PENNSYLVANIA

By PERCY R. WILLIAMS

An explanation of the Graded Tax Plan operating in the second-class cities of Pennsylvania whereby land is taxed at twice the rate applying to improvements, and an outline of the legislation allowing this plan to be extended to cities of the third class.

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The article here reprinted is one of several interesting factual reports contained in *Land-Value Taxation Around the World,* published in 1955 by Robert Schalkenbach Foundation (price $3). This book explains the progress being made in various countries towards collecting the community-created value of land for community benefit, and brings together important material that heretofore has been widely scattered.

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Pennsylvania

by PERCY R. WILLIAMS

PENNSYLVANIA HAS THE DISTINCTION OF BEING THE first state of the Union to make provision for the application, in a manner constitutionally sound, of a concrete plan for cities to tax improvement values at a lower rate than land values. The two second-class cities, Pittsburgh and Scranton, have operated under such a plan for 40 years; the 47 third-class cities have had the option since August 1951, but as yet none of them has used it.

PITTSBURGH

Pittsburgh adopted in 1914 the policy of placing the principal burden of municipal taxation upon land values. And so far as the city administration is concerned, this policy has been steadfastly maintained until it has come to be regarded as a permanent feature of its public revenue system. In order to inaugurate this important change, it was necessary at that time to provide for a similar change in the tax system of the other city of the second class, which is Scranton. But Pittsburgh, as the pioneer, has naturally received the greater attention and publicity.

Leading civic organizations played an important part in initiating the movement which brought about the change. The Pittsburgh Civic Commission made a thorough analysis of the city's tax system with a view to lifting the burden of taxation from improvements and placing more of it upon the great landholders who were impeding the city's progress by holding the land at prohibitive prices. To this end, its Housing Committee had published in 1912 a pamphlet entitled *An Act to Promote Pittsburgh's Progress,* which recommended that all buildings in the city be taxed at a rate of 50 per cent less than land values, the change to be accomplished by gradual steps.

The progressive political atmosphere prevailing in 1913 contributed to the achievement of the necessary legislative support, and the very gradual nature of the measure tended to lessen opposition. The sponsors of the measure were able to enlist the support of Mayor William A. Magee for a bill embodying the recommendations of the committee, which was introduced in the State Legislature as a mandatory measure by Representative A. C. Stein of Pittsburgh. The act (No. 147) applying to the two second-class cities, Pittsburgh and Scranton, was passed by a decisive majority in both houses, was signed by Governor John K. Tener on May 15, 1913, and what has come to be known as the Graded Tax Law went into effect on the first of January 1914, by which time the city Department of Assessors had completed its first separate assessment of land and buildings as required by the act.

The text of the act prescribing the terms of the change is as follows:

> They [the assessors] shall classify all real estate in the city in such a manner, and upon such testimony as may be adduced before them, so as to distinguish between the buildings on land and the land exclusive of the buildings, and to certify to the councils of said city the aggregate valuation of city property subject to taxation. It shall be the duty of said councils, in determining the rate for the years one thousand nine hundred and fourteen and one thousand nine hundred and fifteen to assess a tax upon the buildings equal to nine-tenths of the highest rate of tax required for said years; and for the years one thousand nine hundred and sixteen, one thousand nine hundred and seventeen, and one thousand nine hundred and eighteen to assess a tax upon the buildings equal to eight-tenths of the highest rate of tax required to be assessed for those years; and for the years one thousand nine hundred and nineteen, one thousand nine hundred and twenty, and one thousand nine hundred and twenty-one, to assess a tax upon the buildings equal to seven-tenths of the highest rate of tax required to be assessed for those years; and for the years one thousand nine hundred and twenty-two, one thousand nine hundred and twenty-three, and one thousand nine hundred and twenty-four, to assess a tax upon buildings equal to six-tenths of the highest rate of tax required to be assessed for those years; and for the year one thousand nine hundred and twenty-five, and for each year thereafter, to assess a tax upon the buildings equal to five-tenths of the highest rate of tax required to be assessed for the year one thousand nine hundred and twenty-five, and for each year thereafter, respectively, so that upon the said classes of real estate of said city there shall, in every year, be two rates of taxation.

