

URBAN DILEMMA (from page 9)

in Philadelphia. We know with absolute certainty it is not true in Center City. How do we know that - because people who will have to pay taxes on buildings, gross receipts, net profits, use and occupancy are still willing to pay millions of dollars per acre for the opportunity to do business in Center City Philadelphia.

They could even raise taxes in Center City, and it would still be profitable. It would lower the income and the selling price of the land, but Center City would still be very profitable.

However, in the worst areas of Philadelphia it is true you can't make a profit. And the reason we know this for certain is that the land is worth zero. Add up all the advantages and subtract the disadvantages. There is not only trash, crime, and drugs, but there are taxes on buildings, and wages and sales -- all of which contribute to the negative values.

In the worst areas you can't give the land away. The city owns thousands of lots in distressed areas because the real estate taxes weren't paid. The city would like to give them away. But, even when they have some semblance of a house on them, they have no value.

Any increase in taxes on building, wages, or sales, and another area becomes unprofitable. All taxes are applied equally at every location throughout the entire city. The land is worthless, because, on average, every dollar invested on it will yield less than the bank. Right now, I suppose you would have to say: you will lose even more than you lose by putting your money in the bank.

That's when people refuse to reinvest in a neighborhood. These neighborhoods were once thriving communities; in many cases they centered around factories. In the 1960s and 70s when they were unable to compete with cheaper foreign products, they shut them down.

They didn't auction them off to the highest bidder who would put them to some other use, even if the highest bid was 50 cents? They shut them down and left them idle. Perhaps they were waiting for tariff protection, or some other advantage, but in fact they stayed idle.

And the workers went to other places looking for work. As the communities declined from lack of jobs, real estate values went down with it. Many home owners who moved did not sell. They were thinking that jobs would again return and the value of their homes would re-appear.

When it didn't happen, and major repairs were needed, that was when they put the money in the bank or the stock market rather than replace the roof or make other major repairs. The buildings and land were abandoned, and the city stopped getting revenue.

Brown Fields are also an important factor. When you

sell a parcel of industrial land, you must have it inspected by the E.P.A. and bear the expense of cleaning it up -- millions and millions of dollars for most industrial sites.

It is said to be much cheaper to let the buildings deteriorate, get the assessments lowered, and continue paying or even owing very low taxes on the value of the land, than pay millions to clean up a parcel of land that might only be worth a fraction of what it cost to clean it up.

Now, if we look at the big picture, it's pretty simple. Every time you raise tax rates, another area that's just barely profitable becomes unprofitable for reinvestment. Eventually, the area will yield no revenue at all.

This is why some economists think Philadelphia is near the point where if they raise tax rates, they will actually get less revenue.

Now, if we refocus on the prosperous areas. How many empty buildings, and vacant lots are sitting on valuable land that could be sold tomorrow?

In many cases they get no income from the land or the buildings at all, they're just sitting idle, and they have to pay the real estate tax of 2 1/2% of what ever the assessor says they're worth every year. If they sold the land, and put the money in the bank, they'd get something.

Why would they give up getting interest from the bank and continue to pay the real estate tax when they get no income? And the answer is that they expect the land to increase in value far more than the interest they're losing at the bank and the taxes they're paying to the city.

In other words, they're land speculators, waiting for the value of the land to increase. The price of land may be falling right now, so anyone who doesn't sell when the price is going down is thinking that long term the price will be going up. We've all heard it: "Now is not the time to sell".

And if they can park cars on it or rent out a dilapidated building with a leaky roof, whatever income they do get offsets the taxes paid to the city, and this adds to their overall profit when they do sell.

The more land that is unused or underused by a land speculator the less land there is for people to live and work on. It costs as much to pave the streets and maintain the pipes in front of a vacant lot as one that people are working or living on. It costs as much for the police and fire trucks to travel past the empty buildings as all the rest of them. So, they have to raise everybody else's taxes to make up for the lost revenue. As Philadelphia loses population, their expenses do not diminish proportionately.

And that is how cities work, and that is why they seem to be so dependent upon the broader community.

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