

STANLEY A. FREDERIKSEN
702 MOUNDAL DRIVE
FERGUSON, MISSOURI 63135
(314) 521-2514

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From Stanley A. Frederiksen
To State of Missouri Joint Committee on Ad Valorem Taxation - - The Hon.
Henry A. Panethiere (Senate) and the Hon. David Rauch (House) Co-
Chairmen.

Subject THE SITE VALUE CHARGE (LOCATION VALUE CHARGE) TO REPLACE THE REAL
PROPERTY TAX AS THE MAJOR SOURCE OF PUBLIC REVENUE FOR MISSOURI

Occasion Committee hearings at Room 126 J.C. Penney Building, University of
Missouri - St. Louis - - - October 9, 1985

Messrs. Co-Chairmen, and distinguished members of this Joint Committee:

My name is Stan Frederiksen. I'm a native St. Louisan, born, reared and educated here, and currently residing in Ferguson, Missouri. I speak, and offer this testimony, as a private citizen.

May I first commend this Committee upon its dedication and diligence in addressing the major issue of our time, and a major economic issue of all time. May I also express sincere thanks for the opportunity you have given Missouri citizens to present their concerns about our current very complex and almost incomprehensible real property tax system. Your seeking to correct its glaring faults and inequities is deserving of the appreciation of all Missourians.

Let me submit to you that in addressing this problem, our General Assembly may be affected by some degree of myopia - - a focus upon the wrong thing - - the "means", taxation, instead of upon the desired "end result", public revenue! In your September 24 letter to your fellow Missourians you have mentioned the words "tax", "taxation" and "taxpayer" no less than seven times - - yet have mentioned the basic real concern, "revenue", only once, and in that case as part of the phrase, "tax revenue". I affirm that our overall problem is, in reality, the question of how to provide, in our State, PUBLIC REVENUE - - public revenue which is essential to defray the expenses of government, not only at the State level, but at the local level, as well.

In this connection, I ask you to be careful not to equate "taxation" with "public revenue". The two are not the same. Public revenue is the fund needed to cover the cost of necessary government services. "Taxes" constitute only one source, from which public revenue may be derived. And "taxes" are the wrong revenue source!

Fundamentally, there are only two sources from which public revenue may be derived - - there are no others!

1. The taxing of wealth - - taking from people that which they have produced, and which, therefully is rightfully 100% theirs. Their concious efforts have produced this wealth. They are entitled to all of it. Taking from

them anything their efforts have produced, without giving them an exact equivalent in return, for the simple reason that they have it, is outright robbery.

2. Taking Community-created values -- taking, for community purposes, that which the community -- all the people together -- the "government", if you will -- has created. Here is a vast fund of values, created by all the people, collectively, just by their existing, which should be used as public revenue, but which is now going into the pockets of non-producers, enriching them beyond anyone's wildest imagination, and for doing precisely nothing! This amounts to the government levying a legitimate charge for precisely the government services rendered. The charge is upon location values -- the value of sites -- which, alone, are accorded the government services which make those locations, or sites, valuable. The concept is sometime called "land value taxation", sometimes "location value taxation", or another name. However, in no case is this a "tax", because in no case does it involve taking from anyone that which he, or she, has produced. Therefore, it is more accurately called a "Site Value Charge".

It is common to consider the "great number of taxes" all of us now must pay. However, all of them together amount to only one "tax" -- a penalty of some kind upon things which people consciously produce. All of them together, therefore, are wrong.

Why is the value of a location your logical source of public revenue? Because of the way that value is created. The value of any location depends not at all (or very minimally) upon (a) what's on it, (b) what's in it, (c) what's above it, (d) what's under it, (e) who resides on it, or -- and most important of all -- (f) WHO OWNS IT! Its value depends only upon (a) where it is, and (b) what's around it. The community around any location creates a very real value -- the greater and more heavily populated the area around a location, the greater the value of that location. In a sparsely populated or unpopulated area, any location within it has little or no economic value. (Think, please, of the center of the Sahara Desert -- or of uninhabited areas of north central Wyoming. Location values in such areas are nil.). However, a location in a densely populated area, such as New York City, Houston, or another large city, has tremendous economic value, and would draw a very heavy location charge. The charge is right and just, because it goes directly into the treasury of the community which created it.