Effects of the law were almost immediately apparent. Though the first step had been a small one, it had been reinforced by a sweeping reform in the system of assessing land, accomplished by an earlier act in 1911. So that in 1913 and 1914, while other industries of the city lagged, the building business flourished. The effects were also felt by the large landowners, who were, of course, anticipating greater repercussions when the law should become fully effective. These opposing interests began an agitation for the repeal of the law. Owing chiefly to the support of Mayor Joseph G. Armstrong, who had succeeded Mayor Magee in 1914, and who represented an opposing Republican faction, the Legislature was actually induced to pass a repealer in 1915; but backed by strong protests from the Civic Commission, the Allied Boards of Trade, North Side Chamber of Commerce, Pittsburgh Housing Conference, and various other organizations and individuals, Governor Martin G. Brumbaugh vetoed the bill. Since that time, while certain interests have continued their opposition, the Graded Tax Law has not been very seriously threatened.

HOW THE GRADED TAX PLAN FUNCTIONS

In Pittsburgh and Scranton the partial exemption of improvements has been effected not by reducing the assessed valuation of buildings but by levying a lesser tax rate on buildings than that levied upon land, leaving the normal system of assessing real estate undisturbed except to provide for separate assessment of land and buildings and for the reporting of separate total assessments. Thus the assessments of both land and buildings are intended to reflect their true market value as indicated by selling and asking prices, by rents and by reproduction costs of buildings, less depreciation.

The Graded Tax Plan has been in full operation since January 1, 1925, when the half rate on buildings became effective. The Act of 1913 provided for the partial exemption of improvements by gradual stages, with the ratio increasing at each triennial assessment. There were five successive steps, at each step a certain proportion of the tax burden being shifted from buildings to land. In the first period, 1914–15, the tax rate on buildings dropped to 90 per cent of the rate on the assessed value of land; in the second period, 1916–18, to 80 per cent; 1919–21, to 70 per cent; 1922–24, to 60 per cent; and in 1925 and thereafter, to 50 per cent.

Mayor Magee, who had been returned to office in 1922 and thus was directing the city administration when the act became fully effective, said in 1925:

> As a result of fifteen years of legislation we have gradually relieved ourselves of an awkward tax situation, both unwise and unjust. I am principally interested in two things regarding taxation—the progress of the Graded Tax Law and the problem of assessments for public works. Both concern the unearned increment, the profit of the landowner who becomes rich through the growth of the community without effort on his own part.

The Graded Tax Plan also enlisted strong newspaper support. Commenting in 1927, after two years of its full operation, the Pittsburgh *Post* said:

> Formerly land held vacant here was touched lightly by taxation, even as it was being greatly enhanced in value by building around it, the builders being forced to pay the chief toll, almost as if being fined for adding to the wealth of the community. Now the builders in Pittsburgh are encouraged; improvements are taxed just one-half the rate levied upon vacant land. Building has increased accordingly.

Here is illustrated how ideas once thought radical and impractical come gradually into general acceptance.

There is, of course, no loss of revenue to the city through the graded tax. It simply brings about a shift in burden from buildings to land. Its effect is upon the respective tax rates on land and buildings, which are fixed annually by the City Council at such figures as will produce the sum estimated as necessary to meet the budget.

For the year 1953 the city tax rates for Pittsburgh were $32 per $1,000 (32 mills) on land, and $16 per $1,000 (16 mills) on buildings. The total taxable real estate valuation was $1,065,173,432, of which $414,326,522 represented the value of land and $650,846,910 the value of buildings.

WHAT THE PLAN HAS ACHIEVED

The Pittsburgh tax plan, as it now stands, is a moderate tax reform. While it represents a distinct departure from the practice prevailing in other American cities, its effects have been limited by reason of the fact that the owners of improved and unimproved real estate in Pittsburgh are subject to very considerable tax levies for school and county purposes over which the city administration has no control or jurisdiction whatever, and which are therefore not affected by the Graded Tax Law. Unfortunately, no single act of legislation could be drafted that would include tax levies of the school district and the county.

