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The Taxable Capacity of Land

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Thank you, Mr. Chairman. To begin, I will comment on some points made by previous speakers. First, two or three of them said the proposed tax shift off buildings onto land would have no great effect. Since it doesn't matter, perhaps they won't mind doing it my way. What they are implying, however, is stronger than "it doesn't matter." Rather, it is "if it ain't broke, don't fix it." Aristotle and Cicero probably had names for that: let's call it the argumentum ab inertiam. Americans change everything else in their lives with as much gusto as regret. Change for its own sake conveys benefits as well as imposing costs, so this argumentum by itself is a standoff. Good: now we can examine the case on its merits.

Here is why it does matter. Take a property tax rate at 2% of the market value of a new building. Over fifty years, tax payments add up to 100% of the original value. That's a lot. To be sure, we must remember the "time value of money," and discount those future payments to the present. Doing so brings that 100% down to about 30%, more or less, depending on your discount rate. Thus, the impact of a 2% property tax on a new structure is about the same as a 30% building permit fee levied once, at the time of building. Ouch!

Another way to see it is to compare the tax rate with the mortgage interest rate. Each of these is a percentage charge on the cost of the building. One should adjust the high nominal mortgage rate for inflation (subtract the inflation rate), to get the "real" interest rate. If this real interest rate is 4%, a 2% property tax added to it raises your finance costs by one-half, i.e. from 4% to 6%. Thus, either way you perceive it, it matters.

Second, I must correct a basic error in the 1986 Report circulated here, The Two Rate Real Property Tax System. I was misquoted in it in 1986, on what would be page 83 if the pages were numbered.[1] There you find me allegedly saying the present property tax (including buildings in the base) is superior to a tax based on land only. I never said that, either in the place cited, or anywhere else. I deny it; I disclaim it. I wrote George Gerber that in 1986. I am not one to carry a grudge for six years, but here that darn thing is again, uncorrected, circulated to this meeting in 1993. It's not so. Here is what is so: I recommend a tax on pure site values. It is superior to the present property tax. I hope my position is now clear.

Having vented that, I fully agree with what the author, Mr. Farbstein, said about land being underassessed. He makes the point well. There is great latitude in the assessment process. This latitude is now used to lower the fraction of the property tax base that is listed as land value, and raise the fraction that is listed as building value. It could just as well be used the other way, and has been whenever assessors got that message through the election returns. This would have roughly the same effect as going to a two-rate system on a more formal basis - except, obviously, that the formal basis is more permanent, reliable, and generally respectable.

I have here data I worked up in Milwaukee in 1965 indicating that, if land were assessed correctly, the land fraction of the real estate tax base would be over twice what the City Assessor reported. His fraction was 31%; it should have been 70%.

How does one come to so startling a finding? What I did was study sites on the eve of demolition. When you buy an old junker to tear down and replace with a new building, you (the market) are obviously recognizing that the building has no residual value.[2] All the value is then in the land. However, in Milwaukee in 1965 the Assessor was saying the building was worth

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[1]They aren't, you just have to count, if you care that much.

[2]Sometimes the junker remains physically sound, but suffers from obsolescence, especially from locational obsolescence. Economically it is the same, a loss of value.

about three times as much as the land, just before tear-down. That is a good way to measure to what extent land is underassessed.

Try that in Manhattan. When the visitor first ogles its skyline, it seems to be one big modern high-rise. If you poke around on foot much, though, you soon realize those are the exception. Most of the lots are covered with obsolete junk, commanding rents mainly for their location value. Check the Empire State Building. Old as it is, it is still nearly the tallest building in the world, in a so-so reach of 5th Avenue, many blocks from the 100% location. Even so, when the site and the building sold in separate transactions, a few years ago, the site represented 1/3 of the total value. What does that say about the land fraction on neighboring parcels, covered only with the remains of ordinary old structures?

Third, some speakers have remarked on our Byzantine structure of overlapping governmental units, and the difficulties inherent in any change. The problems are undeniable, but surrendering to them is a formula for paralysis, defeat, and decay. Here is how it worked in my state. California has long had a strong undercurrent of support for the site-value-tax idea. Twenty-five years ago State Senator Albert Rodda became chair of the Senate Finance Committee and started pushing. As a responsible public leader, he assigned a professional, Jack Massen, to lay out the intricacies of intergovernmental relations, and what would have to be done to adapt to a change in the property tax base. Massen produced a volume four inches thick. Few read it, but its daunting length persuaded a majority, without intending to, that change - any change - was too big a can of worms to open.

Meantime, tensions mounted, and along came Howard Jarvis in 1978. I despised the man and his ideas, but he taught me a lesson. When they threw the nit-picking questions at him, he answered like this: "(Expletive deleted), let those (expletives deleted) in Sacramento figure it out; that's what you're paying them for!" Irresponsible? Maybe so, but he won; and they did figure it out, fast.

So, I suggest if you think site-value-tax is a good idea, avoid being drawn into nitpicking about the adjustments among

overlapping jurisdictions. Of writing many scenarios there is no end, and they are a weariness of the flesh. I do not suggest shutting your eyes to needed fine-tuning, as Mr. Jarvis bade his followers. Just assume, realistically, your legislators can and will do that when they have to, even if they kick and scream all the way. Now, rather, is a time for positive thinking on basic issues.

Fourth, I want to prompt Mr. Block to resolve what seems a basic inconsistency in his criticism of the tax on site values. On the one hand, he appeals to our faith in free markets, and faults site taxes for forcing landowners into early redevelopment, against their free-market judgement which is axiomatically unerrant. Then he turns around and says "The City" (presumably its Council and Planning Department) should play a strong role in deciding what is and is not built. Is it consumer sovereignty he would defend, or political sovereignty?

In fact, the proposal to exempt buildings and focus property taxes on site values is premised on the market concept of consumer sovereignty, unlike the present property tax. The case may be summed up like this: <u>if the tax on a parcel varies with the use of the parcel, then the tax biases choices against the use more taxed</u>. Economists call the land tax "neutral," for that very reason: it does not vary with use. It does not bias the choice of uses; the consumer sovereign prevails. "No other tax can make that statement."

In support of Mr. Block, I do not view that as saying we should throw away other social controls over land use. I have written a short piece, "Land Planning and the Property Tax,"[3] showing how land taxation strengthens the hand of planners and helps them and the market work together. There are a few libertarians who would terminate city planning altogether, but that is pretty extreme, and not the proposal we should be considering here today. Rather, let us consider a measured proposal, an incremental change within the framework of present legislation and custom.

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[3] <u>J. of the American Institute of Planners</u>, 35(3):178-83 (May 1969). Also available from the writer. I attach a copy, in the hope it may be included with these proceeding.

The main question I am assigned is whether the taxable capacity of land without buildings is up to the job: whether the amount of revenue will be adequate. You might say I have been asked to give a "Sermon on the Amount." The answer is "yes"; the reasons follow.

The universal state and local revenue problem today is whether we must cap tax rates to avoid driving business away. It is exemplified by Governor Pete Wilson of the suffering State of California. He keeps saying, again and again, we must make a hard choice: cut taxes and public services, or drive out jobs and businesses. (When a public figure gives you two choices, you know they're both bad, and he has one of them in mind.) Who could serve up an easier balloon ball for a land taxer to hit over the wall? You may tax the daylights out of land per se, and not one square foot will walk out of town. The only bad thing to say about its incentive effects, which has been said here today, is that it stimulates development and makes jobs. If some people think that is bad, maybe such thinking is the problem.

That is the answer to Governor Wilson. I hope that here in The Empire State you will supply a practical demonstration of that answer, one that we may then use to inspire The Golden State. California now, following Proposition 13, has become a good example of what happens when the property tax is pushed down toward zero. It forces higher taxes on production and exchange. Non-property taxes, you know, mostly have the character that they "shoot anything that moves," penalizing and discouraging economic activity. New buildings bear the brunt of these new taxes and impost fees, at the time they are built, offsetting the benefits of their probable lower future property tax rate.

Most California land, on the other hand, is now taxed at well below the allowable max of 1%. Little wonder that our enterprise, once so dynamic, flexible, and vital, is giving way to stasis and decay. When you tax land, the market moves it to owners who join it with labor and capital as a vehicle for enterprise or shelter. When you untax it, the market moves it to owners who hold it more passively and obstructively as a "store of value."

The property tax, rather than "shoot anything that moves," is a charge on <u>in</u>activity. It taxes both lands and buildings on

their market value, regardless of how they are used. "Hold on," you might say, "how about the activity of erecting those buildings themselves?" Yes, touché, the property tax in New York today does shoot at that, but that is why we are here today, to suggest modifying the tax to exempt buildings, making it a 100% tax on inactivity, on simply sitting on God's land.

"Hold on again," I have heard, "how much revenue can land yield by itself?" That is why I am here today. I assure you it can yield more than local governments need, a point I will support in several ways.

I have already remarked on how the taxable capacity of land is camouflaged by a consistent tendency to underassess it, relative to buildings. There are several reasons this happens, but today we just need to know the fact: it happens. There are several studies in point, the most general one being the quinquennial Reports of the U.S. Census of Government.

Besides that, exempting buildings from the property tax will raise the value of the land that goes with them. When you exempt buildings and uptax land, you are still taxing the same parcel of real estate, you are just taxing it in a different way. What you don't get from the building you can now get from the land, whose taxable capacity is enhanced by your exempting the building, and all potential future buildings, on the parcel. The process of arbitrage, the higgling of the land market, should make the land value rise by about the amount of the discounted present value of the building taxes abated. In our previous example, we figured that at about 30% of the cost of a new building.

"What, then, has changed?", you might ask. Fair enough, ask. What's changed is that your property tax is no longer biased against renewal, against replacement of old by new. Neither is it biased against the full development of the economic capacity of each site. All the ground rents that are now aborted by deferral of renewal, and by underdevelopment, will be generated by new, full development. They will add to the value of land, your city tax base.

For example, Pittsburgh in 1980 downtaxed its buildings and uptaxed its land, and is fiscally very sound, much moreso than

bleeding California. It is raising revenue and also attracting capital: a nice combination.

How about corporate stock? Should we exempt that kind of wealth from the property tax? Actually, almost all jurisdictions already do exempt it, along with other "intangible" property. Not to worry, however, you tax their assets: corporations are the major landowners in most jurisdictions. When you rank property owners by value of holdings, the top ten on most tax rolls are all corporations. None of their fancy multi-national profit-shifting through layered ownership of foreign Subs, and phony transfer pricing, can camouflage or hide their taxable property on your assessor's maps.

"Wait another minute," I hear. Some corporations build auto plants in cow pastures, with a high fraction of building value. If you exempt buildings, you let them off easy. There are cases in point, I concede, like the blue-collar industrial suburbs of Cudahy and South Milwaukee, Wisconsin. Probably you could have said that in Amsterdam, N.Y., when the rug industry was thriving there. Amsterdam's fate, however, makes a point about that. An industry that depends on your land, your location, is likely to stay put; but an industry that brings in most of its own assets, in the form of capital, is mobile. What it brought in it can take out again.

Buildings look rooted to the spot, but that is illusory; those roots are temporary. Buildings depreciate; they may be milked through undermaintenance, and the capital consumption allowances (CCAs) reinvested elsewhere. After a few years the plant is an empty shell; they close it and silently steal away. If they really need nothing but a cow pasture, they can find ten thousand others, anywhere, and put their CCAs there. You are wise not to tax such plants out of town. You need them more than they need you.

In other cases, industries occupy land of high value that is wrongly assessed low simply because industry occupies it, and it has not been subdivided. The bias of assessors is to value industrial "acreage" low, relative to improved "lots," even though they lie cheek by jowl. It is a kind of wholesale discount for owners of "raw" (undivided) tracts. For example, in West Allis, Wisconsin, the southwest corner of the Allis-Chalmers

plant occupies the northeast corner of the 100% location, the most valuable commercial site in town. That land, with the same retail potential as the other three corners, is assessed as raw industrial acreage, as though it were in the boonies, with no recognition of its high location value for retail/office use. To make a land tax work, the assessor must be reinstructed to value that land at its highest and best use rather than as ordinary raw acreage. Exempting buildings would create the necessary pressure, thus solving the very problem that otherwise might be taken as a point against it.

Many corporations are in retailing. They own chain stores, malls, gasoline stations, auto dealerships, major real estate "developments," drive-ins, office space, department stores, banks, "power centers," etc. As to these, shifting to the land basis will shift more of the tax burden to them, because retailing has a higher land fraction than any other major land use (except vacant, golf courses, cemeteries, parking lots, etc.). That is because location is more critical to retailers than other businesses. You can tell this by their high rate of tear-downs and remodeling.