Will you, of this committee, please work toward gradually eliminating the part of our real property taxes on buildings and improvements -- all man-made -- (and eventually the penalty taxes on income and sales, as well) and, instead, draw public revenue from those values which were created by the public -- those enormous values of locations upon the face of the earth. Herein is the right source of public revenue.

The LOCATION VALUE CHARGE (call it a "tax" if you wish, although it is a legitimate charge for value received, and not a tax, in the sense of its being a penalty of any kind) meets all the ^{criteria for a} right, proper and just source of public revenue. Here are some of the positive results, already confirmed in every jurisdiction which has already begun the institution of the Location Value Charge to replace penalty type taxes on the products of labor:

1. Locations were not created by people -- they came along with the earth, itself. Since every person should get what he/she creates, it follows

that no one should get what he/she did not create. Thus, no one can truly claim good title to any location - - because no one created it.

2. The public levying a legitimate charge for the exclusive possession of a location, invokes the "value received" economic principle. The title-holder, paying the charge, gets exactly what he pays for. And what he pays goes into the public treasury - - is returned to the public which did create the value.
3. The Location Value Charge also follows the "ability to pay" principle. No one is better able to pay for a part of the earth's surface than is the one who owns it - - who owns a part of the "storehouse" upon which and from which all must live.
4. The Location Value Charge stimulates (rather than stifles) production. No one will want to own any location unless he wants to produce from it far more than what he must pay as the location value charge. He'll either produce, or sell the location to someone who will.
5. The estimated more than three trillion dollars in location values now generated by the public, but which are going into the pockets of non-producing title-holders, who do nothing to earn these values, would, if put into the public treasury, quickly wipe out our national debt, if the location value concept were put into place nationally.
6. On our State level, all state and local budgets would be easily met.
7. A location cannot be created, destroyed, moved, or hidden. Thus, a legitimate charge for a location cannot be avoided or passed along to a "consumer" or made a "cost of production". In the case of a sizable charge to the title-holder of a plot of vacant land, there is no "consumer" to pass the charge along to - - and there is, of course, no "production" against which the charge can be made a part of the cost. What all this means is that the Location Value Charge is a system in which "tax loopholes" are impossible!
8. As the Location Value Charge depends only upon where the location is, and what's around it, it does not rise or fall with variations in what is done or not done on the location. It remains essentially the same, whether something is produced on it and from it, or not. Therefore, buildings, improvements and other production are strongly encouraged - - not thwarted. And more production is what we need, to stimulate our economy.
9. It provides exactly equal opportunity for everyone to have access to the earth on the same terms as everyone else.
10. Because it encourages production, it follows that it automatically creates an enormous number of jobs in that construction and other production, with a consequent great reduction, perhaps to the point of "zero", in unemployment.
11. Location Value Charges help all union labor and other labor and management to achieve their objectives of great production, greater salaries, higher wages and more free time.
12. It really assures improvement of neighborhoods and the elimination of slums,

again, because those improvements are not penalized by being "taxed".