Its chief significance, therefore, is that it has established a new and more enlightened policy in municipal taxation. While the actual experience in this case has not gone far enough to show the benefits that might flow from the full exemption of improvements or from a very high tax on land values, yet it is possible to ascertain just how it affects each individual taxpayer and thus more accurately to predict how the complete untaxing of improvements would operate.

For the year 1953 the shift in taxes from buildings to land was approximately $4,000,000. The relatively high tax on land values has definitely checked land speculation by making it unprofitable to hold valuable land out of use. The apparent tendency is to stabilize the value of land at a time when building values have been soaring. While the selling value of land has fluctuated, as elsewhere, with booms and depressions, the average market value of land in Pittsburgh today is but little higher than the average value prevailing before the graded tax was introduced 40 years ago.

It is estimated that with county, school and city taxes bearing in varying degrees on the land, more than one third of the total economic rent of Pittsburgh is now being collected annually in taxes by the local taxing authorities. The combined land tax rate in Pittsburgh now exceeds 5 per cent and is based on assessments which are presumed to be close to full true value.

While the rapidly growing costs of government and of public services and improvements, together with the greatly increased cost of building, have offset to a considerable extent the benefits flowing from the relatively lower tax rate on improvements, nevertheless the half rate on buildings levied by the city since 1925 has had a very wholesome effect by reducing the burden that would otherwise have fallen on improved real estate.

Despite the fact that the land area of Pittbsurgh is quite restricted and there has therefore been only a modest growth in population within the city limits, there has been a vast amount of building in Pittsburgh since the introduction of the Graded Tax Plan. This has been due in a substantial degree to the tax policy which encourages the improvement of real estate and discourages the holding of vacant or inadequately improved land. Total assessed building values have much more than doubled in the period between 1914 and 1953, aided by the erection of more and better buildings of all kinds.

The great majority of the real estate owners are saving money in taxes through the Graded Tax Law, and in most cases this saving amounts to a very substantial percentage of their city taxes. It follows, of course, that the owners of vacant or underimproved land are paying higher taxes, and where such land is of considerable value it is not likely to remain unused for any long period.

Owners of improved property of all classes are benefiting in lower taxes by reason of the graded tax—though this, of course, is not the case where the land exceeds the improvement in value. A survey of a large number of typical cases shows large annual savings in taxes paid by various office buildings, manufacturing plants, warehouses, apartments and single-family dwellings. The degree of the saving varies with the size and type of building in relation to the value of the land upon which it stands.

Apartment buildings almost uniformly show substantial savings in taxes under the graded tax because they are usually structures of some size and value, erected upon land of moderate price such as is to be found in residential districts. Several of the larger apartments show savings as high as 30 per cent and as much in some instances as $10,000 for one year.

But it is the home owner who emerges as the chief direct beneficiary of the graded tax. Only in very rare instances do we find one who has not been helped in some degree. The most striking example of the effect upon taxes on homes is afforded by an analysis of those paid by property owners in the 13th Ward, a typical residence ward. This showed that out of a total of 4,252 assessments there were 3,250 cases where taxes paid under the graded tax were less than would be paid under the old flat-rate system, these savings ranging from 5 to 30 per cent. Only 22 improved properties in this entire ward paid higher taxes.

Some have sought to convey the impression that under the Graded Tax Plan the owners of large office buildings profit at the expense of the home owners because of the relatively small building investment of the latter. This assumption is quite contrary to the facts as developed. The high land values in the downtown business district much more than offset the partial exemption of the skyscrapers and other large structures in that section, while the home owner, though possessing a structure that seems insignificant by comparison with the skyscraper, is apt to find the value of his building from two to ten times greater than the value of the land upon which it stands. Comparatively few of the business structures in the downtown districts have a value sufficient to offset the high land value. But some of the larger downtown office buildings and hotel properties also show tax savings of from 10 to 15 per cent, in certain instances the actual savings in taxes for one year being in excess of $7,000.

