

# Incentive Taxation

OCTOBER 2004 VOLUME 30 NUMBER 5

## SAINT MARYS EXPLORES ASSESSMENT AND ASSESSORS

St. Marys, a city of 15,000 in Elk County, Pennsylvania is considering the appointment or election of an assessor to concentrate on city property values rather than using county assessments, which has been the trend in the past few decades in the Keystone State. St. Marys is also seriously considering land value taxation, so the idea of assessment reform is timelier than ever.

*Incentive Taxation* has long been an advocate of cities being the best judges of their future. Assessment has long been a sore spot

when trying to study and implement land value taxation. Most counties in Pennsylvania have put off assessment for years or even decades in order to keep taxes in county and township land low and keeping values in troubled cities artificially high.

Since Third-Class Cities may have a property assessor, the escape hatch from inaccurate and amateur-hour assessment at the county level can be utilized with clear upfront benefits. New development may be valued in a timely manner. Changes in the property

market, especially for dormant downtown commercial districts can be noted by on-site valuers. With land value taxation being shown to be an effective tool in making older urban service centers more attractive to investment, real land and building values can be determined.

The cost of an assessor or a team of assessors can be recouped with reductions in appeals. The caveat from this writer's experience: establish procedures for eliminating the politicizing of assessments.

## CITY PARKING: PRIVATE SECTOR CASH COW OR PUBLIC GOOD?

Even a casual reader of *IT* knows that the concept behind land taxation is to encourage free markets and return economic vitality to cities while keeping revenue flows intact for community needs.

Yet - again and again - cites with good development ideas (and land tax proponents) have run into opposition from the parking "industry" that often stymies reform for the greater good. How does this happen?

As experience in Philadelphia has shown, flat-top parking lots are a business model that leach off productive neighbors and also corrupt the decision-making and political process. Private parking lots enjoy higher profit margins than their neighbors that actually invest in plant, employment and marketing while paying taxes on most of their activities. With taxes on their vacant land nearly non-existent, parking lot owners have a jump on actual corporate and human citizens.

When a parking lot becomes unable to handle the traffic generated by their hard-working neighbors, a parking deck is sometimes built, usually with abatements and exemptions that established businesses (not to mention hard-pressed neighborhoods) cannot enjoy.

This leaves the parking lot owner with lots of surplus cash. Again, in Philly, this leads to showering the political system with

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## FROM THE DIRECTOR

### Namibia Gets Specific on LVT

There's two popular ways to do land reform in Africa: seize it and give it to "farmers" who were born in raised in Harare (Mugabe's cynical and useless Zimbabwe solution), or collect some of the economic rent of valuable farmland that is now titled to mainly white farmers (such as in blessed-with-statesmen Namibia).

The land tax rates start at 0.75% of unimproved site value per hectare for a single farm, increasing by 0.25% for each additional Namibian-owned farm. The

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This bulletin is published by the  
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LOW TAXES ON THE PARKING INDUSTRY ALSO DISCOURAGE USE OF MASS TRANSIT, A HUGE RECIPIENT OF GOVERNMENT INVESTMENT.

## CITY PARKING: PRIVATE SECTOR CASH COW OR PUBLIC GOOD?

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money, muting the voices of mere citizens. One company, with a near monopoly on parking in Center City, is one of the largest contributors to political campaigns.

### Effect on the Local Economy

When a parking lot becomes unable to handle the traffic generated by their hard-working neighbors, a parking deck is sometimes built, usually with abatements and exemptions that established businesses (not to mention hard-pressed neighborhoods) cannot enjoy.

Some have argued that these decks, at the very least, employ many who would have a hard time getting work. Untrue: while it's obvious that a lot employs a sprinkling of employees on a site meant for hundreds of productive workers, the modern parking industry is working fast to eliminate workers from its bottom line. Automation of parking and payment has led to slashed jobs and stagnant pay.

A parking lot in a bustling older downtown means one thing: a building once stood where asphalt is now king. Each building lost is a loss to the tax base of the city in many ways: property tax,

business tax, wage tax. The current system of taxation does not recoup the high land values associated with these now barren sites.

In Philadelphia, there has been a consumer resentment building for years against the high rates charged by the near-monopoly of parking.

With no competition for rates, only the most high-end retail can justify a shopper, especially from the suburbs. Who will pay \$15 to \$20 an hour for a hammer, a bra, or lunch? Add to this an under-attended lot or deck becoming a magnet for smash-and-grab thieves, and you have a formula for a consistently under-performing Business District, all thanks to the "industry" that feeds from it.

Low taxes on the parking industry also discourage use of mass transit, a huge recipient of government investment. A higher tax on parking – or the land on which parking takes place – would have the effect of lowering the rates and reducing the high profit margin to a level consistent with other businesses in the area. Land value taxation, almost **because** of the fear that it inspires amongst parking lot barons, is a natural tool in the struggle against urban economic parasites.