Among its other effects, site-value taxation will induce some land to shift from retail to industrial use. Recall that exempting the building, or prospective building, lets buyers bid more for land. The higher the building fraction, the stronger is that force. Thus the present system, which is biased against buildings generally, is biased against industrial compared with retail uses. Removing that bias will help industry outbid retail for land - not all land, of course, but land on the tipping point between the uses. Most towns today seem oversupplied with retailers, compared with their shortage of basic industries. Shifting to the site-value basis of property taxation helps redress that balance.

"Hold on once more," I hear, "not so fast, how about the mansions of rich people?" A fair question: how, indeed, can you justify exempting them from taxation? Here are some data from British Columbia that speak to the point. They are from the area around Vancouver (The "Lower Mainland") and the southern part of Vancouver Island, around Victoria, where over half the people in the province live. B.C. practices higher quality professional assessment than most places; data from its rolls are reliable.

Cities and districts around Vancouver and Victoria are ranked, in Table 1, according to the land value per property (single-family residences). These range from nearly $700,000 @ in the "University Endowment Lands" district (very posh), to around $40,000 @ in the modest "Victoria Rural" district. The last column, LSREV (Land Share of Real Estate Value), shows the land value (L) as a share of the total value (B+L).

These shares range from a high of 80% on the University Endowment Lands down to 38% in Colwood, and 39% in Victoria Rural. In between, the numbers follow the trend closely. The dearer the land parcels, the higher is the "land fraction," (the fraction of total real estate value represented by the land). From such data, one might formulate a rule along the lines that "the lot value increases with the square of the house value." It is hard to be so precise, and not necessary.[4] The basic relevant rule is that people's houses are more alike than the value of their lots. It is lot value, more than house value, that divides the rich from the poor.

The average house (without land) in the posh University Endowment Lands jurisdiction is worth 2.8 times the average in the Victoria Rural jurisdiction ($173.1/$61.9). The average land parcel in the University Endowment Lands is worth 17.5 times the average in the Victoria Rural jurisdiction ($692.5/$39.6). Just savor that comparison for a while. The house that shelters the average rich family is worth 2.8 times the house of the average modest family, while the land under the house of the rich is worth 17.5 times the land under the house of the modest. Again, it is lot value, more than building value, that divides the rich from the poor. Seldom will you find an economic rule more strongly supported by data.

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[4]Technically, it will not be a nice easy integer like the square, but you get the idea.

TABLE 1

Land Values (LV) per Residential Property, Building Values per Residential Property, and Land as Share of Total Real Estate Value (LSREV)
Data from British Columbia, Lower Mainland and Victoria regions, 1992[5]

JURISDICTION	LV PER PROPERTY ($K)	BV PER PROP. ($K)	LSREV[6] L/(L+B)
UNIVERSITY ENDOWMENT LAND	692.5	173.1	.80
WEST VANCOUVER	276.7	130.2	.68
VANCOUVER CITY	216.3	84.1	.72
LIONS BAY	152.7	110.6	.58
OAK BAY	145.9	93.3	.61
BURNABY	144.6	96.4	.60
N. VANCOUVER DISTRICT	140.7	75.8	.65
BELCARRA	130.5	87.0	.60
RICHMOND	127.9	65.9	.66
NORTH SAANICH	116.8	112.2	.51
NEW WESTMINSTER RURAL	111.6	74.4	.60
N. VANCOUVER CITY	108.0	78.2	.58
WHITE ROCK	100.1	64.0	.61
DELTA	99.8	81.7	.55
SAANICH SD 63	96.3	104.3	.48
NEW WESTMINSTER CITY	95.8	88.4	.52
ANMORE	91.1	66.0	.58
COQUITLAM	88.2	84.7	.51
PORT COQUITLAM	88.2	95.5	.48
PORT MOODY	87.2	80.5	.52
SAANICH SD 61	81.8	78.6	.51
SURREY	78.5	81.7	.49
VICTORIA	76.5	86.3	.47
ESQUIMALT	71.3	65.8	.52
VIEW ROYAL	69.8	72.6	.49
SIDNEY	67.0	64.4	.51
CENTRAL SAANICH	66.7	84.9	.44
METCHOSIN	61.2	84.5	.42
LANGLEY (C)	60.2	73.6	.45
GULF ISLANDS	57.5	59.8	.49
LANGLEY (T)	53.7	74.2	.42
COLWOOD	51.1	83.4	.38
VICTORIA RURAL	39.6	61.9	.39

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[5]Basic Data from B.C. Assessment Authority, thanks to Alistair Crerar.

[6]LSREV = Land Share of Real Estate Value

An American counterpart of Canada's University Endowment Lands is Beverly Hills, California, where land value composes some 80% of residential values, and the mean parcel is worth something like a million dollars. Beverly Hills, with its great wealth and mansions, is known as "Tear-down City," because many a grand old palace is torn down every year to salvage its site for the next, grander mansion. In a land boom, such as crested in 1989, half the city goes to the brink of demolition and replacement.

What do those data tell us? The rich as a rule do not live next to the poor. Rather, they cluster in neighborhoods with much higher lot values. The poor seek shelter first, and go where it is affordable. The rich put a high premium on location, neighborhood, views, and grounds, resulting in higher land fractions in their real estate. Mansions are visible evidences of wealth, impressing viewers powerfully; land values are invisible, the hasty tend to miss them. In the numbers, however, land and buildings are equally visible, and their message is clear. It is land value more than house value that divides the rich from the poor. Ergo, a tax shift from buildings to land is a shift from the poor to the rich, even though the houses of the rich are exempted. It makes the property tax more progressive.[7]

To be sure, those data are grouped by separate municipalities, not neighborhoods within municipalities. The poor of Colwood cannot tax the rich in the University Endowment Lands, except through a higher level of government. However, what is true among municipalities is also true among neighborhoods within municipalities. Harold Brodsky has done such studies in Washington, D.C.; Margaret Reid in Chicago; Richard Muth in various cities. They tell the same story.

Making the property tax more progressive is not just equitable, it raises its revenue capacity. That is because

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[7]We are speaking of statistical aggregates. There are always exceptions. For example, if we just compared North Saanich with New Westminster Rural, we would reverse our conclusion. That is why selected data can be marshaled to support any point. To overcome that, I have presented <u>all</u> the data, in which the major trend is unmistakeably as I have stated it.

visible damage to the poor puts a cap on any tax, for sentimental and P.R. reasons, if none other. A land tax can't drive the poor from their humble huts if the huts are exempt, and the sites are poor. It may tax a few off valuable land, if their poor huts are there and they own the the land. However, if they own such land, are they really poor?

They may be "land-poor": a few folks always are. They have non-cash assets, but are illiquid. "Illiquid" may be just a euphemism for "holding out for more" - there is always a market at a price. Even so their plight, genuine or affected, traditionally evokes sympathy and support. We must address it.

California, although backward in many ways, has addressed it effectively. In our special improvement districts (SIDs) State law allows the SID to contract with the landowner as follows. You don't have to pay your annual charge in cash. If you choose not to, we take an equity in your property, charging a modest rate of interest. Our equity accumulates over time. When you die, we sell the property and take our share; your estate gets the rest. Should our equity reach 100% during your lifetime, you stay there for the duration, tax free. Objectively, it looks like a good deal for the taxpayer.

The instructive result is that very few people take this apparently advantagous option. UCLA's Donald Shoup has published several works on the point. It attracts the attention of potential heirs, in a compelling way, and somehow the cash comes forth. While intending only to relieve distress, it seems to have called a great bluff. The lachrymose plea of the cash-poor widow is unanswerable in debate, without appearing harsh and jackbooted. Meantime major interests, thoroughly undistressed, hide behind the widow's skirt and get their way.

We also hear, sometimes, that "it's never been done," or it's only been done in our backward neighbor Pennsylvania, or whatever progress ensued there was happening anyway. Let's raise our sights to other places where "it" has been done. I was in Johannesburg not long ago, a city that thrives in the face of daunting handicaps. I am struck by the miracle of the place; it is Bootstrap City. It should have died when its gold mines played out, like a normal mining boomtown. Instead it remains as the economic capital of its nation and half a continent.

Johannesburg defies most laws of urban economics, e.g. that "mines create no great cities." Its once-fabled gold mines are just tailings now, so it should be a ghost town. It has no harbor, no water transportation, not even any gravity water supply. It is, in fact, on a ridge-top, the Rand or "reef," at an elevation over 5,000'. Water supply is pumped uphill.

It has no sunburst of rail lines, like Chicago or Boston, "The Hub," except perhaps what it has attracted itself. It is on the main rail line, but so are a thousand miles of other sites. The natural site lacks outstanding amenities, and can't hold a candle to Cape Town. Jo-burg has no governmental economic base. Surrounding farmland is poor, the climate droughty. Why Johannesburg? Why is it the largest city, the center of finance, industry, commerce, and international air travel?

As a public finance economist I may overvalue incentive taxation, but Jo-burg has it. The property tax is on site value alone, and at a high rate: they tell me it is 4%. This is what makes Jo-burg distinctive. Challenge and response: Jo-burg had to do something right in order to survive, and that is what it did. It not only survived, it became and remains Number One. Give me a better explanation and I'll back off. I haven't heard one yet.

Jo-burg is not heaven, far from it. It is surrounded by and transfused with social problems we can hardly imagine, much more expensive to handle and solve than what we know. That is part of the present point. Jo-burg obstinately prospers in the face of these, added to its natural geographic disadvantages.

Cape Town, by contrast, is Sleeping Beauty. Nature has been generous there. It is gifted with one of the world's great harbors and sites, ideal climate and scenery. It has the national legislative Capitol. It enjoys the business potential of New York, the climate of La Jolla, the scenery of Vancouver, and the political base of Washington (or at least Albany). Tourists flock there, and would do so even if the place were misgoverned by Mayor Idi Amin with Police Chief Saddam Hussein. Meantime Jo-burg, the ugly duckling, walks off with most of the nation's business. What is Cape Town's problem? It taxes buildings, the way we do.

Taiwan is another place that "did it," in part. Its present government is what remains of the Kuomintang, founded by Dr. Sun Yat-sen on the mainland around 1920. Sun's ideas were abandoned to corruption until the Kuomintang's remnants, discredited and beaten, fled to Taiwan in 1948. Then finally, backs to the wall, they purified themselves. They put Sun's visage on their currency and buildings, and beatified him. They created an efficient, honest government and applied the policies Dr. Sun had prescribed long ago for all China. Sun's basic economic program was simple. He was a convert to the ideas of Henry George, which were stirring the world in Sun's formative years. Tax the land; exempt the buildings, said Dr. Sun. That is what Taiwan finally did; the Taiwanese economic miracle ensued. It is there to see and study. Them as has eyes t'see, let'm see.

It's not that simple, of course, and certainly not that pure: nothing ever is. That is the gist of it, however. As to adequacy of revenues, they have combined their local land tax with a national tax on land gains, levied at time of sale. These two taxes between them raise a full 20% of <u>all</u> Taiwanese revenues: local, regional, and national. Remember we are talking about a government under siege, with a heavy military budget. We are talking about land prices that keep rising in spite of taxes levied on the land value base. Again, it is there to observe. It is not in America, true, but it is even better. It is an American export that took root and flourishes in an alien culture because it answers universal needs. Among the Chinese it also evoked memories of revered statesmen and philosophers, like Wang An-shih, who had implemented land taxation to abet China's ancient glories.

Singapore, Sidney, Brisbane, and Nairobi are other cities that collect substantial land revenues. From 1900-20, roughly, many American and Canadian cities uptaxed land and downtaxed buildings. It was a part of the Progressive syndrome. There is a world of experience to instruct us, if we will but study it. Pittsburgh and those other smart Pennsylvania cities are near and now and noteworthy, but they are not the whole story. If you want more, your world of observation is as big, and time as long, as you want to make them.

The adequacy of a tax base must be judged over the cycle of boom and bust, a cycle we are now learning is still much alive. How stable is the base? Capital comes and goes; land is fixed. When they finally close that plant and move the work to Mexico, at present we reward them by lowering their taxable valuation -- reward them and punish ourselves, as city revenues fall. On the other hand, if we taxed just their land, the valuation would remain about the same. They will squeal, cajole, and threaten, but no way can they move their land to Mexico. They will just have to find a new use for it. Meantime, you will have made it more likely there are profitable new uses by removing the tax threat against whatever new capital they might invest in your town to employ your people.

Land prices boom and bust too, jeopardizing revenue stability. That can be a problem, but land taxation contains a built-in contra-cyclical factor. When a land boom reaches its manic phase, as it did in California before 1989, growth expectations rise so high that they offset interest costs: people think they are holding land with no net carrying cost. Your home is expected not just to shelter you, but pay off its own mortage, upkeep, and maintenance by appreciating. Call it irrational, but it happens. In this phase, the fast-moving tax assessor is an equilibrating force. The quicker he follows such a market, the quicker he showers it with cold water, by imposing a sobering cash drain on the participants. This is an excellent time for local governments, if they have the wit, to pay their debts, fix their potholes, and fill the reservoir against the next drought.

