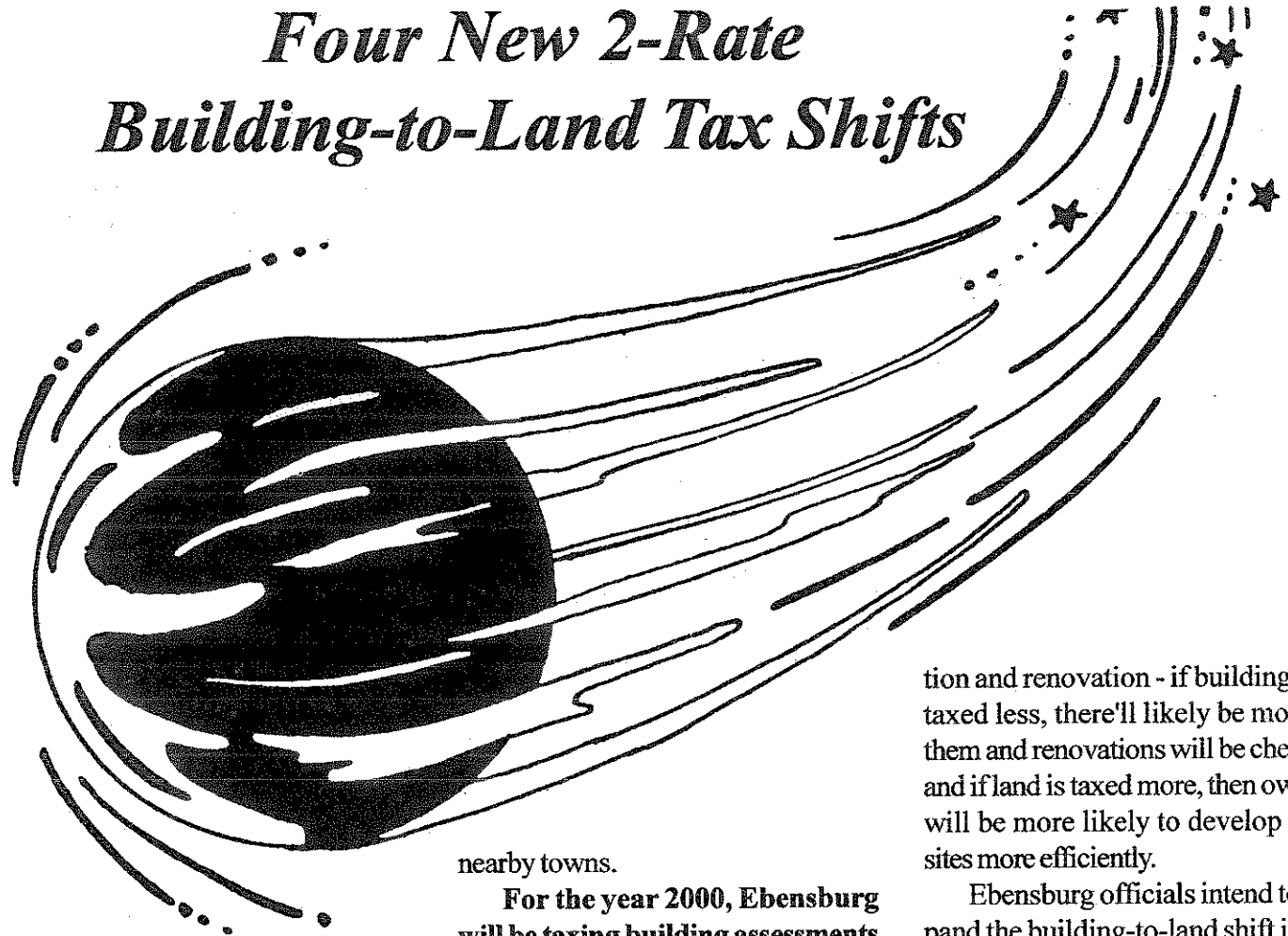


Incentive Taxation

Four New 2-Rate Building-to-Land Tax Shifts



The new century starts off on an encouraging note - two new towns have adopted the two-rate property tax and two cities that have been on the two-rate system for some time will switch some more of their property tax on building assessments to land assessments. Here are the details:

Ebensburg, Pa

Ebensburg is a small borough in western Pennsylvania. It is the seat of Cambria County (includes Johnstown) and its population swells during the day as county employees flood in from

nearby towns.