13. It assures the preservation, conservation and enhancement of our environment, ecology, open green spaces and natural resources, because the concept draws people back into valuable locations in cities, and stops urban sprawl into rural areas which we are now experiencing because punitive taxes in cities are driving businesses away, and into the countryside.
14. Location Value Charges assure "to each according to what he produces", instead of following the Marxist idea of "to each according to his needs". (Under the Marxist doctrine, did you ever stop to think of who would be the one who determine your needs? Don't you agree that you know best what you need?)
15. The Location Value Charge cannot be shifted by the title-holder to anyone else. (Similar to the truism that if I own a car, I cannot make anyone else buy the gasoline and oil, or pay for needed repairs.)
16. All needed social programs are fully funded by the Location Value Charge. No matter what social programs are determined to be necessary, the Location Value Charge public revenue will be large enough to pay for all of them.
17. It is the only system of raising public revenue which is universal in appeal - - it owes allegiance to no special interest - - it is, indeed, the public revenue system which treats all the people equally - - and provides whatever benefits that are needed for the elderly, the disadvantaged, the handicapped and the poor.
18. Poverty and the hunger problem are directly addressed and solved through the Location Value Charge. As its implementation proceeds, and jobs are created and unemployment reduced and eliminated, no one who wants to work will be out of a job - - and thus there will be no involuntary poverty.
19. The Location Value Charge is the easiest of all possible sources of public revenue to install, to administer, and to implement in every way, including its collection aspect. The assessor need assess only locations - - nothing else. He needn't even visit those locations - - all he needs to do is to study the map of his entire jurisdiction, find where the valuable and less valuable locations are, and assess them accordingly, with the total of all charges in accordance with those assessments entirely sufficient to meet his jurisdiction's budget. And the assessment level is automatic! Locations assessed too high will "go begging". Those assessed too low will be the subjects of a mad scramble for possession. In the end, all assessed values of locations will, like water, find their own levels. (In Taiwan, in which the Location Value Charge already is in place, and where, as predicted, unemployment is reported to be less than 1 1/2 %, each location owner assesses his own location value. If he assesses it too high, his location value charge will be burdensome. If he assesses it too low, the government may buy his location at the low value he places on it. It's amazing how close to true value all real properties - - locations - - are assessed, and charged.)

20. The Location Value Charge may be installed so gradually - - by gradually increasing the charge on locations while reducing the taxes on the buildings and improvements thereon - - that there is never any shock or "hurt" to anyone. Pittsburgh, with its charges against locations now six times the tax rate on buildings and improvements, has been working toward eventual Location Value Charge public revenue only for more than fifty years. Whenever more public revenue is needed in Pittsburgh, rather than invoke a higher income tax, or a sales tax, or something else, the city council simply raises the charge on locations. Result? In the past six years or so, the construction and increased business activity in Pittsburgh has escalated more than six-fold. And - - another half dozen Pennsylvania cities have now adopted the Location Value Charge plan for public revenue, (Washington and Duquesne during the past year), with at least one of these mandating that in ten years all city income (public revenue) shall come from charges on location values, and none on buildings or improvements.
21. The Location Value Charge for cities and local jurisdictions, as it starts the return of urban sprawl people back into the cities, and enhances, once again, our rural areas and open spaces environment, will also result in less travel by citizens to and from their work - - less use of cars - - less burning of gasoline and diesel oil - - less air pollution from those sources, and a consequent cleaner environment overall.
22. The Location Value Charge is nothing more than a system of stimulating building and other construction already in place in our various jurisdictions right now! That system is called "tax abatement"! Scarcely a sizable construction project has been undertaken in over 25 years which is not "tax abated". examples are the St. Louis "Center", the new Union Station project, Busch Stadium, and many others. THIS IS ALMOST PRECISELY WHAT WE ADVOCATE! the Location Value Charge is, indeed, just that - - tax abatement! However, under present conditions, only the rich and powerful are able, through legal maneuvers, blighting of areas, etc. to obtain tax abatement on projected construction, as an incentive to build or improve. This, in itself proves the concept of Location Value Charges as the right source of public revenue. You can see how it stimulates building and production. We ask that all taxes on all buildings be "abated" - - for all time (not just a period of years (after which the tax load falls on the buildings again) - - and for all people, not just the favored few wealthy developers. Under the Location Value Charge, just about everyone who wishes to do so can become a "developer".
23. The Location Value Charge would correct the contradiction now in our Missouri Constitution. That document now provides that locations and the buildings and improvements thereon be "taxed" at the same rate. HOWEVER - - under the "tax abatement" provision, our Constitution violates itself! For, if a building is erected under "abatement", and the building draws no tax for a period of years, the "no tax on the building" is different from some tax on the location, thus violating the Constitutional provision's other provision that the "tax on both the location and the building thereon must be the same!"

Many other advantages to all the citizens of our State, not just a favored wealthy few, can be cited. The above, however, gives you the general idea.