Those getting the cold shower, meantime, may resist it. In California, the land of extremes, we got Howard Jarvis and Prop. 13, cutting the property tax rate, and freezing assessed values. Then the boom really went wild. I myself, after campaigning hard against Jarvis, unexpectedly made $200,000 in a few months after it passed. Buyers were chasing me around the block, just to buy a scrap of land I happened to own that had a contractual priority to sewer hookups. It was a once-in-a-lifetime experience, but buyers and sellers quickly adapted, and regarded it as normal, some kind of divine right. For a few mad years, it was. Sellers with obscene unearned increments thought they were only getting their just deserts, and acted abused if they didn't.

It was the lack of a tax stabilizer that took the cap off land prices. Now we are paying the price, or just beginning to, as our public services collapse and our criminals outgun our police. This year they are cutting faculty salaries 5%, and raising college tuition. All tax rates other than property are headed north; land prices south. Like Tokyo and London, we have signed on with Mephistopheles, and he has returned to complete the bargain. To paraphrase Kipling, "Be warned of our lot, which I fear you will not, and learn about land booms from me."

Another attractive feature of land taxation is its tendency to hit absentee owners harder than resident owners. The land fraction in real estate is generally highest in the CBD of any city, and that is one place where absentees buy and hold. It is the surplus in real estate that attracts outside buyers, and it is land that yields the surplus. About 2/3 of downtown Los Angeles is owned by non-resident aliens, for example. In a more workaday city, Milwaukee, the absentee owners consist of former residents, or their heirs, who grew too rich to abide the harsh winters.

Consider the effect on your balance of payments. When you get more tax money from absentees, money that used to flow to Tehran, Amsterdam, or Palm Beach now flows into your local treasury to pay your local teachers and city workers, and relieve your builders and building managers. In this way taxing land actually acts to undergird the value of its own base.

To stimulate building is also to uphold and fortify the tax base, even though you do not tax the new buildings directly. We have heard some derogatories here about the depressing canyons of Manhattan, between the skyscrapers. In my observation, it is not the canyons that downgrade Manhattan. When the GM building went up, Fortune Magazine reported it doubled the rents of stores across the canyon so formed. What really depresses Manhattan are rather the centenarian firetraps and the activities they attract. They tend to downvalue other lands nearby, eroding the tax base.

Consider the effect of floorspace rentals on ground rents and land values. Doubling floorspace rentals will more than double land values, through a kind of leverage effect. That is because, in the higgling and arbitrage of the market, all cash flows above a constant amount required for the building will

inure as ground rents. Once that constant is met, everything above it goes to landownership as such, raising land prices which are the land tax base.

When you observe cities much, the positive neighborhood effects of replacing old buildings by new ones are overwhelming and contagious, raising land prices all around. The converse is also true: the negative neighborhood effects of letting old junkers stand without replacement are depressive. Thus, when you take the tax off new buildings, and put it on the land under old buildings, you kick off a general process of revitalization that turns gloom into hope into optimism: optimism that boosts land prices and the land tax base.

There are three kinds of slums. Type I slums develop on land in the van of downtown expansion, on land held for a future higher use. The speculators are milking the old structures for any residual value, and don't much mind when the tenants leave.

Type III slums (listed here out of numerical order) develop on land that is no good, and never will be, like floodplains and earthquake faults. In the short run they also develop in the vicinity of abbatoirs, dumps, stockyards, etc. People are driven there by the inadequate development of good land. (Then they are blamed for going, in the grand tradition of blaming the victims.)

Type II slums, our focus here, are the most extensive. They occur on good or superior residential land originally developed over fifty or a hundred years ago. It may once have housed the upper crust, but as the buildings aged without replacement they "filtered down," and down, and down, until their occupants began radiating negative neighborhood effects. There comes a tipping point where the neighborhood self-destructs cumulatively, because no one wants to build new in a decayed, menacing neighborhood. The renewal value of land is lost, the tax base is lost, nothing remains but social and public costs: a municipal disaster area. The city that fails to renew itself on time is destined for this fate, like Camden, the Bronx, East St. Louis, Benton Harbor, MI, and Detroit.

That's the bad news. How do you turn it around? When you exempt buildings from the property tax base, you change the arithmetic of incentives, as we have discussed. Parachuting into

the middle of a slum is still hopeless, as before. Change will come first to the fringes of the Type II slum, where it merges into healthy neighborhoods. New development likes to anchor itself onto existing healthy neighborhoods. Richard Hurd, father of urban studies in America, taught us in 1902 that land values are marked by continuity in space, and it's still so. There is hope at the edge of the slum; land there retains some renewal value. That is where you'll first see change, because that is where the forces are evenly balanced. Tip the forces for renewal, and that is where it will happen first.

Once it begins, it proceeds incrementally through the Type II slum. When it's through, your oldest neighborhood has become your newest, the cutting edge of progress, the showplace of the town. That is how it has got to work; that is how it will work when you exempt buildings and tax only land. When it is through, you have a high tax base, too, where previously you had nothing but cash drains.

Art is long, but time is fleeting and mine has fled. I once wrote a long chapter on this subject, "The Adequacy of Land as a Tax Base." It came out of two years of research, and is too long even to summarize now. I am delivering it to Pat Salkin, however, and hope she may add it to the record of this conference for whoever is moved to dig deeply into this fascinating subject. I hope you think it as important as I do. Please pick up this ball and run with it. Your fans will love you for a touchdown; they really need a lift about now.

GOVERNMENT LAW CENTER

Patricia E. Salkin
DIRECTOR

May 24, 1993

Professor Mason Gaffney
P.O. Box 7998
Riverside, CA 92513-7998

Dear Professor Gaffney:

The Government Law Center continues to receive inquiries about our January 1993 conference on Land Value Taxation. As a result, we asked a student to review the videotape of the conference and to transcribe the presentations delivered by all of the speakers. We plan to publish a monograph of the conference proceedings which we will make available to the public.

Enclosed for your review is the section of the monograph which contains your brief biography and comments you made. We did not edit these remarks. I am asking each panelist to review his/her own remarks, and mark any changes to be made. We will use your edits as the final copy. Also, the format we will be using will contain pull quotes. Please specify anything you think should be highlighted.

I would appreciate it if you could send your comments back within the next two weeks. Please send them to the attention of Barbara Mabel at the Government Law Center. Please do not hesitate to contact me if you have any questions or concerns.

Thank you for your assistance.

Sincerely,

Patricia E. Salkin

Enclosure

Call

ALBANY LAW SCHOOL
80 NEW SCOTLAND AVENUE, ALBANY, NEW YORK 12208-3494 (518) 445-2329 FAX: (518) 445-2303

Mason Gaffney, P.O. Box 7998, Riverside CA 92513-7998
Note new area code: 909/687-1677

14 Feb 93

Government Law Center
Albany Law School
80 New Scotland Avenue
Albany, N.Y. 12208-3494

Attn: Michele Monfort

RE: Expenses, January 11-12, 1993, conference on land value taxation

Surface, home to ONT, private car, 30 mi one way at 28 cents/mi	8.40
Air fare, ONT - AY, one way	$650
Yellow Cab, AY to Ramada, + tip	12.00
Capitaland Taxi, Ramada to GLC, + tip	8.00
Food, lodging, paid by GLC	--------
TOTAL	678.40

Note. Return fare is melded with a trip to Russia, with return to LAX. My present understanding is that R. Schalkenbach Foundation will cover the return, on another account. However, please hold open the possibility of complications, calling for some sharing of the return cost from East Coast to West Coast, and or the hop from AY to Logan.

M. Gaffney

2/24/93
property tax conference
Auth by X RS

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DATE 1/11/93

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TO Ramada Inn

Fare	$11.00
Pkg. Charge	
Waiting Time	
Tip	
TOTAL CHARGE	$11.00

Driver [illegible] Cab # 105

Ay., ideas. / Will send transcript — I can edit it.

~~Sermon~~ on the Amount

Universal problem today — how raise revs. w/o killing jobs?

Gov. Pete Wilson's dilemma..

Cal., e.g. of what happens when cap. prop. tax, force higher rates on ec. activity, Rev. bonds, e.g.

Prop. tax is a tax on inactivity.

Hold on, you say, how about the activity of bldg.? OK, you've got me there. But wait, that's why we're here, modify tax to exempt bldgs.

Hold on, you say again, how much rev. can get from land? That's why I'm here. — give sermon on the amount. a) Pittsburgh. W/o its 1980 uptax on land, wd. be in same soup as Gov. Wilson.

a. Leaves out corp. stock.

Cities can't tax corp. stock anyway. Can tax corp. real prop. In most juris., largest taxpayers are corps.

Corp. has high improvement ratio?

Corps. are heterogeneous. — I know both kinds

i) Pf like S. Milw. or Cudahy, are lucky to have the plant.

ii) Pf like ~~W. Allis~~ W. Allis, a/c assd. as acreage, in 100 % locn.

aprons: pkg. b/i ratio (OVER) iii) Pf retail, have highest l.v. ratio of any use — causing correspondingly hi rate of turnover & replmt.

iii) (cont.) Auto dealerships.
Cinema lots
Stock yards

iv.) If developmental, buy & get annexed. De Beers, Fed. Dept. Stores; Weyerhaeuser; Chevron; ~~x-x-s; Penn Central?~~

v.) Others. R.r.s - Penn Ctrl?

✓ b. Leaves out the rich, in their big houses?

Data from B.C. Land is 75% of r.e. value in UEL, down to 35% in rural Vic., Sydney.

Data from S.C. Bev. Hills has highest land share — & most tear-downs. Cf. Baldwin Park.

Data from Milw, from everywhere.

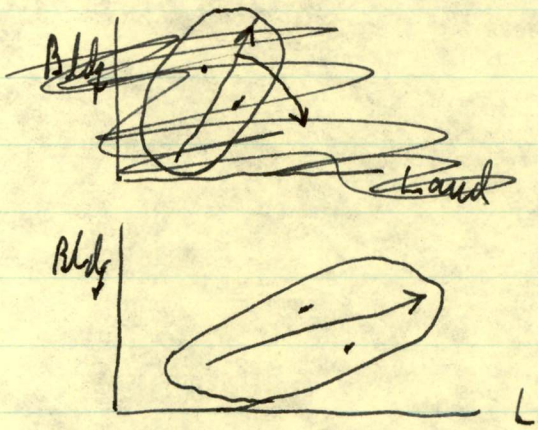
You can duplicate in your town.

✓ Cf. whirlds. The poor buy shelter; the rich buy whirld, prestige, privacy, view, clean air — location.

Rich also buy in areas of high land value, where land value inflated by spec. growth prospects.

(To illustrate egg-shaped scatter of points, get out egg

Mark it thus.



✓ Since you're taxing the rich, can raise rate higher w/o hurting the poor.

✓ Impoverished retired? Call bluff, set up deferral system.

c. It's never been done.

Taipeh, Hong Kong, Singapore, Sydney, Jo-burg, Brisbane, Nairobi, Alta, B.C., UK

(Cf. Tokyo & London, boom + bust.)

d. Effect on balance of pmts - but absentees

e. Land is underassessed

p. 172, Mke. 31%. Eve of demolition, shd. be 100%.

Empire State Bldg: $\frac{1}{3}$ ~~it~~ was land, p. 179

f. When land is assessed right, comes to 20%, p. 179

g. Untax bldgs, Δ L.V.,

Tax same r.e., just tax it in a different way.