WIDE SUPPORT FOR THE PLAN

While the graded tax was never submitted to a referendum of the people of Pittsburgh (there being no occasion to do so, and no legal provision for such a referendum), yet it has proven to be politically popular. This is evidenced by the strong support which it has received from intelligent public officials and political leaders of all parties. It has been a nonpartisan rather than a partisan issue. While determined opposition had to be overcome, Republican and Democratic mayors and Republican and Democratic councilmen alike have given it strong endorsement.

Pittsburgh's long experience has proven the soundness of the method employed and has also shown how successful political action under a gradual approach can be achieved. If the results have been less than some expectations, it is due simply to the limited scope of present legislation and not to any inherent defect in the method of approach. Nothing has occurred to defeat or nullify the Act of 1913. Pittsburgh is not to be regarded as radically different from other great American cities, but it points the way.

Pittsburgh is now attracting greater attention and more national publicity than ever before as a progressive and prosperous city, and is becoming a cleaner and more attractive place in which to live and do business. Vast building and rebuilding operations are in progress which will transform a large section of the "Golden Triangle." Over $50,000,000 is being invested in the development of the new Gateway Center adjacent to the proposed Point Park to be developed on the site of the historic Fort Pitt, and other great new office buildings, manufacturing plants and apartments are in process of erection.

In the words of an editorial which appeared some years ago in the Pittsburgh *Press:*

> A progressive law like Pittsburgh's, removing the tax burden from buildings as far as practicable, and putting it increasingly on land, is certain to be opposed by a certain class of rich landlords, and the extension of such legislation must be secured by virtue of enlightened public opinion, demanding what is clearly in the interest of the average businessman and of the public in general.

SCRANTON

While the operation of the graded tax in Scranton has not received adequate attention, nor been the subject of special study and analysis, from all available information it appears that this community in the hard-coal region of Pennsylvania is well satisfied with the Graded

Tax Plan, and there has never been any serious thought of repeal.

This judgment is confirmed and supported by a report in May 1950 from Roy Stauffer, Chairman of the New Industries Committee of the Scranton Chamber of Commerce, who says:

> We have found that our method of taxation on land and improvements is a factor in attracting new industries.

For the year 1953 the city tax rates for Scranton were \$37 per \$1,000 (37 mills) on land, and \$18.50 per \$1,000 (18.5 mills) on buildings. The total taxable real estate valuation was \$98,107,158, of which \$39,176,093 represented the value of land and \$58,931,065 the value of buildings.

THE THIRD-CLASS CITIES

Unlike many other states, Pennsylvania's Constitution permits the taxing authorities, if authorized by specific state legislation, to differentiate between land and improvements in the levying of taxes. There are exactly 50 cities, with a combined population of approximately 4,500,000, or slightly over 44 per cent of the state's total population. Of these 50 cities, 47 are classified by law as cities of the third class, only the three largest cities enjoying a higher rating. These third-class cities range in population from 7,000 to 125,000.

A bill granting to the third-class cities the optional privilege of taxing land values at a higher rate than improvements was passed by the Senate on April 17, 1951, by a vote of 50 to 0, and by the House on the following August 2 by 184 to 1, and was signed by Governor John S. Fine as Act No. 299 on August 17, 1951. This legislation, which deals solely with the taxation and assessment of land and improvements, has also been incorporated in Senate Bill No. 357, which codifies all third-class-city legislation. The act reads in part as follows:

> The council of any city may, by ordinance in any year, levy separate and different rates of taxation for city purposes on all real estate classified as land exclusive of the buildings thereon and on all real estate classified as buildings on land. When real estate tax rates are so levied they shall be uniform as to all real estate within each such classification and such rates shall be determined by the requirements of the city budget as approved by council.

In any of the 47 Pennsylvania cities of the third class, city councils may now direct the assessors to make a separate assessment of land and buildings and at any time may levy differential rates. As the legislature has set no fixed ratio between land and building tax rates, such as now prevails in second-class cities, it is quite possible that some cities may go farther than Pittsburgh and Scranton have gone.