### A Public Solution?

One other way to solve this problem may be to consider parking a public good and service. The logic of municipal parking lots and decks is hard to escape: by removing the profit motive, rates can be reduced to non-extortionate levels. This assistance to responsible and productive shoppers, visitors and the buildings that serve them would provide a far more cause-and-effect than most of the sweetheart panaceas that city governments hand out.

The experience of a visitor to Silver Spring, Maryland is illuminating: rates are metered in a series of county-owned decks. Rates vary by day, hour and need (shopping, Washington Metro). The area surrounding the public parking facilities are becoming crammed with shops and offices, serving all needs from modest to Xanadu-esque. The Silver Spring Metro stop into DC is one of the most utilized in the system.

It's time for cities to realize the years of decline have reversed. It's time to seize the destiny of their downtowns back from the parasites and return it to the people and the commerce that can again make our cities great.

## FROM THE DIRECTOR

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land tax for foreign landowners starts at 1.75% of the site value for the first farm and increases by 0.25% for each additional property.

Some 12,000 farms were assessed during 2004, and the appeals process is nearly done. All done with no bloodshed, no mobs and no economic collapse.

### Ireland's Progress

We're happy to hear that our colleagues at Feasta ([www.feasta.org](http://www.feasta.org)) have worked long and hard to achieve a genuine milestone: the Irish Chambers of Commerce have adopted site value taxation as a revenue source. From their press release:

"The Chambers of Commerce of Ireland (CCI) today

(13th October 2004) called for the introduction of a site-value tax on all property (except primary residences) to ensure that local authorities are properly funded and

that it is not just left to the business community to pick up the tab." ([www.chambersireland.ie](http://www.chambersireland.ie))

Considering that LVT was not on the radar even four years ago, Feasta's efforts

(and their allies) are nothing short of remarkable. CSE, publisher of *Incentive Taxation* is happy to have played a role in these efforts.

—Joshua Vincent, Director

# CITY HEALTH VS. COUNTY GROWTH: BUTLER COUNTY, PENNSYLVANIA

When a city starts to collapse and make choices that drive out commerce and population, one would imagine the beneficiaries would be the surrounding jurisdictions. We decided to look at our favorite scenario in South Western Pennsylvania.

Pittsburgh, which had moved over the years from its successful land value tax to a nightmare of business and wage taxes, finally went comatose in 2001. A combination of a reassessment which favored county land, a school board (and tax) that went dysfunctional and its dropping of the land value tax, which increased taxes on poor and working class neighbor-

hoods and the productive Golden Triangle led to a stampede.

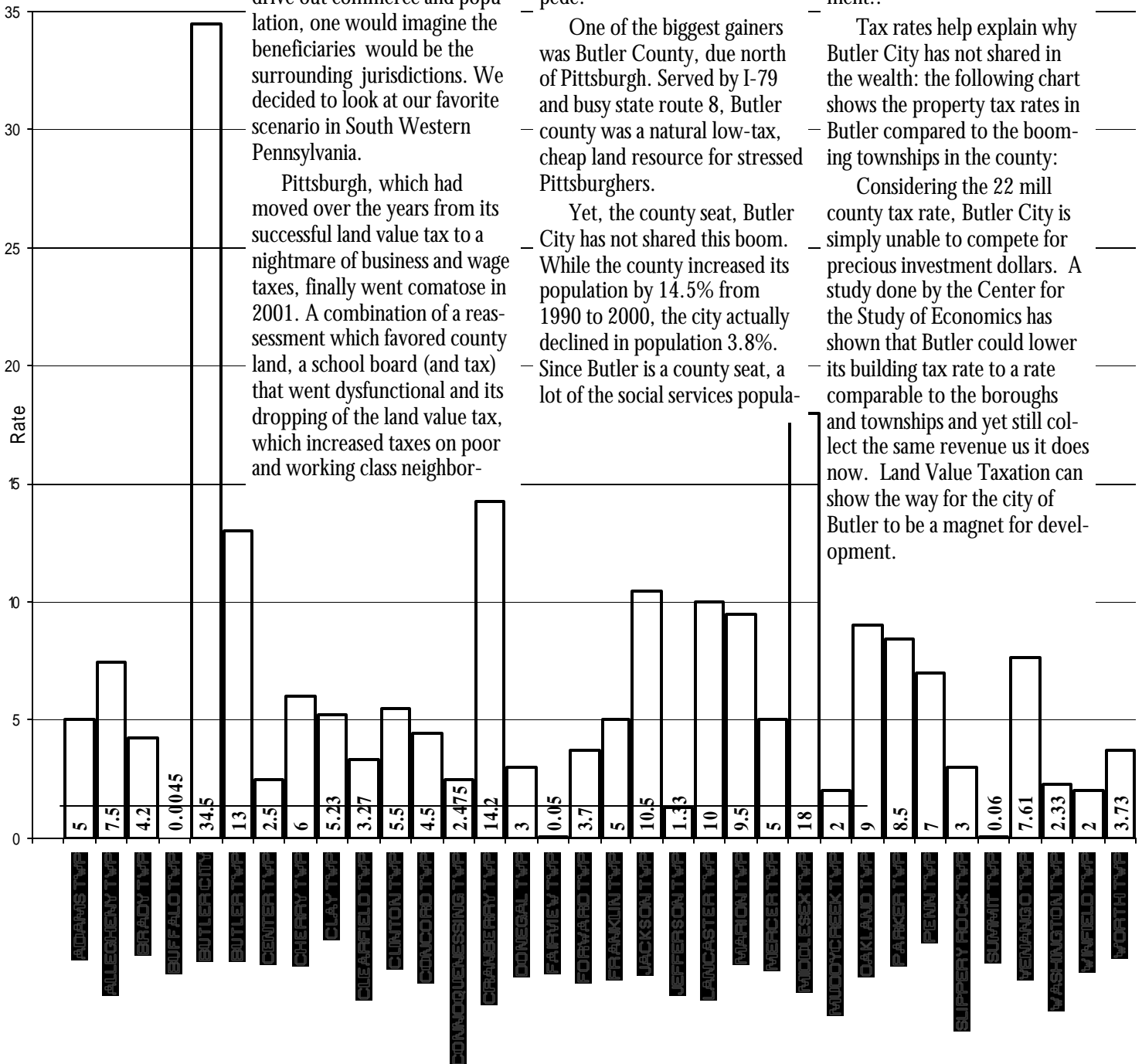
One of the biggest gainers was Butler County, due north of Pittsburgh. Served by I-79 and busy state route 8, Butler county was a natural low-tax, cheap land resource for stressed Pittsburghers.