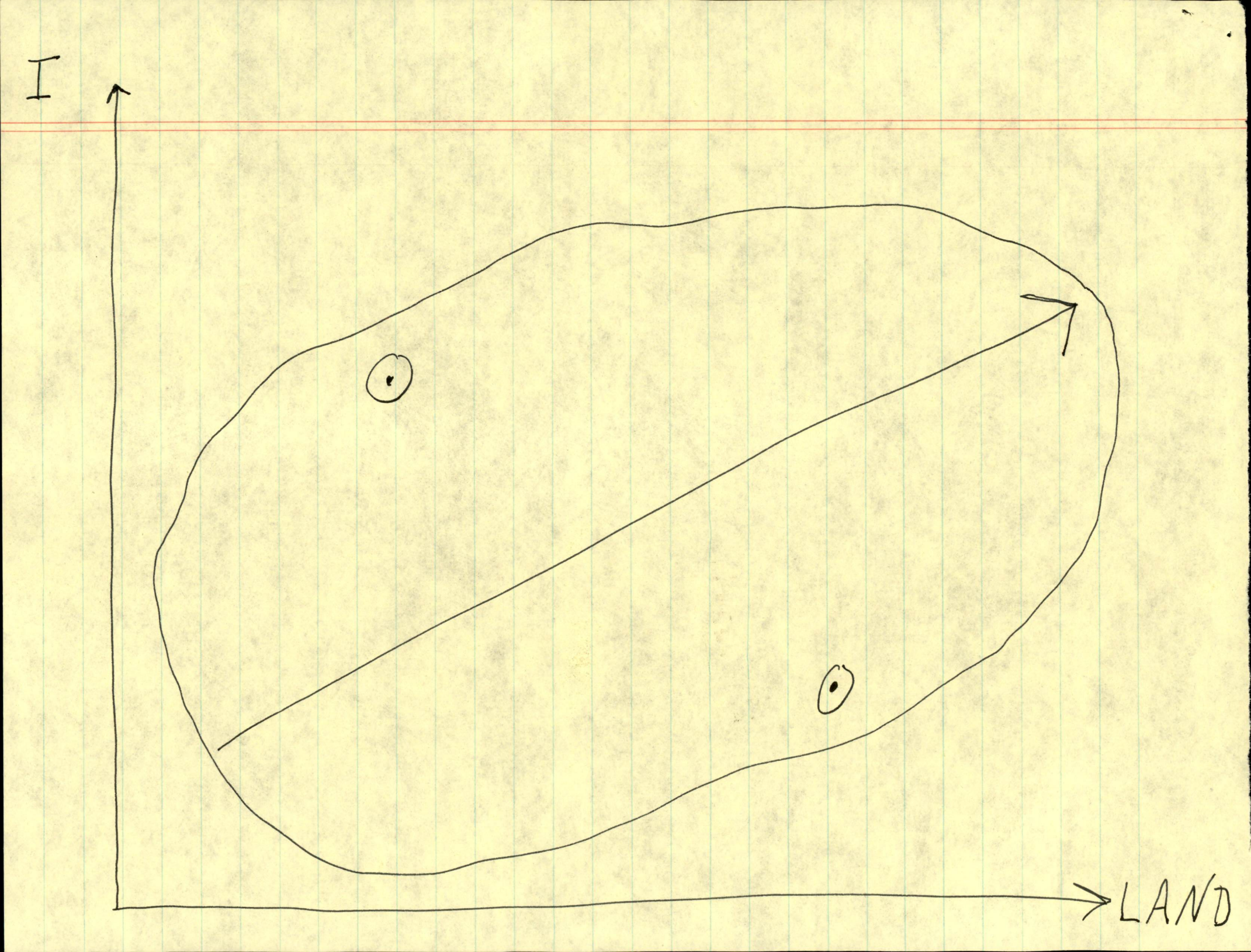
Equity position of land

Raise base by removing deadweight loss:

a. Mgmt. intensification, e.g. upgrade quality

b. Timing. Renewal. Neighborhood effects.

c. Liquidity effect — a stick & a carrot.


I
LAND

{ 2% over 50 yrs = 100%
{ Discount, maybe = 30%

Johnson: Suffolk Cty. Babylon & Islip.

Hartheimer:

Aliquippa case, steel mill demolished, they switched to lvt, so steel ~~stuff~~ co. built mdl. prod.

(Cf. Kaisen, Ontario Speedway, Riverside Speedway (now 2 shopping centers)

Lamy Farbstein, of 1986 Report

ex City Mgr.

"Overall burden" of prop. tax is problem

"If it doesn't matter, do it my way."

Complain about being misquoted. ("I was misquoted incorrectly," as Lamy Farbstein wd. say.)

✓ Land is underassessed

Utilitys pay less.

Slums pay more.

(Are 3 kinds of slums ...)

Non coterminality of s.d.s & cities. S.D. tax is ± or more. Rochester case puts legal constraint.

✓ Cite Jarvis. Let Ay. fret about details.

They are Byzantine.

Bendel: Pa.

Put thru a wage tax, lost next election

Now, McKeesport, 2-rate, 4/1 ratio.

{ Prop. 13 says 1% of mkt. value, but that makes out 1% of assd. value. Inconsistent. Illegal? }

Wunderlich (cont.)

Tax makes no difference.

Block

✓ Free choice. Where is bias? If tax varies w. use to which land is put ---

Pro zoning. (purely negative)

"Targeted" devmt. ~ contradicts belief in free choice

Wants councils to control devmt.

Bendel (cont.)

Tax-exempt prop.

Likes tax-increment fncg.

Collection rates go down?; are getting bids.

Nenno: Rd. of Egn., N.Y.

Law has built-in conservative bias.

Will discuss Russia. It may go LVT. - He was in S. Siberia.

Can't do it in Russia bcs it's no mkt. Can't do it in N.Y. bcs are not starting de novo.

Villa

For it. Lost rug indy. in Amsterdam.

Beebe $20 b from prog. tax

3 concens:

1. GM left Tarrytown, in spite of special prop. tax incentives.

2. Mgd land. - Will be d'traced, abandoned.

2. Admin. "True Believers" ignore it.

3. Structural

Cite Jarvis

Before we do this we shd. do everything else.

Batt Cites James Frank, study for Urban Inst., costs of sprawl.

Wunderlich

N.Y. State exempts new farm bldgs.

N.D. Has partial exemption

Program Description

Land Value Taxation, also known as incentive taxation, site value taxation, and the two-rate or split-rate real property tax, is a method of local property taxation that reduces the tax rate on improvements relative to the tax rate on land while yielding the same or greater tax revenue. Studies indicate some of the benefits of this tax system to be a more equitable distribution of the tax burden, stimulated economic development, the creation of jobs, increase in the number and value of construction projects, the promotion of homeownership, and the revitalization of urban areas. It is advanced as a local "development tool" that requires no direct government subsidy.

In 1986, the New York Temporary State Commission on the Real Property Tax released a study report entitled, "Two-Rate Real Property Tax System: It's Impact and Implications for New York State." The report did not recommend land value taxation for New York at that time.

Pennsylvania is the only state with a law that allows a local option for certain cities to reduce the city tax on improvements and to correspondingly increase the tax on land. In 1986, five Pennsylvania cities were using this method of taxation. Since then, twelve additional cities have opted for this system.

This conference will bring together state and local elected officials, policymakers, attorneys, and assessors to explore the feasibility of the implementation of a two-rate property tax system by selected communities in New York by examining the experiences of cities in the State of Pennsylvania as well as those of other countries.

This program is co-sponsored by: The Robert Schalkenbach Foundation, the Henry George School, Senator Owen Johnson, the New York State Assessors Association, and the New York State Association of Towns.

Government Law Center
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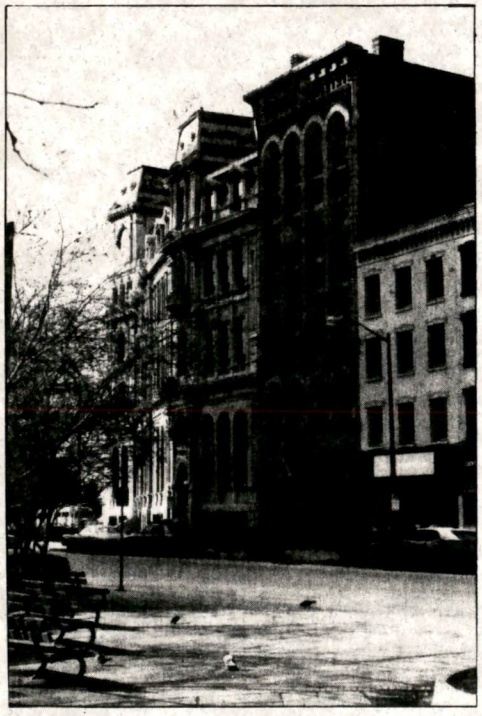
Land Value Taxation:

Incentive Taxation, Site Value Taxation, Two-Rate/Split-Rate Real Property Tax









Tuesday, January 12, 1993
9:00 am to 4:30 pm
Albany Law School
Dean Alexander Moot Courtroom

Land Value Taxation

9:00 am **Registration and Coffee**

9:30 am **Welcome**
Patricia E. Salkin, Esq., Director
Government Law Center
Albany Law School

9:45 am **Opening Remarks**
Senator Owen H. Johnson
Chairman, Senate Environmental Conservation Committee

10:00 am **Perspectives on Land ValueTaxation as Incentive Taxation**
Albert Hartheimer
Member of the Board of Directors of the Robert Schalkenbach Foundation

Larry Farbstein
Former Executive Director, New York State Temporary State Commission on the Real Property Tax

MODERATOR: Peter Baynes, Director of Intergovernmental Finance, New York State Conference of Mayors

10:45 am **Coffee Break**

11:00 am **The Pennsylvania Experience and the International Perspective**
Joe Bendel, Member of the City Council McKeesport, Pennsylvania

Dr. James F. Dunne, Director of Real Property Tax Research, New York State Division of Equalization and Assessment

MODERATOR: Steven B. Cord, President Center for the Study of Economics, and Editor, *Incentive Taxation*

Tuesday, January 12, 1993

12:00 pm **Luncheon**

1:15 pm **Implementation of A Land Value Taxation System in New York State**
Ted Gwartney, Former Chief Assessor for the Province of British Columbia

Hon. Mario Villa, Mayor of the City of Amsterdam, New York

Robert Beebe, Counsel, New York State Division of Equalization and Assessment

MODERATOR: Professor Donald Reeb, State University of New York at Albany

2:00 pm **Impact of Land Value Taxation on Open Space and Agriculture**
Gene Wunderlich, Economist, Economic Research Service, USDA

MODERATOR: Dr. H. William Batt
Consultant, Former Senior Research Analyst, New York State Legislative Tax Study Commission

2:45 pm **Soft Drink Break**

3:00 pm **Land Value Taxation for New York, Can It Help?**
Bill Block, Esq., Former Deputy Commissioner of Finance for Real Property Assessments, New York City Department of Finance

Professor Mason Gaffney
University of California at Riverside

MODERATOR: Kevin Crawford, Counsel, New York State Association of Towns

4:00-4:30 pm **Conclusion: Discussion and Questions**

Conference Registration

Name _____

Affiliation _____

Address _____

City _____ **State** _____

Zip _____

Telephone _____

FAX _____

Registration Fee:
$50
$25 Government, not-for-profit

$_____ Total (Registration fee includes luncheon & materials)

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Albany Law School
Attention: Barbara A. Mabel
80 New Scotland Avenue
Albany, NY 12208
(518) 445-2329
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Registrations must be received by January 2, 1993.
No refunds after January 2, 1993.

GOVERNMENT LAW CENTER

Imagine assessing The White House. Easy to assess its land.

Incentive Taxation:
A Study for Amsterdam, New York

Donald J. Reeb[1]

New York's cities--like all governments--require tax revenues to pay for public services. With no effective home rule provision in New York State concerning alternative local tax sources, increases in the market value of taxable property go a long way in determining the ability of cities to finance services, especially given that property tax rate increases are so strongly repulsed by the electorate. Not surprisingly, cities and other local governments spend much time trying to increase local real estate taxable values.

The data on the market value of taxable property for the 61 cities of the state (other than New York City)--see the table at the conclusion of this paper--indicates that cities had widely different increases in taxable real estate values between the years 1950 and 1990. Some cities--like Glen Cove and Long Beach--had enormous increases in their city-wide taxable real estate values. That is,the 1990 value was 46 to 56 times greater than the 1950 value for a few of New York's cities. These are taxable assessed values restated through use of state equalization rates as full or market values. The CPI--the consumer price index--had a 1990/1950 ratio of 5.4. See the table below.

And then there are those cities which had very small increases in taxable property values in this forty year period, cities such as Amsterdam, Elmira, Lackawanna, Little Falls, Niagara Falls, and Oneonta---each with a 1990/1950 ratio of 5.0, approximately, i.e. less than the 1990/1950 ratio for the CPI, the minimum wage, the average weekly earnings for manufacturing employees and the other selected indexes.

	1990/1950 RATIOS
Taxable Real Estate Values for cities in New York other than NYC, $57,505 vs $5,277 millions	10.9
Consumer Price Index	5.4
Commerce Dept.Const. Cost Index	6.4
GNP, current dollars	19.2
Average Weekly Earnings, Mfg.	7.6
U.S. Minimum Wage	5.4

[1]Prepared for the January 12, 1993 Conference held at the Albany Law School on Land Value Taxation, sponsored by The Robert Schalkenbach Foundation, the Henry George School, the New York State Assessors Association, and the New York StateAssociation of Towns.