For the year 2000, Ebensburg will be taxing building assessments at only 12.6 mills and land assessments at 30 mills instead of taxing both types of assessments at 16 mills. In other words, the tax rate on building assessments will be reduced 21.25%.

Most voters would pay less with this two-rate approach as compared to the old one-rate approach (almost every jurisdiction going two-rate would be like that) which probably accounts for the favorable acceptance of this property-tax switch by the voters. The town government gets approximately the same revenue with 12.6/30 as with the old 16/16. But best of all, the town is likely to get a spurt in new construc-

tion and renovation - if buildings are taxed less, there'll likely be more of them and renovations will be cheaper, and if land is taxed more, then owners will be more likely to develop their sites more efficiently.

Ebensburg officials intend to expand the building-to-land shift in the local property tax for 2001; we shall see. Meanwhile, even those few property owners paying more are satisfied with the two-rate approach. Very important: The town officials intend to put a flyer in with the usual annual property tax bill informing the property owners in town of the advantages of two-rate property taxation (i.e., property owners can improve their properties at lesser tax penalty with two-rate). An informed electorate is very important for two-rate success.

The phone number of the city manager, Dan Penatzer, is 814-472-8780.

Continued on page 2

Four New 2-Rate Building-to-Land Tax Shifts

Continued from page 1

Steelton, Pa.

Steelton, Pa. is an industrial suburb of Harrisburg, Pa. and contains a long-established super-large Bethlehem steel mill. Unfortunately, the steel mill is shrinking steadily in size, which means (among other things) that homeowners in town will face increasingly large hikes in their property-tax bills - unless the town goes two-rate.

The city manager, Michael Musser (717-939-6561) heard about the new two-rate option (recently made available to all Pennsylvania boroughs) from Jack Gardner, v.p. of the Pa. State Assn. of Boroughs, and we were happy to help him develop two rates, one on building assessments and the other on land assessments, for 2000.

The tax rates in Steelton for the year 2000 will be 7.2 mills on building assessments and 17.441 mills on land assessments, instead of 9 mills on both types of assessments. This is a 20% reduction in the taxation on building assessments.

There are now twenty jurisdictions in the United States which have gone two-rate, but it is still uphill work to get new two-rate jurisdictions. You would think it would be easy to get new jurisdictions to go two-rate, especially since the cost is zero and there are now

at least fifteen studies showing that in all cases, spurts in new construction and renovation follow two-rate adoption. 15 out of 15 is not so bad but not everything is explicable.

We shall return to Steelton in three years to do our usual study of construction and renovation.

Harrisburg, Pa.

Here we are at the state capital of the Commonwealth of Pennsylvania. Harrisburg has been two-rate since 1974, but for the year 2000 it made another of its numerous switches from building assessments to land assessments. Its land-tax-rate-to-building-tax-rate ratio had been 4-to-1, but for 2000 that ratio will become 5.08-to-1. **The exact rates will be 48.9 mills on land assessments coupled with 9.618 mills on building assessments.**

F.Y.I.: 1 mill = 0.001 = 1/10th of 1%.

Harrisburg is one of the fastest-growing cities in America (we root hard for our two-rate cities, but of course we are rigorously objective in all our studies). We are glad to note that the city features the two-rate property tax in all its promotional literature.

Allentown, Pa.

In 1997, the Allentown City Council adopted a Home-Rule Charter which, among other powers allowed the city to tax land assessments

at whatever rate the City Council decided. Prominently embedded in the Charter was a provision which set the tax-rate ratios on land and buildings as follows:

1997	1.49:1
1998	2.06:1
1999	2.76:1
2000	3.62:1
2001	4.70:1

Joshua Vincent of *Incentive Taxation* determined these ratios for the Allentown Home-Rule Charter Committee with the purpose of keeping the property-tax revenue constant with what it was in 1996.

So for the year 2000, land assessments will be taxed at 32.77 mills coupled with 9.05 mills on building assessments (the 1999 rates were 25.76 mills on land assessments coupled with 9.33 mills on building assessments).

We are pleased to report that Allentown has reported a spurt in new construction and renovation since it has gone two-rate. This publication will have more to say on this subject in the next issue.

Josh Vincent published a letter in the *Allentown Call* countering the assertion of the Fairgrounds, the main LVT opponent, that the town's LVT would negate its 1999 super-profit. Vincent pointed out that the Fairgrounds' land tax bill reduced its profit by a mere 5.83%. The next issue will reprint his letter in full.