Yet, the county seat, Butler City has not shared this boom. While the county increased its population by 14.5% from 1990 to 2000, the city actually declined in population 3.8%. Since Butler is a county seat, a lot of the social services popula-

tion has gravitated there, leading to an overall impoverishment..

Tax rates help explain why Butler City has not shared in the wealth: the following chart shows the property tax rates in Butler compared to the booming townships in the county:

Considering the 22 mill county tax rate, Butler City is simply unable to compete for precious investment dollars. A study done by the Center for the Study of Economics has shown that Butler could lower its building tax rate to a rate comparable to the boroughs and townships and yet still collect the same revenue us it does now. Land Value Taxation can show the way for the city of Butler to be a magnet for development.



Butler County, PA Tax Rates 2004

## CLAIRTON CITY AND CLAIRTON SCHOOLS: PERFECT TOGETHER

Since the late 1970s, the city of **Clairton** in lower Allegheny County has been assaulted in many ways: the steel mills have shriveled, tax base has declined, assessments have dropped and people have left.

It has become apparent that the reason that Clairton has escaped the Total Doom scenario faced by neighbors, Donora, Glassport or Elizabeth is that the land value tax implemented in 1989 at the request of the **Pennsylvania Economy League** has spared homeowners from the massive tax increases that usually result in the collapse of the industrial tax base and also the suburban-skewed reassessment inflicted by Allegheny County in 2001.

The results are clear: population loss was reduced, and new commercial development is starting to sprout.

One home that is being constructed is a virtual palace, a true aesthetic shock in the modest neighborhoods of Clairton.

### Next Step

One issue however prevents Clairton from pitching itself as a tax-free haven for labor and capital: the School District. City officials, such as **Ralph Imbrogno** the City Manager, have been pushing for a discussion of this for years, along with **Frank Gelletko** a School Board member.

The District charges a property tax of **19.5 mills**, which puts a drag on the benefit of the City **1.22** mill tax rate on buildings.

Since **ACT 16 of 1993** permits 3rd class districts coterminous with 3<sup>rd</sup> class cities

to impose LVT, a new, open district leadership is looking at LVT. Since the school property tax is 61% greater than the city tax rate, the impact on homeowners will be dramatic. More importantly, the cost of doing business in Clairton will be lower than almost anywhere in the **Southwest Pennsylvania region**.

Since US Steel dropped most of its operations in Clairton with nary a look back, the amount of valuable industrial and commercial land is staggering. Perhaps a dramatically higher tax on the holding cost of empty land will finally provide the impetus to do something with land that has been fallow for a generation. The needs of a hurting community, not deep-pocket land bankers will finally take precedence.

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Permit No. 05937

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October 2004  
Volume XXX Number 5