More common were cities like Beacon, Ithaca, New Rochelle, Plattsburgh, and White Plains that witnessed 1990/1950 ratios in the 15 to 22 range. This was above the 61 city average ratio for 1990/1950 of 10.9.[2]

Comparing these changes to selected price changes for the 1990/1950 years brings forth the observation that a hand full of New York's cities--like Amsterdam--saw an increase in city-wide taxable real estate values of less than either the increase in the CPI or the increase in the minimum wage and possibly not as much as the U.S. Department of Commerce's construction cost index. Few would be pleased to discover that the value of their home increased by less than did the CPI or the minimum wage for the post WWII period--some six cities had this experience--or less than the increase in the average weekly earnings for manufacturing employees--some 18 cities, more than one fourth of New York's cities, had this experience.

None of these indexes can fully adjust the tax base for the increased cost of city government services. They do, in combination, tend to indicate that taxable property values have not risen in all cities equally and may have not increased "relative to costs" in more than a few cities. County areas, on the other hand, saw their taxable real estate values, restated in full or market terms, increase from $12 billion in 1950 to $410 billion in 1990--an increase of more than 21 times. Much of the real estate development and value increases since 1950 occurred outside the cities, as nearly everyone knows.

During these forty years from 1950 to 1990 state and national governments have put forth many programs to promote increases in real estate values and aid the redevelopment of cities--485b and urban renewal legislation comes to mind as two examples. Undoubtedly some of these programs have been beneficial--but obviously not equally for all of the cities in New York. Yet more proposals for redevelopment experiments will be forthcoming because our cities continue to be important.

Interestingly enough, there exists a tax program in Pennsylvania, called two rate taxation or incentive taxation, which needs to be put forth in a serious manner as an alternative. That is, the two rate or incentive tax system does have a track record that has been studied and does appear to have had some success.

The Pennsylvania system, being considered at this

---

[2]The 10.9 ratio is arithmentically identical to a 990 percent increase and each of these ratios could be restated as percent increases or average annual percent changes.

Conference, is a tax incentive program--a property tax incentive program--that might be of help to some cities and appears to have been of help in 17 cities in Pennsylvania. It is not a required program--it is an alternative--like 485b is an alternative, subject to local option. What is the evidence that the Pennsylvania system promotes real estate development? That is, has incentive taxation--the taxation of land at a higher rate than improvements--been helpful in the redevelopment of Pennsylvania cities? And a second question: Will this change cause residential property owners to pay a decreased--or at least not an increased--proportion of the tax bill in the cities?

The well respected University of Maryland economists, Wallace Oates and Robert Schwab, studied Pittsburgh's incentive taxation experience. They compared the Pittsburgh experience with incentive taxation to that of other rust belt cities of similar population size. Their conclusion is quite clear. Incentive taxation is properly named. It does promote economic development. The average annual value of building permits in Pittsburgh in the post 1980's were significantly greater than for comparable cities. Statistical tests seem to confirm that this was at least in part due to the incentive taxation system in use in Pittsburgh.

Steve Cord's data for all of the 17 cities in Pennsylvania using incentive taxation is no less clear and no less supportive. Both of these studies confirm what the dean of property tax studies, Dick Netzer, has long argued. Incentive taxation tends to step up the development rate for land. Incentive land taxation moves development decisions from the future into the present.

Incentive taxation--untaxing improvements and taxing only the land values for properties other than utilities, and railroads--would probably result in a few cities in New York, possibly those cities which have had very small increases in aggregate taxable values, to experiment. And unlike urban renewal and 485b and other proposals, this experiment has some track record--one which is in fact favorable. And, again unlike other tax incentive proposals, this does not require a decrease in tax yield even in the short run. (The promotion of economic development through lowered tax yields--something this proposal does not involve--is quite historic. Tench Coxe, an assistant secretary of the Treasury during George Washington's administration, proposed such for a manufacturing area called Patterson, New Jersey. The manufacturing center soon failed. Tax yield reductions to promote economic development have a long but undistinguished record).

The second question concerns whether residential taxpayers would find that incentive taxation causes their residential property tax payments to the cities to decrease. Land values appear, implicitly, on all New York tax assessments presently and, therefore, it is possible to estimate how an incentive tax would be distributed. The data for Amsterdam, New York were analyzed.

Some seven years ago the Temporary Tax Commission on the Real Property Tax study, A Two Rate Real Property Tax (1986) did a similar study. It concluded that while residential parcels would pay a lower proportion of the tax bill under incentive taxation so would utilities. The Tax Commission concluded that the incentive taxation proposal was unacceptable--possibly because the focus was on finding a replacement for the present property tax system, possibly because evidence on economic development effects were ignored, possibly because the 57 smaller cities were not analysed, and possibly because utlity, railroad and special franchise properties were assumed to be subject to the incentive (land only) tax.

Amsterdam,New York 1991
Change in Tax Payment Per Parcel Together with
Percentage Change in Real Property
Tax Levy When Land Only Is Taxed,And
Utilities and Railroad Properties Are Excluded

	LAND ONLY	Actual	% Diff.	CHANGE IN TAX PAYMENT PER PARCEL
Residential	57.9	69.9	-17.2	-$87.68
Vacant	8.0	1.4	487.8	$234.00
Commercial	25.5	19.1	33.2	$348.94
Industrial	7.3	8.7	-16.6	-$1100.24
Other	1.3	0.9	50.3	$605.77
Total	100.0	100.0	XXX.X	

The methodology used in the Tax Commission study is used to develop the Amsterdam data above, though for this study it is assumed that the traditional property tax system would be continued for Special Franchise properties, Utilities, and Railroad properties. Land values alone would be the basis for taxing nonexempt residential, commercial, industrial, vacant and remaining parcels. In both studies the tax yield was held constant. The Tax Commission Study used then current (but unspecified year) data; the data for Amsterdam is for 1991. The Tax Commission study focused on a "big five city", a suburban town, and a rural town. Amsterdam is a city of but 20,700 (1990 data).

The results that the Tax Commission and this study obtained are altogether similar.[3] Residential properties would pay a smaller proportion of the tax bill--a reduction from 69.9 percent of city property taxes to 57.9 percent when land only is taxed. Vacant parcels, commercial and other properties would pay an increased proportion of the property tax bill. (Other is a summary category for just 23 Amsterdam parcels and may include radio station parcels, parking lots, bowling alleys parcels and movie theaters, among other property uses).

The final column shows the average change for each parcel--something akin to each owner. Not surprisingly--the changes are not huge--even if all of the tax on improvements for residential, vacant, commercial, industrial and other properties were eliminated and replaced with a equal yielding tax on land. Residential parcels would experience a tax decrease per parcel of $87.68 in city property taxes. A lesser shift towards incentive taxation would result in a lesser change in tax payments per parcel. The proposal is not meant to include city school taxes or property taxes paid to the county government.

Some might imagine that this answers the question concerning who pays the incentive tax but others know all too well that tax incidence is almost a mystical question to an economist. The Tax Commission report gives eighty-six pages to this discussion without even a glimmer of an answer and that is enough said here.

Property taxes--and especially land taxes--have been the most studied and least reformed tax system extant. The incentive tax proposal accomplishes what its advocates have claimed. According to Oates, Schwab and Cord incentive taxation does encourage investments to be made sooner rather than later. It does this without shifting the tax onto residences (unlike 485b)--as the data for Amsterdam indicate--and incentive taxation enacts a tax that should help the smaller cities promote redvelopment and expansion of the aggregate real property tax base.

Incentive taxation is a low cost experiment worth trying. There is probably no other local government tax proposal that has analyzable real world data and offers smaller cities a possible reduction in residential property taxes with an increase in the real estate tax base while not requiring an increase in state or national government expenditures or taxes.

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[3]Redoing the calculations in the Tax Commission report indicates that the reduction in residential taxation in the big five cities, using land taxes only while continuing the present tax system for utilities, would be about 30 percent rather than the 23 percent reported in that Study, with proportionate increases in the taxes to be paid by vacant and other property categories.

EQUALIZED VALUE OF TAXABLE REAL ESTATE FOR 61 CITIES IN NEW YORK, 1950 AND 1990 (IN MILLION $)

CITY	FULL VALUE 1990	FULL VALUE 1950	RATIO 1990/ 1950	CITY	FULL VALUE 1990	FULL VALUE 1950	RATIO 1990/ 1950
Albany	$2368	$ 292	7.110	Newburgh	$ 361	$ 47	7.739
Amsterdam	254	41	5.241	New Rochelle	3371	165	20.431
Auburn	403	54	6.519	Niagara Falls	1025	197	5.203
Batavia	313	24	12.024	North Tonawanda	704	39	18.184
Beacon	304	18	15.889	Norwich	119	12	10.192
Binghamton	1156	128	8.031	Ogdensburgh	130	14	9.306
Buffalo	9476	1022	8.272	Olean	268	33	8.010
Canadaigiua	256	14	16.986	Oneida	204	15	13.657
Cohoes	269	23	10.683	Oneonta	109	24	4.549
Corning	245	24	9.180	Oswego	1012	36	27.995
Cortland	232	26	6.860	Peekskill	555	30	18.267
Dunkirk	370	23	15.338	Plattsburghl	338	22	15.552
Elmira	412	71	4.807	Port Jervis	170	12	14.071
Fulton	220	20	10.158	Poughkeepsie	698	80	8.726
Geneva	196	25	6.726	Rensselaer	119	20	5.853
Glen Cove	1737	31	55.529	Rochester	5128	596	8.610
Glens Falls	353	36	9.825	Rome	686	48	14.388
Gloversville	213	33	6.538	Rye	1713	44	39.283
Hornell	107	16	6.655	Solamanca	73	10	7.670
Hudson	97	13	7.554	Saratoga Springs	729	31	23.790
Ithaca	600	43	13.866	Schenectady	1116	188	5.935
Jamestown	501	70	7.151	Sherrill	68	4	17.431
Johnstown	159	12	12.910	Syracuse	2980	368	8.101
Kingston	608	51	11.809	Tonawanda	327	20	15.978
Lackawanna	297	60	4.949	Troy	705	82	8.547
Little Falls	78	15	5.398	Utica	1015	151	6.722
Lockport	444	47	9.395	Watertown	418	52	7.983
Long Beach	1857	41	45.836	Watervliet	148	15	9.581
Mechanicville	64	10	6.438	White Plains	3146	141	22.288
Middletown	525	30	17.238	Yonkers	6059	316	19.170
Mount Vernon	1768	152	11.632	TOTAL	57505	5277	10.897

Preliminary

PROPERTY TAX REVISION:

REPORT OF THE SPECIAL NEW YORK STATE COMMISSION

C. Lowell Harriss, Professor Emeritus of Economics, Columbia University; Executive Director, Academy of Political Science; Associate, Lincoln Institute of Land Policy. Prepared for the New York State Economic Society annual meeting, Rochester, NY, April 1987. Views expressed are the author's and not necessarily those of any organization with which he is associated.

Subject to revision!

> "The present method of taxation...operates upon energy, and industry, and skill, and thrift, like a fine upon these qualities. If I have worked harder and built myself a good house while you have been contented to live in a hovel, the tax-gatherer now comes annually to make me pay a penalty for my energy and industry, by taxing me more than you. If I have saved while you wasted, I am mulct, while you are exempt. If a man builds a ship we make him pay for his temerity, as though he had done an injury to the state; if a railroad be opened, down comes the tax-collector upon it, as though it were a public nuisance; if a manufactory be erected we levy upon it an annual sum which would go far toward making a handsome profit. We say we want capital, but if any one accumulates it, or bring it among us, we charge him for it as though we were giving him a privilege. We punish with a tax the man who covers barren fields with ripening grain, we fine him who puts up machinery, and him who drains a swamp."
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> Henry George, Progress and Poverty (New York: Robert Schalkenbach Foundation, 1942), p. 434. Original edition, 1880.

Per dollar of personal income, New Yorkers pay more in state-local taxes than persons in any other state except Alaska and Wyoming. Although most of us are aware of some of the taxes we pay, there are hidden exactions. The concealed as well as the evident not only take funds but also affect income-producing possibilities--the economy. Total state-local taxes at $209 per $1,000 of personal income (1984-85) compare with a national average of $163. Property taxes at $48 per $1,000 personal income were one-third above the national average. Whether we get our money's worth or whether we

would be wise to spend more or less is not my concern on this occasion.

Whatever the weight of taxes New Yorkers have a choice--the structure of the property tax. Without altering the revenue totals, the tax could be revised to reduce the burdens on man-made capital and get more revenue from taxes on land. You and I and our fellow New Yorkers, our children and grandchildren, would be better off. Reasons for expecting benefits from such restructuring have been recognized for generations. Opportunities were not put to use for human well-being, but discussions continued.