Consider:

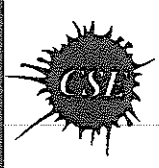
Budget Watch

(1) Many budget experts question whether the budget surplus will ever materialize, especially because of anticipated inflation and defense-spending increases. A recession or foreign "police action" (or some other unanticipated expense) will only exacerbate the fiscal situation (*AARP Bulletin* 10/99, pp.3, 24, 32).

(2) Last year's budget was in deficit if social security surpluses (already pledged to future retirees) are not in-

cluded (*Ibid.*, p.25).

In the light of all this, our federal government will need a revenue source that can promote economic growth - the more this source, the better our economy will be. There is only one such source - if IT readers fail to bring it to the public attention by, say, 2014, then our federal government won't be able to pay its bills, or it will have to inflate the currency or levy unconscionably-high taxes on labor and capital.



Nothing written here should be construed as an attempt to influence the passage of any legislation. The views expressed in this publication are the opinions of the authors, and do not necessarily reflect CSL views.

This bulletin is published by the Center for the Study of Incentive Taxation, 8775 Cloudcap Court, #212, Columbia, MD 21045. Phone: (410) 740-1177. Editor: Steven Cord. Prod. Mgr: Sharon Lemman. Inquiries invited. Subscription rate: \$20/yr. © 2000. Reproduction is permitted provided credit is given and we are notified.

Two-Rate Titusville, Pa. Out-Constructs & Out-Renovates Nearby One-Rate Corry, Pa.!

Titusville and Corry are two small cities nearby each other in the woods of northwestern Pennsylvania. They are very comparable (although Corry is slightly better situated, being nearer to the big city of Erie). But in 1990, Titusville adopted the two-rate property-tax system (at that time, a tax rate of 6.134% on land assessments coupled with 1.5% on building assessments, instead of taxing both types of assessments at 2.11%) while nearby Corry stayed at the same old one-rate.

An examination of building-permit records kept in both city halls revealed that Titusville experienced a 26.9% increase in new construction and renovation in the three years after adoption as compared to the three years before, whereas Corry experienced only a 16.6% increase during the same periods of time. One might say that other factors might have caused Titusville's increase (we don't know of any) but it is worth keeping in mind that all 14

other studies we have done comparing two-rate cities with nearby comparable one-rate cities also showed greater construction-and-renovation spurts for the two-rate cities. It would seem that down-taxing buildings leads to more construction and renovation, and when land is up-taxed to make up for the revenue lost by not taxing buildings so much, owners are encouraged to use their land-sites more fully (so we have two reasons for more construction and renovation).

Incentive Taxation has always done studies of three-years-after as compared to three-years-before, on the grounds that a shorter period would not give realty owners time to react to the new property-tax situation, and a longer period would let other factors creep in. Within legal limits, the city government, of course, can get any revenue it wants, whether one-rate or two-rate. The switch could be completely revenue-neutral.

Literally dozens of studies show

that most voters get a reduction in their property taxes with a two-rate building-to-land tax shift. The cost of doing a one-to-two-rate shift in the property tax is: zero. *All this could happen in your town too!*

Our worksheets are fully available to inspection. We keep them in our files. The following is a summary of the building-permits issued:

<u>Titusville</u> : 1987-89: \$1,920,793 (average)	
1990-92: \$2,436,764 (average)	
<hr/>	
<u>Corry</u>	1987-89: \$3,804,413 (average)
	1990-92: \$4,434,390 (average)

Fifteen studies out of fifteen (and there are other corroborating studies) reveal that shifting taxes off buildings onto land (two-rate) is good for local business: That ought to convince anyone who puts hard evidence and logic over habit.

ISSN #0896-4556

◆ We come out with special issues each year on ethics, humor, headlines and two-rate victories. Sometimes, we feature special subjects (environment, farmers, etc.).

◆ The 2-rate approach, with a lower property-tax rate on building assessments than on land assessments, is *exactly equivalent to exempting buildings from the property tax in whole or in part*, yet not reducing the local government's revenue.

◆ FDR's Greatest Contribution: Maneuvering the U.S. into WWII (that's why the Axis powers conve-

From the Editor

niently declared war on us, thereby unifying us).

◆ "The Medicare program effectively transfers money from low to high income groups" (*Reason*, 1/98, p. 17, citing an *N.B.E.R.* study).

