Norristown

Northern Perspective

BY MICHAEL J. McMANUS

Pennsylvania Cities Reap Benefits of 'Incentive Taxes'

Scranton and New Castle, Pa., don't realize it, but they gave this writer a splendid Christmas present — victories in property tax reform — based on ideas which they first read about in this column.

My goal in writing is to suggest answers for real problems faced by people at the community level. My pledge to readers each week is that I will not examine a problem unless I suggest an answer. Perhaps the biggest problem facing the North's old industrial cities is getting new jobs when what is seen on every side is massive job loss. This is particularly true in the steel-producing areas of the Midwest.

Typically, the burden grows greater when city governments are forced to raise taxes on a shrinking property tax base. Each tax increase makes the city more unattractive for new development or redevelopment.

But some years ago, I saw an answer in Pittsburgh. It actually found a way to raise property taxes that encourages economic development!

What we call "property tax" is really a tax on two types of property: land value and the "improvements" or buildings. In most states, the tax on both is the same. But in 1913, Pennsylvania passed a law to permit different rates on land and buildings. Pittsburgh and Scranton doubled their tax on land while holding taxes on improvements constant. "That discouraged holding vacant land for speculation and provides an incentive for building improvements," said David L. Lawrence, a long-time mayor of Pittsburgh and later governor of the state.

In 1979, Pittsburgh almost redoubled its rate on land while holding its building rate constant, so that the rate became 9.75 percent on land and 2.45 percent on buildings. Similar changes in 1980 and 1982 widened the differential to 15.15 percent on land and to 2.7 on buildings.

Regularly, I reported the results. The value of new construction from 1980-84 soared six-fold higher than the pre-change years of 1974-8. And 1985 and early 1986 figures are 2.3 times that of 1984. Yet this is in a city which lost its Gulf Oil headquarters, and 20,000 steel jobs.

New Castle, another hard-hit city of western Pennsylvania, read of Pittsburgh's progress and elected a mayor named Angelo Sands who studied "incentive taxation" under its top American economic architect, Steven Cord, director of the Center for the Study of Economics.

In 1982, New Castle voted to change its 2.5-percent tax on land and buildings to 4 percent on land and 2.28 on buildings. This shift CUT the property taxes of 78 percent of homeowners — though it raised more revenue! The New Castle News predicted it would "provide more revenue for the city by encouraging people with underdeveloped land to build."

That's exactly what's happened, according to a new report from Cord.

Some numbers: building permits in the 1979-1981 years averaged $1.8 million; they shot up to an average of $3.17 million in 1982-5!

Could this have been due to an extraordinary boom in New Castle? No, says current Mayor Dale Yoho: "Our official unemployment is 7.3 percent, but it is really 12-13 percent." The dual tax rate "does not attract new business, but it does encourage people to develop their property. Small stores expand. Rockwell and other corporations here are expanding."

The Scranton City Council debated the issue last Monday. Faced with a loss of federal Revenue Sharing funds of $1.7 million, the mayor proposed an increase of the wage tax from 2.2 to 2.35 percent, and an across-the board property tax hike. City Councilman Michael Melnick argued that the entire property tax hike should go on land, as had an increase he fought for in 1980 after reading of the Pittsburgh experience in this column: "A tax on land is kinder than a wage tax on income. A tax on land can raise the same income and encourage landowners to develop their sites more efficiently."

(McManus is a syndicated columnist.)

13

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