New York Study

In 1984 the New York State Legislature directed the Temporary State Commission on the Real Property Tax to study the issues. Its report, A TWO-RATE REAL PROPERTY TAX SYSTEM: ITS IMPACT AND IMPLICATIONS FOR NEW YORK STATE, appeared in April 1986. The Commission decided that it could not "recommend the implementation of a two-rate system of taxation in New York State." (p. 5) The Commission made a second recommendation "...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." (p. 5)

The second recommendation deserves strong support. The first should not, I believe, terminate serious consideration of possible changes. New Yorkers can benefit from achievable revisions of the property tax structure.

In preparing its statement of the case for a two-rate tax, the REPORT draws upon my various writings. Obviously, I have not convinced the staff; for the time-being legislators may consider the subject closed. (Will local assessors move to correct land assessments? Incentives to do so are

rarely evident.) Yet changes that are possible could improve the conditions of living and the opportunities for production (employment and real income).

No miracles! No sudden, sweeping changes for better housing and places of work. But, I am confident, gradual improvement. Within, say, a dozen years--not, really long in the life of a community--valuable changes would result--changes that would be valuable to everyone because everyone uses real estate directly and indirectly in many ways. Many of the results would be diffused, indirect, and not clearly identifiable or attributable to the tax restructuring. Logic and reason indicate the direction of change. Measuring magnitudes and timing with confidence, however, would be utterly impossible. And there would be surprises.

Suggested Assumptions for Thinking about the Future

In thinking about the future, New Yorkers can keep certain points in mind. Local government spending, including that of school districts, will continue to call for property taxes that by standards of the past and of most of the rest of the country are "high." In communities where the majority of New Yorkers live, the effective property tax rates will be high enough to influence significantly the arithmetic of investment. A 2 percent effective rate on full capital value is one-fifth of a pre-tax yield of 10 percent; 4 percent is twice as much. Will not property taxation be overshadowed by other factors? Perhaps. But they will not negate the property tax. Federal income taxes, general business prospects, population movement, rent control, and so on will operate. Nothing conceivably possible with a revenue-neutral real estate tax will outweigh such factors.

But at the margin one as against another type of property tax can tip a

balance and make a difference. For years, in fact, various tax abatement provisions have worked in the directions I propose. However, and this is an important fact, they are not revenue-neutral. The locality granting such concessions does not get offsetting revenue from land values (except indirectly if assessments on the plot and in the area are raised as the result of the new construction and renovation appear through the years).

Land will not move away. In the competition for productive resources, communities can know that this one factor of production will not go elsewhere. Competition may take away skilled labor and management and, in effect, man-made capital. But competition will not take away the land of a locality. Land value, of course, is variable. And those factors that make for higher as against lower (gross) value are largely the totality of things that go on around a parcel of land--community development--and the capital that can be profitably used. The latter will include the developer's imagination and efforts and risk-taking. For present purposes let us say that most of the worth of urban land results (1) from the complex of factors affecting location desirability and (2) from the availability of funds for capital investment in the use of a parcel (not for its creation!)

To avoid essentially diversionary discussion, agricultural areas could well be excluded. Although in any case choice of a two-tier system would probably be a matter of local option, I have found worry about possible effects on farmers exerting undue influence. In purely agricultural areas there would perhaps be little difference between the present and a two-tier system. Total tax depends on local government spending. There is nothing in the proposal to change total expenditures. The differences in the relation between man-made capital and land from one farm to another would

not warrant the costs of controversy growing out of fear from talk about higher rates on land. On the urban fringe, however, matters are more complex. The issues are not so much farming as the holding of land in a "lower" use while waiting for price appreciation.

My personal proposals would be, first, for improving assessments where there has not been a recent revision. Meantime, the first of perhaps four steps to differentiate rates would be taken. With the others to follow at, say, two-year intervals. The goal would be effective rates on man-made capital of 0.4 to 0.6 percent of full market value; admittedly, localities with heaviest expenditures might settle with a higher rate.

Arguments pro and con are summarized. This portion of the study inspires mixed feelings. The lists seem complete. But the statements are inevitably brief. The presentation lacks the quality of critical analysis that might have been attempted. More serious, I believe, is a final balancing or weighting of arguments. This method has the merit of leaving the reader room for judgment. But not providing the scholarly assistance possible! The Commission's conclusions do not make clear the reliance it placed on the different arguments.

Pennsylvania Experience

The staff examined experience in the six Pennsylvania communities with a two-tier system. The identifiable results are consistent with the prediction that reduction of burdens on structures and revenue recapture from taxes on land will favor new construction. The cities that made the change experienced more new investment in construction than neighborhoods that did not. Magnitudes are not clear, and causation subject to debate. Interviews cast doubt on the significance of tax differentials. My own feeling has been that the net tax effects in these communities must inevitably be quite limited. School taxes are not involved, and the general level of property taxation in Pennsylvania is below the national average and markedly below New York.

Other Studies

The REPORT summarizes studies made at various times for New York City, Erie County, and Nassau County. Some guidance can be obtained from these. Perhaps the chief finding in New York City (1982) and elsewhere is that initially most property owners would experience rather little change one way or another. Owners of vacant land would pay more. Utilities--their customers--would pay lower taxes.

None of the studies reported on the significance of possible tax changes for investment in new construction.

Simulations

Simulations of various combinations of land-to-improvements tax rates are made for three communities selected because they had recently had reassesments. The basic valuation data were generally uniform within each community. One was the City of Rochester. There was also a suburban locality near Albany and a rural town. The appendix tables with the figures are difficult to use, but summary tables in the text are helpful.

What one can get from such simulations are figures for the conditions immediately after a change. The method does not show how things will be in three or ten years.

Tax changes will tend to be capitalized. Land values will go down initially-- except as may be offset by rising demand that results from an inflow of capital (readily conceivable for some parcels but improbable on a large scale). Buildings will become more valuable, but in this case reproducibility will have influence not found with land.

Residential property not including apartments would pay less in tax under all the simulations. Effective rates on vacant land would rise substantially (although such property would still contribute quite minor amounts of revenue). The burdens on utilities would decline.

The "other" group includes commercial, industrial, apartment, and the remainder, obviously a large class with varied types of property. They would face higher taxes, in effect offsetting the decline in single family residential and utility property. (There was no farm property in Rochester and only a minor amount in the suburban city.)

Are there surprises in these conclusions? I think not. Perhaps some of the individual numbers would not have been predicted. The figures in other cities would probably be different but not greatly. The general

picture is about what would have been expected. The lumping of apartments with commercial and industrial properties deprives us of some desirable detail.

What Next?

For a subject as important to New Yorkers as property taxation we need continuing study. My disappointment with this undertaking has not been expressed adequately in the brief space available here. The problem now is how to go ahead. For there is room to carry analysis forward.

I offer several suggestions.

First in practical importance is to press ahead in improving the quality of assessment in those localities where today's results are poor. Leaders in the communities and in Albany know where the needs exist. Knowledge of how to go about improving assessments is available and being applied. The New York State Board of Equalization and Review continues its varied efforts including the training of assessors.

A second effort could be a study of the results of various abatement and incentive policies that involve one or another aspect of differential property taxation. Results will not always be clear and certainly not measurable with precision. But information can be assembled and studied. There have been reduced rates on new construction and on remodeling. Some farm land near cities has been taxed at values well below those obtainable in the market. I do not know how much can be learned from possible studies, but the public deserves to know about the fruits of past and present policies.

A third line of inquiry would examine the arithmetic of investment in new construction. In the light of present Federal and State taxes and prospective financing possibilities, how significant would be feasible differences in property tax rates? Answers would, of course, vary from

locality to locality depending upon the level of property taxation.

New studies might well start from the point of view of economic development. New York has clear concern for improving the economy. Government can influence its own taxes. How might a two-rate system operate?

ORAL PRESENTATION: H. WILLIAM BATT
CONFERENCE ON SITE VALUE TAXATION, JANUARY 12, 1993
GOVERNMENT LAW CENTER, ALBANY LAW SCHOOL

The perspective which I wish to take in an examination of site value taxation is one which is likely to be quite different from several people at this conference. My background is political science and for the first several years of my career I was a college teacher, mainly focused on political and economic development in third world nations. Economic development is still very much a topic of interest, both for myself and for the academic community. More recently, however, I have had opportunity to look at the challenges from a different perspective. I have just completed work as a policy analyst in the New York State Legislature as a member of the Tax Study Commission. Our office was charged with responsibility to examine all aspects of New York State's tax policy with reference to criteria like fairness, neutrality, efficiency, reliability, and simplicity. Each of these principles of tax policy have very specific meaning to those who design taxes, but in the background of all analysis of policy is an even more over-arching principle: that of competitiveness.

New York State leaders recognize, as do we all, that we are now part of a national and even an international economy. For us to survive and prosper as a state we must be competitive with other economies, and tax policy can play a strong part in helping us position ourselves to be competitive. Certain business interests make their views very well known on questions of economic growth and competitiveness, but we often look at their statements somewhat skeptically because they largely take into account their own immediate interests. Leaders of government and their advisors must look at the economic system -- in fact the total social, political, and economic system -- in the broadest framework they can in order to find some means by which to measure its performance.

Recent political discussion has focused particularly on the extent to which various components of American society are hurting our competitiveness. Lots of attention has been given to the extent to which the costs of health care handicap American business and industry. Others emphasize deteriorating infrastructure as a factor in lost productivity. Still others have pointed out the extent to which our educational system is failing to produce the full measure of productive workers necessary in today's economy. But what do foreigners notice most visiting here? Our huge homes, the wasteful use of space, and, most of all, our incredible dependence upon motor vehicle transportation. Economists and others looking at the relative competitiveness of American society have taken particular note in

recent months of the fact that we are such a consumer driven economy. They point out that such an inordinate amount of resources are consumed by the American public that a far smaller proportion is left for production and capital growth.

The upshot of lots of recent thinking is that we have not closely examined how efficiently our society is organized, and we have not employed tax policies as fully as we could to foster economic health and growth. State and federal policies are now under scrutiny in this regard and may change drastically over the next several years. But what about local taxes? How do local taxes either foster or inhibit the growth and efficiency of our society, our economy and productivity?

Let's for a moment look at the property tax, and of course the school taxes which are of course tied to the same base of support. What we see in the design of the property tax is an assessment based upon every aspect of a piece of property. Land, home, garage, swimming pool, and everything else are all given equally weight in the total assessment. When the assessor comes along to appraise your home or your business building, he (or she) looks at its value as a whole, ideally from the standpoint of what the market will bring from its sale. For years this is the way local government officials looked at real property value, as their concern was to get the money necessary to support government services. The more they could add into their total itemization the more revenue they would obtain.

What has this practice done for the efficiency of our community organization? We can easily see its effect upon land use planning. But consider its effect on the use of resources. The following figures come from a private firm which does such planning in the Capital District region. In a project it planned in the suburban Saratoga County town of Clifton Park of approximately 1,000 units, with average lot sizes of 0.5 acre each, the estimated costs for just water, sewer, clearing, grading, and pavement were about $22.5 thousand each. Remember, a half-acre lot is what the typical suburbanite owns: about 100 feet frontage and 200 feet deep. The installation of phone, cable, and power lines added an estimated additional $4,000 thousand. Another project in which had responsibility for completely reconstructing an inner-city Albany neighborhood ("The Pastures") was approximately $12,000 per lot in 1993 dollars, and would have been approximately half that if it wasn't required to comply with historic district strictures. According to knowledgeable planning engineer, the costs of a residential service are essentially proportional to the frontage of a piece of property; twice as much for a lot of 100 foot frontage as for a lot with a 50 foot frontage. All told, the cost of a "full service" for a suburban residence of, say, a 100 foot frontage can easily approach $30,000, not even including the price of the land. This does not include

maintenance; like the cost of plowing the snow and so on. An inner city brownstone or flat will be less than half of that.

Then one must consider the cost of actual transportation, not only in terms of energy but in time lost and in externalities such as the pollution from this transportation mode. Consider also the expense either to society or to private owners of the maintaining residences with such extensive investment which, given a choice, they may or may not wish to bear in a community of their own design. Suffice it to say, suburbia is a very inefficient and extravagant community design.

Regardless of whether or not people choose their suburban lifestyle (and there is a good deal of evidence to show that we do not), the real question is whether we can any longer afford it. What would the cost of a typical "service" be for an urban home, let's say with a 25 foot frontage, a typical Albany inner-city brownstone? Although there isn't necessarily a direct relationship with frontage alone, it won't be that far off. Instead of $25 or $30 thousand for the 100 foot frontage, we have about $7,000 for the 25 foot frontage service. A real difference! And what are you getting for the cost of all that extra frontage which is costing so much? Probably the privilege of mowing your lawn every two weeks. What a pleasure!