◆ Anecdotal evidence indicates that 2-rate Titusville's spurt in new construction and renovation continued throughout the 1990s even though it suffered an important loss when its Armco Steel plant shut down. In 2000 Titusville lost a chance to increase its land tax rate only when it increased its tax rates slightly on both land and building assessments. Also for 2000, neigh-

Vol. XXVI, No. 1

boring Oil City increased its tax rates more on land than on building assessments, but only slightly.

◆ High taxes on productive enterprises are holding back technological growth in southwestern Pennsylvania (news article in the *Greensburg Tribune-Review*, 12/2/99, C1).

◆ I was surprised to read in the *Wall Street Journal* (11/19/99 W17) that Pennsylvania has more post-school-stay-in-the-same-city children than any other state.

◆ Monsanto genetic research results in saving forestland (*WSJ*, 12/20/99, A26).

Endorsements 477-478

(Stop worrying! We have enough endorsements from leading experts to last us until the year 2020 at least. They are being reprinted here because the endorsers may have something unique to say, and if they like a building-to-land shift in the local property tax we should seriously consider it.)

Governor David Lawrence described Pittsburgh's Graded Tax law, in full effect since 1925, as "a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation, and provides an incentive for building improvements."

Adam Smith (*Good Govern-*

ment magazine, 10/99, p. 6): "Every improvement in the circumstances of the society tends, either directly or indirectly, to raise the real rent of land, to increase the real wealth of the landlord, his power of purchasing the labour or the produce of the labour of other people."

Harrisburg, Pa.:

New Construction Surges After 3-Rate Expansion

In 1984, Harrisburg, Pa. transferred some building taxes to land taxes; new construction surged 27.3% over the previous year. It would seem that if buildings are taxed less, there'll be more buildings, and even more important, if land is taxed more, owners will be more inclined to develop their properties more fully, which by itself means more buildings, more new construction.

In 1988, Harrisburg again trans-

ferred some of its building taxes to land taxes; new construction surged 6.64 times in 1988-1990 as compared to 1985-1987.

Technical: In both cases, the tax transfer was accomplished by lowering the property-tax rate on building assessments and making up for the revenue lost from taxing buildings less by levying a higher tax rate on land assessments - instead of taxing both kinds of assessments at the same rate.

Thus, a two-rate property tax was used and the city government lost no net revenue at all (revenue neutrality). Communities using an alternative method of promoting urban growth - Tax Increment Financing - take a chance that future growth from the project will be inadequate, in which case they'll lose property-tax money.

The new construction was measured by building permits issued as provided by the city's Data Processing Department.

From the Editor

◆ We've been traveling to 2-rate Oil City, Pa. for many years. It's prospering (has a new Holiday Inn and city hall now, for instance). It seems certain that a new study there would show the efficacy of 2-rate.

◆ We are pleased to see from the latest U.S. Census Bureau report that Harrisburg and Allentown have experienced an increase in population, 1990 to 1998. Both are 2-rate cities.

◆ The richest 5% paid over half of the federal individual income tax; the poorest 50% paid only 6.1% ("Tax Features," 10/99, p. 1, reporting on a Tax Foundation study based on 1997 I.R.S. data).

◆ State tax revenues have steadily risen in the 1990s but they still want to tax Internet revenues

(*Wall Street Journal*, 12/20/99, A26, citing a U.S. Dept. of Commerce study).

◆ The *Wall Street Journal* (12/29/99, B1) asserts that Pittsburgh is booming. Pittsburgh is one of our 20 two-rate jurisdictions.

◆ Prices are 12.9 times what they

were in 1932, 9.2 times what they were in 1945, and double what they were in 1980 (accdg. to the *A.I.E.R. Economic Education Bulletin*, 12/99, Gt. Barrington, MA 01230, which we can highly recommend).

The subscription price of this publication is \$20/yr. If you think its message is important, even crucial, then please remit this amount. If you wish to discontinue receiving the publication, mark "Return to Sender" above your name and return it to us. We will pay postage.

Center for the Study
of Economics

8775 Clarendon Court, Suite 217
Columbia, MD 21045

APR 04 2000

LIBRARY
Henry George School
101 E 30 St.
New York NY 10016

NON-PROFIT ORG.

U.S. POSTAGE

PAID

COLUMBIA, MD

Permit No. 1054