6 mills would on both land and building assessments.

Next the total of land and buildings assessments for the entire sample was multiplied by the 27.6 tax rate, and then subtracted from that the product of the total land assessments of the sample times 145 mills. It was then calculated that 279 homeowners saved $3,746.90, or an average of $13.43 each. It was concluded that, although this is not a great amount, the main purpose of the land value tax was not to shift the tax among taxpayers, but to encourage new construction and job-making.

In 1985, New Castle decreased the rate on buildings was to 2.1% and increased the rate on land to 6.78% acknowledging apparent satisfaction with results of two-rate system in that city.

E. Washington[6]

In January 1985 this city, which has a population of 19,000, became the 6th city in Pennsylvania to adopt a two-rate property tax. Washington is 30 miles southwest of Pittsburgh and is the county seat. It relies heavily on the smokestack industries of glass, steel, coal and electronics and was suffering from high unemployment. At the time of the adoption of the two-rate tax, Washington had vacant lots that constituted 11% of the city's total assessed land value. The City Council adopted a two-rate property tax of 6.056% (60.56 mills) on land coupled with 1.68% (16.8 mills) on buildings, raising the same revenue as taxing both land and buildings at 2.58% (25.8 mills). This increased, from 1984 to 1985, total property tax revenue by 5%. The rate shift resulted in only $40,111 being transferred from building owners to landowners. The new tax system resulted in 52% of the tax attributable to buildings as contrasted with the one-rate property tax, under which 75% was attributable to buildings and 25% to land.

The reaction of the citizens of Washington to the tax shift was minimal. They were only ultimately interested in the total amount of their tax bill, not the tax rates.

F. Duquesne[7]

Duquesne (population 10,094) adopted a two-rate property tax in 1985, thus becoming the 7th city in Pennsylvania to do so. In 1984, this city was taxing land and buildings at a uniform rate of 3.2%. In 1985 after adopting land value taxation, it raised the same revenue as in 1984 by taxing land at 5.306% and buildings at 2.7%. The primary motive for shifting to land value taxation was the shut down of the U.S. Steel mill which, at one time, had employed 4,000 people. U.S. Steel intended to demolish the plant, in part to avoid paying property taxes on its buildings. Although it had plans to eventually convert the site to an industrial park, the city was concerned about letting this land sit virtually untaxed for years.

Studies showed that most homeowners (about 80%) would pay less with a buildings to land tax shift and that the U.S. Steel would pay more, especially if the plant improvements were demolished.

G. Pittsburgh

The "flagship" of the cities that implemented a two-rate tax system is Pittsburgh. Pittsburgh is the second largest city in Pennsylvania, is the corporate headquarters to some of the nation's major corporations , and is frequently mentioned as the primary example of a two-tax rate municipality.

There have been two recent independent studies of the land value tax as implemented by the City of Pittsburgh in the form of a "graded" or "two tier" real estate tax. The first, published in 1982, was made by Dr. Henry O. Pollakowski for the Lincoln Institute on Land Policy (Cambridge, Massachusetts). The second, published in 1985, was undertaken by the Pennsylvania Economy League at the request of the Mayor of Pittsburgh.

1. <u>Lincoln Institute of Land Policy Study</u>[8]

This study made by Dr. Henry O. Pollakowski for the Lincoln Institute of Land Policy found that the City of Pittsburgh provided a limited opportunity to study the effects of land value taxation.

Dr. Pollakowski found that Pittsburgh had taxed land at nearly twice the rate of improvements since 1925. In 1979, this ratio was increased to 4 times the tax rate on improvements and in 1980 to five times the rate on improvements. This differential taxation, as previously mentioned, applied only to the city portion of Pittsburgh's real property taxes. The county and school districts both levied property taxes at the same rate on both land and improvements and, therefore, the total tax burden on land in the City of Pittsburgh was actually only about twice that for improvements.

Previous observers evaluating Pittsburgh's experience had reached divergent conclusions about the effect of the differential tax on land and improvements on development. Some, citing