Assuming you understand the concept fully, and feel that, perhaps, moving toward

deriving public revenue from the Location Value Charge can be a powerful and prudent option for the people of Missouri, just how can this concept be implemented, here in our State? By what steps? And by what method most likely to achieve all public revenue objectives, without disturbing our government structure or causing traumatic problems at all for our citizenry? The simple, yet effective steps would likely be about as follows:

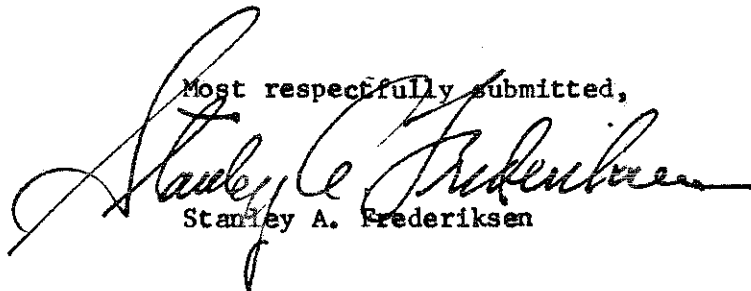
1. The General Assembly should pass a bill to amend our Missouri Constitution to permit ("enable" -- not mandate) local jurisdictions, by majority vote of their citizens, to adopt Location Value Charges as a method of raising local public revenue. Our Constitution, as presently set up, does not allow of this, as pointed out in sub-paragraph # 23, on page 5 (above). The cities in Pennsylvania are rapidly moving in the direction of state-wide Location Value Charges because their State Constitution permits them to. Governor Cuomo, of the State of New York, has recently signed a bill in his State to study how New York may develop the same public revenue system. Arden, Delaware and Fairhope, Alabama are examples of cities in the United States who already derive all their local revenue from the Location Value Charge.
2. Pass the above bill in the spring, 1986 legislative session, so that the proposed Constitutional Amendment can be put before the people of our State for a vote at the November, 1986 election.
3. Generate public interest in the Location Value Charge through all the public relations and media coverage the General Assembly can muster. Do all possible to get the amendment passed. If the citizens can be made to understand all the benefits this move could provide for them, the amendment's passage would be assured.
4. When the amendment is part of our Constitution, local jurisdictions should be approached to adopt the concept, one after another. One, of course, would be first, when its citizens should vote for the Location Value Charge. Its success in the first jurisdiction would result in rapid "follow suit" by other jurisdictions. St. Louis, for instance, would be an excellent city to start this great forward move.
5. As the taxes are gradually eliminated or reduced on buildings and improvements, and the charge increased on locations, to the point where there are no more taxes on buildings, improvements, etc., the process should continue, until taxes are reduced or eliminated, also, on sales income, and other things which are produced by people and are, therefore, rightfully theirs alone.

In Missouri, both the Senate and the House have excellent economic research staffs. I strongly urge that these staffs start at once, with the computerized technology now available, to pin-point all location parcels in some "pilot" jurisdiction (St. Louis or St. Louis County would make a good starting point), and, from this start, determine (a) just who holds title to each parcel, and (b) just who is now pocketing how much (how many dollars) in escalated value, or speculated selling price jumps, because of the presence, in the surrounding areas of other people, who are the ones who create those values, and who deserve them.

Once individual jurisdictions throughout the State find the wonderful results from the Location Value Charge approach, then it will be time for our legislators to consider applying this great concept in all jurisdictions, and on a State-wide basis.

Thanks to all of you for your dedication and diligence, in your very considerable undertaking. Hopefully I have been able to present some information, here, which will help guide your thinking and deliberations throughout your other forthcoming hearings on this subject in various parts of Missouri. In any case, will you please consider me to be at your service, and ready to offer additional information, answer questions, or present further testimony. You have here an option which is unsurpassed anywhere for dealing with your actual prime objective - - - not "taxes" or "taxation", but how best to generate needed PUBLIC REVENUE!

Most respectfully submitted,

A large, stylized handwritten signature in dark ink, which appears to read 'Stanley A. Frederiksen'. The signature is written over the typed name below it.

Stanley A. Frederiksen