If one were to calculate the percent of gross domestic product that we Americans devote to just two economic sectors -- housing and transportation, compared to that of our economic competitors of OECD nations, how would we fare? Interestingly this data doesn't seem to be available, anywhere. We know the share of GDP we devote to health compared with other nations, and defense, and a bit about education. But interestingly it has not been calculated for two very large sectors which are likely to show us in a very disadvantaged light.

What would you surmise we spend compared to Europe and Japan as a percent of GDP for transportation. I'd wager we spend twice the percentage that France or The Netherlands do. I'd wager also that we spend substantially more on housing as well, really an item of consumption and not production. What this really means is that, proportionally, we have far less of our effort to spend on other sectors, like education, entertainment and recreation, and industrial and business capitalization. You ask why America is having a difficult time competing?

How might we change this? I suggest that site value taxation is a very good start. I'd personally want to go even further and consider curtailing the mortgage

interest deduction, and perhaps a few other tax changes as well. But politically it may not yet be feasible. We do have to start thinking about what we can afford, and how we can best compete. One way to curb the inefficient lifestyle of suburbia is the land tax. The sooner we implement it the better off we'll be. We may not otherwise be able to compete economically with nations that have designed their communities far more efficiently than we have.

word count: 1,458

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Mason Gaffney is a Professor of Economics at the University of California at Riverside. He also is a Professor of Management for the University's Graduate School of Administration. Professor Gaffney was Founder and Executive Director of the British Columbia Institute for Economic Policy Analysis. Prior to this position, he was a Senior Research Associate at Research for the Future, Inc., in Washington, D.C. Professor Gaffney previously taught in the field of economics at the University of Wisconsin, the University of Missouri, North Carolina State College, and the University of Oregon. Professor Gaffney studied at Harvard College, Reed College, and the University of California at Berkeley.

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Albert S. Hartheimer is a member of the Board of Directors of the Robert Schalkenbach Foundation and The Center for the Study of Economics. He has been an advocate of the economics of Henry George since 1965. In the 1970's and 1980's, Mr. Hartheimer created and directed Hart Tours, Inc., specializing in tours for senior citizens locally and around the world. For more than two decades, he practiced in the field of architecture. Mr. Hartheimer is a graduate of Rensselaer Polytechnic Institute.

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Professor Mason Gaffney

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with some comments on the previous speakers.

Thank you Mr. Chairman. I begin by ~~taking some partheon shots at those who spoke before and therefore have no chance to answer. Mr. Farbstein and~~ two or three ~~others~~ have said ~~it~~ shifting prop. taxes off bldgs doesn't make a difference ~~anyway~~ to which my answer is, if it doesn't make any difference, do it my way.

Secondly, suppose your tax rate is two percent of the value of a new building over fifty years, that's equal to one hundred percent of the value of a new building, discounting those future payments t the present, brings it down to about thirty percent, depending on what discount rate you use. So you can compare the impact of property tax on a new structure to a sales tax levied once at the time of building at a rate of approximately 30 percent. Clearly that's going to have some impact.

Another way you can do this, is to compare the inflation adjusted rate of interest, say that's around 5 percent, add 2 percent to that, that increases your financing costs by approximately 40 percent. So, either of those ways of looking at it suggests that the impact, whether you like it or not, is substantial. Now secondly, I have an ax to grind with, I should say a bone to pick with, Mr. Farbstein about the "Two Rate Real Property Tax System," because I was misquoted in here in 1986 on what would be page 83, if the pages were numbered. I had to count them in order to identify this. It says, "Mason Gaffney argues that the property tax is in most respects to superior as a tax base." I never said that, either in the place quoted or anywhere else. I deny it and disclaim it. I wrote to George

Gerber in 1986 to that effect and I don't carry a grudge that long, but here that darn thing is again - uncorrected. It's not so.

I don't think that the present property tax is as good as, certainly not superior to a tax on site values. At the same time I fully agree with Mr. Farbstein said about land being underassessed. There's a great deal of latitude in the assessment process whether we like it or not. That latitude can be exercised to increase the share of land in the tax base and that has roughly the same effect of going to a two rate system on a more formal basis except obviously for the fact it's not permanent. I fully agree with him.

I have some data here from the city of Milwaukee that if land were assessed correctly, and we don;t have time to talk about what correctly means, that the land share of the real estate tax base in Milwaukee in the year of my study would be approximately two and a half times greater than it was. It was 31 percent it should have been 70 percent. How does one come to a conclusion like that? What I did was to study sites on the eve of demolition. I assume that it is self-evident that when buy an old junker for the purpose of knocking it down and replacing it with a new building, that you, representing the market, recognize that the building has no residual value and all the value is in the land. I discovered in Milwaukee that at that time the assessor was saying the building was worth about 3 times as much as the land on the eve of the demolition. That is a pretty good way to tell the extent to which the land is underassessed. I'm

not talking about vacant land now, I'm talking abcut land on the eve of demolition.

Now there's been a good deal of talk about our byzantine structure of overlapping governmental units and all the difficulties this would make. This is the same problem as found in other states. In California, a State Senator about 20 years ago wanted to push for a site value tax. He got a man hired, spent a whole year studying all these complexities. He produced a report this thick but nobody read which had the function of scaring people. What was it, 12, 14 years ago another tax reformer came along, his name was Howard Jarvis. People started throwing the same kind of nit-picking questions at him. Although I despised the man, I learned something from his answer which was, I'm sure it began with God damn it, he said don't bother me with stuff like that - let those bastards in Sacramento figure it out, that's what you pay them for. He won.

So, my suggestion is, if you think this is a good idea, don't get drawn into extended nitpicking about the distribution between the different overlapping jurisdictions. That problem will have to be solved when and if you go to such a system. Obviously, I am not suggesting shutting our eyes the way Mr. Jarvis did because the long term effects of that could be unpleasant. But a little more positive thinking would be useful.

Finally, I want to tax Mr. Block for, on the one hand, coming out for free choice and criticizing site value taxation for forcing people to do something they wouldn't do otherwise and then turning himself around as someone who wants the city, who

ever that means, to play a very active role in determining what is and what is not built. I think you have to make up your mind and take one position or the other.

Clearly the proposal to exempt buildings and exempt land value is based on the presumption there is something to the free market concept and the concept of free consumer choice. It might be summed up in this sentence: that if the tax on a parcel of real estate varies with the use to which that parcel is put, then it biases the choice in the direction of the less heavily taxed use. The theory of the land tax is that it doesn't buy us that choice. The consumer sovereign prevails.

Now, in support of Mr. Block, I don't view this as saying we're going to throw away all other social controls over land use. I don't support that and I don't know of anyone who does except for that mythical person, the true believer who thinks that this is a panacea. I've often heard this person referred to but I never seen anyone sighted. Perhaps some day I will, I suppose there are such persons. But really that's not the proposal we should be considering.

We should be considering a reasonable proposal within the framework of existing legislation and customs. Now, the main question I have been asked to discuss is whether such a tax would raise enough revenue. You might say that the question of the amount of revenue has come up and I have been asked to give a sermon on the amount.

The universal problem today, modesty was never my strong suit, the universal problem today is exemplified by Pete Wilson,

the Governor of the unfortunate state of California who has said several times, we have to make hard choices, that we have to cut taxes or otherwise we'll drive jobs away from the state. Whenever somebody tells me I have to make a hard choice, I know they're both going to be bad and he's got one of them in mind. Well, whoever could serve up a more perfect balloon ball for a land tax to be hit out of the ball park. Here's one tax that you can raise more and more revenue and not drive business out of the state. In fact, the only bad thing that can be said about it, which it has been said, is that it stimulates development creating jobs. So, that's the answer to Governor Wilson and I hope that here in New York you provide a similar answer to Governor Wilson which we can then cite. Not that he can pay much attention but somebody might. California is a pretty good example of about what happens when the property tax is reduced toward zero; it forces higher taxes on economic activity.

The property tax is essentially a tax on inactivity. Now, hold on you might say. What about the activity of building a building. Well, the property tax is a tax on building a building. That is of course is why we are here today; to suggest modifying the property tax to make it a 100 percent tax on inactivity. Well, now hold on, you say again, how much can we get from land. That's why I am here today. Pittsburgh, as you know in 1980, up-taxed its land and down-taxed its buildings and that's probably why it's not in the same position as Governor Wilson is in. It is raising revenue and it is not driving away building. It seems to be attracting it.

Now, wait a minute, how about corporate stock? This is not a tax on corporate stock. I haven't heard that today. I guess you people are too smart. I have heard that in the past and there are at least four answers to that. One is that cities and localities cannot tax corporate stock anyway, except in North Carolina where it doesn't amount to much. You can tax the real property held by corporations and in most jurisdictions, the largest taxpayers are corporations.

Well, wait another minute. I hear people say, some corporations have a high ratio of improvement value to land value, and if you will be exempting improvements you will be exempting those big factories. I'm sure there are cases in point, I know of some. I'm sure you could have said that in Amsterdam before the rug industry left. If you indeed intend to have an expensive building on cheap land, or a valuable corporate employer on cheap land, you're probably wise not to tax that corporation in such a way as to encourage it to leave town. To help to induce it to leave town is not a desirable thing. In other cases I find industrial structures are located on land which are grossly underassessed merely because its occupied by industry and has not been subdivided. It is assessed as acreage instead of platted land and that causes the land to bear a very low tax valuation.

In West Alice, Wisconsin, the Alice Charmers plant was located at the 100 percent location, at least one corner of it was. But it was all assessed as though it were all acreage as if it were out in the boonies or something. Clearly if you are going

to make this system work, you're going to have to reform your land assessment and that would be a case in point. If the corporation is in engaged in the retail business, retail generally has a higher ratio of land value to building, I'll just call that the land-value ratio from now on, than any other use, causing incidentally a correspondingly high rate of tear downs and replacements which is one way to identify neighborhoods and land uses that have a high land ratio. If the land is developmental just outside the town and wants to annexed and put a great burden on your public services and be a free rider, that's something you want to avoid letting happen, also. I'll skip that, time is limited.

Well, how about leaving out the rich in their big houses? I have some data from British Columbia which speaks eloquently to this question. It's limited to the lower mainland, that's the area around Vancouver and Vancouver Island, that's the area around Victoria. I have got data on about 26 different taxing jurisdictions. I didn't bring it with me, but Steve Cord tells me he's going to publish it very shortly. I did a little primitive correlation analysis. The value of land per residential unit related to the value of the land and building together. I find that the land ratio was highest in what's called the University endowment lands. That's the most posh section of Vancouver and that's also where the total value of the residential real estate was greatest. In an almost perfect line it came down to rural Sidney, on the island where the land ratio was the lowest and the average value of the real estate parcels was the lowest.

Similar studies can be made in any jurisdiction by neighborhoods. I urge you to do it by neighborhoods, but do it by neighborhoods, don't do it by individuals. I have simulated one here - this indicates how you might put one together. What we have here started out looking like an egg lying on its side but when I got through with it it looks more like a potato. But think of it which ever way you want. This is what the statisticians call the envelope of the scattered diagram. It's a line that includes all the points that indicate the value of land and the value of improvements for all the parcels in the jurisdiction. When you make such a scatter, you can tell what the relationship is by whether this egg is lying on its side or standing on its head.

What you find out is that it's lying on it's side, indicating that as the value of the land parcel gets higher, the value of the improvement rises, but not as fast. The reasons that statisticians make such good liars is because this does look like a tail instead of a straight line. So, if you take individual cases, you can say I know this poor fellow out here who has got a lot of land and not much building and here somebody up here who's got just a little bit of land and not much building and you're going to be shifting taxes from the rich man to the poor man if you exempt the building. That is, if you just look at these two points. Then somebody takes the other side and says, well yeah I know somebody here and compare him with somebody up here.

Well, obviously this can go on forever. That's why God invented statistics so that you could just look at this potato

and say is it standing on its head or laying on its side. I guarantee you, if you do this by comparing jurisdictions or by neighborhoods within jurisdictions, you will find it is lying on its side. That is the dominant tendency. So, if you shift off the building base and on to the land value base, you will make your property tax more progressive and thereby eliminate one of the major obstacles to raising the rate, which is of course, the damage done to the very poor.

Now there's another solution to that. We heard some suggestion made, that there were retired people on fixed incomes who had a great deal of trouble paying the property tax. The answer to that one is call their bluff. You call their bluff by saying you make a contract with the state, or the county, or whatever, and you don't have to pay us any cash; you will just give us an equity in your property which will grow year by year as your taxes are unpaid. If our equity becomes a 100 percent and you're still alive, we'll let you live there for the rest of your life without paying any more taxes. When you die, instead of your heirs getting that property, the county, the state, whoever is collecting the taxes, will do so. Well, this attracts the attention of heirs in a very compelling way. We have done this in California, it's one of the few things we have done right.

We have such a law and the fascinating thing to me is how so few people have taken advantage of it. That's what I mean when I say you have to call this bluff. Because that's what it is; it's a debaters ploy and is very hard to answer. Well ok, let's make

a deal and see what happens. I didn't mean to denigrate the person who raised that point. I'm sorry if it came across that way. Now, we also hear that it's never been done or that it's only been done in Pennsylvania and whatever happened there would have happened anyway.

I suggest to you that if we raise our sights and look around the world we will discover that it has been done and it is being done in a number of jurisdictions. I was in South Africa not long ago and visited the city of Johannesburg. Johannesburg has been exempting buildings and focusing its property tax on land since approximately 1903. They did not start de novo, by the way, the city was there before. Johannesburg has no reason for being where it is at all. Johannesburg is on top of a 5000 foot relief. It has to pump water supply uphill. It has no harbor, no rivers, no natural transportation. The mines have played out. It should be a ghost town by now. But instead its the economic capital of the southern part of Africa. I'm not aware of any reason why Johannesburg thrives except for this tax policy. It's well worth looking into.

Now, lets look at Taiwan. Taiwan was founded by people who were very influenced by the ideas of Soon Yat Tsen. He said tax the land. When they got over to Taiwan they figured let's try what the master said so they did it and the Taiwan economic miracle has ensued. You notice, I didn't say resulted, it ensued. You can determine if it resulted or not. I will point this out this though that they discovered that the valuations were getting behind the market, a phenomenon we're all familiar

with here. So, what did they do? They levied a stiff tax on land gains.

They now get about four times as much from their land gains than they get from their basic property tax. But the strategy is beautiful. You impose a tax on land gains and you have this locked-in effect that people are worried about, that people won't sell. So you impose a heavy tax on holding land and people worry they'll sell too much, sell too soon. So you chase them out of one tax and into another. They collect about 20 percent of their revenue, federal, state, and local, from a combination of those two taxes. Singapore makes extensive use of land taxes. Sidney, Australia makes limited use of them. Brisbane, Nairobi, and if we go back a little bit in history we will discover that four provinces of Western Canada went through a substantial period when they raised most of their revenue from taxes on land.

There's lots of experience. You don't have to be limited to Pittsburgh. It's not an isolated case. One of the results that I think you can attribute to this is a greater stability in the places I cited and in two other places, Tokyo and London, which do not levy taxes in this way.

We haven't even talked about this, but the boom and bust cycle is inherent in a situation where property is taxed at a very low level. I've been through it. I made $200,000 in a few days after they repealed proposition 13 in California. I assure you that I was out there campaigning against it with every fiber in my being.

But the next thing I knew, you see I am occasionally a land

speculator myself, just because you don't believe in a system doesn't mean you ought to be exploited by it, so what happened. These developers started chasing me around my block, they wanted to buy my land. I couldn't believe the prices they were offering me. But, I got cash. Am I glad today? No, I got six children I have to send through school. The schools are deteriorating. The university tuition is going up. All the things that used to paid for by that tax are being screwed up.

It's boom or bust. If you read the papers, you know my state is going bust. It's spectacular - just like London, just like Tokyo. Now how about the effect on the balance of payments? we haven't heard much about this, nobody really talks much about this. A very substantial part of the real estate in any jurisdiction where the land is of any value is owned by absentees, people who live outside the jurisdiction. Often they live outside the state or even outside the country.

About two-thirds of downtown Los Angeles is owned by non-resident aliens. Now what happens if you eliminate the property tax on those people. What effect does that have on the balance of payments. Instead of their sending their money in from Tehran, or wherever, to pay taxes in your jurisdiction, they're not doing it anymore. By the impact on the balance of payments, that has multiple effects on the local economy. That's something worth thinking about. Land is underassessed. I have spoken to this before.

Let me just mention one data point. If ever a parcel of real estate should represent 99 percent of building value, and

practically no land value, it's the Empire State Building. It's located in an indifferent section of Manhattan, far away from the 100 percent location and was until recently the tallest building in the world. Yet, in two transactions that occurred the land was valued at one-third the total, the building at two-thirds. Now, if that's true about the Empire State Building, what does that say about the rest of the Island. We heard some talk about these canyons and how unattractive they make New York. Now, I've walked around New York streets quite a bit, and it's not the canyons that make them unattractive, it's the buildings that have stood there for 100 years without being replaced. Which have attracted activities and people whose net impact on values around them is negative. That I suggest is more wrong with New York City and a lot of other jurisdictions than an excess of new construction or remodeling.

Another consideration, when we are talking about the adequacy of land as a tax base, is the effect of new buildings of land across the street and the value of new buildings collectively on the value of land over a wide area. Putting this in the negative, what is the effect on the value of land of the deterioration of buildings over a wide area.

In my urban studies, I have discovered there are at least three types of slums. One kind is what happens on land in the van of downtown expansion. This is where people let the old buildings decline because they expect to demolish them shortly. That involves less land than type two. The second type of slum which I take to be the most common is where the negative

neighborhood effects of buildings that have aged without being replaced have destroyed the value of land. If the value of land has been destroyed, there's very little incentive to renew and you've got a vicious circle.

That's the bad news and that's the situation that many central city areas are in. How do you get out of that? Well, if you exempt new buildings from the property tax, you're going to have renewal not on a parachute basis, not on a cataclysmic basis, but working in from the fringes. Because every unhealthy neighborhood is surrounded by healthy neighborhoods and new development likes to anchor to existing sound development. Given a change in the balance of incentives, that kind of marginal renewal should occur and probably, in my opinion, will occur. The last point I want to make is that whatever real estate you tax, you are taxing the same real estate, you're just taxing it in a different way. By that I mean is that if you exempt buildings from the property tax, those values are not lost. Rather, they are capitalized into the value of land. Because if I can put up a building on a piece of land without paying taxes on the building, then I'm willing to pay that much more for the land. I take that at 2 percent, extend that 50 years into future and discount that back to the present, that's a substantial amount of money. Thus the haggling of the market causes the price of land by approximately that amount. So the tax base you lose by not taxing buildings, you gain by the increased taxable capacity of land.

So what's changed? The only thing that has changed is that

your tax system is no longer biased against renewal. What happens now is if you tear down the old junker and put a new building, you're taxes goes up. That effects the timing of that important economic decision. It defers the date on which it is optimal to replace the old building with a new building. If you go to a site value system, the tax is unaffected by demolition or renewal. It remains constant, therefore, the date that looks optimal from the view of the individual is set forward. It becomes earlier by a substantial number of years. All the rents that are generated by the new building are now aborted by the threat of taxation would instead become part of the value of land.

I once wrote a chapter on this subject. It's called, "The Adequacy of Land as a Tax Base." It took me two years of research and it's much too long even to summarize here. I will ask permission, however, to put it in the record. I don't know Pat are you going to publish things that people deliver to you? Good - before these witnesses. Thank you.

Q: I'm going to frame my question first for Mr. Block. You said the real issues are issues about fairness. I live in a J51 building in Brooklyn. I wish I could say i have benefited from that but the fact of the matter is the person who benefited from it was the developer. The developer took this building, waited for people to leave, got us a J51 and renovated the building and the tax break I got was incorporated in the price I paid for it. The same builder has had J51 tax abatements on maybe a half a

dozen other buildings in the neighborhood. Next door to me, on either side are vacant buildings. They're a blight to the neighborhood, they lower the value of the building I'm in. Is this fair, is this equitable? Is this the kind of development the city wants?

Mr. Block: Since the program is not limited to any particular individual or individuals, it sounds to me that you purchased in an are which is the subject of revitalization but not a success story at this point. The issue of fairness is the purchase price that you paid obviously the reflected the nature of the neighborhood at the time you made the purchase. If you wanted to get a luxury neighborhood, you would get a luxury neighborhood up front. If you pay less money, you will get a neighborhood where you will have to way to become luxury. That's built into the marketplace. It has nothing to do with tax policy.

Q: But it was the developer who reaped the benefit from that J51. I, and the other tenants in that building did not reap the benefit. So the city basically said, here Mr. Developer is a lump of money -

Mr. Block: You're the one who got the J51 benefit. Your taxes were lowered. If you're saying the full benefit of that J51 was captured by the developer in the sales price, than that's between you and the developer and in your ability to negotiate.

Q: Mason Gaffney, you said there were three types of slums and you described two types. What's the third?

A: Building on land which is no good and will never be any good. Floodplains, for instance. People are driven to build on land of this kind by the inadequate development of good land.

Q: Maybe a moot court room is a good place to ask this question. When does the issue become a moot issue, particularly for New York State. A number of people have talked about the paralysis of traditional thinking. Many of the presentations today are confined by the paralysis of illusionary expectations. That expectation is that this market is going to continue to grow and yet not a single factor in New York State indicates that is going to happen with the exception of very isolated areas. We just redistricted the state due to a decline in the population and there's no indication that that will reverse anytime in the near future.

Since birth rates and death rates remain relatively constant throughout the last decade, that indicates that there's a gross out-migration. That out-migration will in effect will determine the market values of whatever tax system you're on. As revenues increase, we will find there would be an even greater out-migration in manufacturing, commercial, and residential sectors. When you look at the smaller communities in this state almost everyone of them has an out-migration, a declining population. When you look at many urban centers most of them are over-built

in terms of commercial properties. In most downtowns, you would hardly find a block without space available.

I don't know if the model, in New York, would be the same as the one Mr. Gaffney referred to for the state of California because I think they're situation is different. There might be some comparisons, but I think how we arrived at it would probably be different and as a result,the solution would be different. Regardless of which system we use, and I am a firm advocate of those mentioned today, where do we reach the point we're it doesn't make any difference in New York State.

Mr. Gaffney: Well, I preferred to speak to this subject in New York rather than California, at least until recently, because I couldn't get anywhere in California ~~because~~ when you talk about ~~a~~ system that's designed to arrest decline or promote growth, you're surrounded by people who say ~~you~~ we don't want growth, it's the last thing we want, take it away. Now, in a state that has experienced out-migration and is trying to arrest its decline, it seems to me that you've got the most obvious case in the world. ~~Now~~ as to overdevelopment, ~~I guess~~ it depends on what type of development you're talking about. That's a value judgement. I have a vivid impression of the scene as you drive around the New York State Capital, ~~which~~ it seems to ~~constitute~~ consist of several marble quarries out ~~in~~ of Vermont, and across the street you have some of the most decrepit and decayed housing you can imagine. I wouldn't say that those people are oversupplied with housing. In Troy, a lot of people are living in places right out of Dickens.

You have a substantial, unfilled demand for good housing. I think when we're talking about a policy whose objective is to promote growth and arrest decline, it doesn't make much sense to say we can't think about it because we're in a state of decline. It's trying to overcome that.

Q: I would like to ask Mr. Block if he could say something about the process that was going on in the 1980's in New York City. Whether revaluation of the land portions of the values in the city-

Mr. Block: Well, since New York State Law requires that the assessor value the land as if unimproved and then come up with a separate value for the property with the land improvement. We undertook in New York City an extensive program of revaluing the land values because it was our belief that over the course of decades that those land values not only became outdated but there was simply no relationship between what the market value was of the land and the assessment. This was because no attention was paid to the process for so long.

A massive effort was made starting in the mid-1980's to come up with, what we believed to be, a more accurate assessment of the land value as opposed to just an accurate assessment of the total value. That did lead to large numbers of properties receiving very significant land increases. So the implications of those, for example, were the J51 which provides a partial exemption for real property tax. So by leaving the land

assessment alone on a property but changing the allocation between land and buildings, many properties saw an increase in their overall tax burden even though their assessment remained the same.

That was significant enough to me that I briefed my superiors that was going to happen - because I saw it as a political issue. But It seems to me that if the law requires you to value the property, the land is if unimproved, then you should take that requirement seriously, whether you're talking about site valuation or anything else. You simply have a statutory mandate to do as good of a job as you could do. I will say that when you get into Manhattan, that because of the lack of sales, the valuation of land is a far more difficult task than it is in the other four boroughs where you have direct empirical evidence of land value.

Q: I came in here very objective today because I really didn't know about either system. I know about the present system, I didn't really know about the new system. I listened to all the people who are going to formulate that opinions eventually, hopefully some opinion comes about from that. But I listened to gloom and despair behind me with regards to our economic environment and I hear let's not try because we have things that are standard. I honestly tried to listen to all the objective material that's been given but I cannot see why, in the economy we're in now, we would not want to try to go forward and do something.

My understanding is that you're looking at a level of government, towns or villages or cities, to experiment to see if this program would work. It's not a program that can't be pulled together. I think the Governor and the legislature need to start doing something and stop giving lip service. I am going to bring this back to my community because I think it will be good a system for our present dilemma. This was not really a question just a comment. Thank you