PHILADELPHIA CONTROLLER PROPOSES LAND VALUE TAX

On November 26, 2001, an already much discussed and promoted "Tax Structure Analysis Report" was presented by City Controller Jonathan Saidel to 150 business and community leaders at a press conference held at the Chamber of Commerce office. According to Assistant City Controller Bruno Moser, there was good media turnout, including several TV stations. Favorable articles were published in the Philadelphia Inquirer, the Philadelphia Daily News, the City Paper, and by the Associated Press, and in the Tax News Update of the Center for Sustainable Economy. A neutral perspective was published in Bond Magazine.

In releasing The Tax Structure Analysis Report, City Controller Saidel was surrounded by supporters. Chamber of Commerce president Charles Pizzi said, "This approach, by someone in city government, is really something we have been looking and asking for over the past 12 years." Greater Philadelphia Assn. of Realtors president Anne M. Rubin said, "We believe this is better for the homeowners and for the city." Also with Saidel when he unveiled the 93-page Report were five City Council members, including Council Finance Committee chair Jannie L. Blackwell. Council member James Kenney quoted the Report that "Together, the increased property tax and decreased wage tax would amount to just over a $100 savings for a family of four with an annual household income of $45,000 and a home with a market value of $80,000. Council member Michael Nutter noted that while Mayor Street draws up the annual budget, it must still be approved by the City Council, which could choose to impose a new tax system. "The city's tax structure is abominable, and it needs to change," he said. Also present was City Council member Blondell Reynolds-Brown. Another five Council people were represented by their legal staff at Saidel's presentation of the Report. Also speaking in support was Paul Tirjan, the director of a venture-capital firm.

In a front page story in the Inquirer November 27, staff writer Nathan Gorenstein, commented, as follows. "Saidel's plan has three major components: steeper reductions in wage taxes than those currently called for by [Mayor] Street, reductions in city business taxes, including one tax that companies must pay even if they lose money; and an overhaul of the city's property-tax system to reduce taxes on the value of buildings and increase taxes on the value of land. By next year, Saidel's plan would reduce the wage tax from 4.54 percent for city residents to 4.00 percent. By 2007, wage taxes would be cut to 3.5 percent for city residents and 3.375 percent for nonresidents, down from 3.9 percent. The net-income portion of the business-privilege tax would drop from 6.5 percent to 4.0 percent next July, while the gross-receipts tax would drop from 0.24 to 0.20 percent. Land would be taxed at a higher rate than buildings, resulting in tax cuts for most homeowners. Some businesses would see real estate tax increases, but Saidel argues that those tax increases would be offset by cuts in business taxes. Saidel also identified in the report $27 million to $95 million a year the city can save through greater efficiencies.

According to Saidel's Report, currently taxes on structures and improvements generate about 77.5 percent of the city's real estate tax revenues. In October, Saidel had briefed City Council members, who would have to approve any changes in the city's property taxes. Under the plan, the city would abandon the system that taxes land and buildings at the same rate, and instead tax land at 3.44 times the rate imposed on buildings. Property taxes would drop by modest amounts for 78 percent of city homes, but increase for 50 percent of the city's commercial and industrial property. Owners of parking lots, car dealerships and other businesses with large tracts of undeveloped space in prime areas are among those who could face higher taxes.

Saidel said that his land-value tax plan would complement the mayor's proposed $250 billion blight bond program, which aims to demolish 14,000 structures (at least 8,000 of them in imminent danger of collapse) and improve 2,500 vacant homes. The land-value tax plan would discourage developers from "land-banking," or allowing buildings to decay in an effort to reduce real estate taxes before redeveloping property. Currently, Saidel said, residents who make improvements to their homes or businesses are penalized through higher taxes, thereby discouraging urban investment. Saidel calls his proposal an attempt to halt the exodus of Philadelphia's middle class. "If we don't do that, he said, "ten years from now we're going to be a Center City with downtown, the very poor, and seniors who can't sell (continued on page 2)"
their homes." and will be more dependent every year on Harrisburg and Washington [state and federal capitals].

A "Land Tax in Philadelphia: What Will It Mean "fact ad paid for by the Greater Philadelphia Association of Realtors(R), published in the July 19-26, 2001 edition of Philadelphia's City Paper, explained that currently in Philadelphia (with a rate of 82.64 mills) on real property, that about 78% of the property tax revenue comes from buildings, with only about 22% of the property tax revenue coming from land. Since senior citizens keep up their homes and most of the tax bill now comes from the structure itself, they would assuredly see a decrease in their taxes with the land value tax. Compared to the usual senior/low-income property tax relief programs, one does not have to apply for it [LVT]. Many properties that pay are owned by absentee owners who have little or no stake in maintaining an attractive, economically competitive community. LVT helps capture the value of government investment. Federal, state, and county aid to assist in redevelopment usually is a signal for speculators to buy up all available land and sit on it for speculative purposes. A land tax will make it less easy to hold onto land that should and could be developed more quickly.

On November 9, the Philadelphia Inquirer featured an Op-ed piece by University of Pennsylvania Wharton School Finance and Economics Professor Robert Inman, who is also a member of Mayor Street's Council of Economic Advisers. Professor Inman pointed out the less on that "in the ... 1970s and 1980s the city's 19 tax increases drove out the tax base and set the stage for the fiscal crisis of 1990. Progress has been made over the last seven years in reducing the two most economically damaging city taxes: the commuter wage tax and the gross receipts tax. Recent research by me and my colleague Andrew Haughwout shows that even modest reductions in these two taxes will increase city jobs, city wages, and city home values. These increases in tax base, unfortunately, will not be enough to prevent some loss in city revenues. ... Revenues raised by a modest, well-administered land tax can be used to replace the revenues lost from reducing the rates on commuter wages and gross receipts. Businesses that own land in the city give up two bad taxes for one good one. City homeowners will face a higher overall tax, but they get higher home values, higher wages, and more opportunities. Now more than at any time since 1990 is the time for efficient provision of government services funded by efficient and fair taxation. If well administered, a land tax could be a useful part of the mix."

On November 27, Mark Alan Hughes, who teaches at Penn's Fox Leadership Program, wrote in the Philadelphia Daily News, as follows, "The Tax Structure Analysis Report issued yesterday by City Controller Jonathan Saidel is the best policy statement from any city government in my 20 years of policy analysis and research. ... let me present three of the many things you should know about the report and what it means for all of us. ... Saidel assumes no big changes in city spending. He proposes to fix this mess strictly on their tax side rather than calling for a reduction in city services ... he's transparent in his assumptions, allowing us to evaluate his judgment calls for ourselves. ... Second point: Many people will focus on the wage-tax reductions and the modest move toward a land-value tax in Saidel's plan. But just as significant are his proposals for reform of business taxes. Our business privilege tax (on gross receipts and net income) and net profits tax are a mess, making confusing distinctions between businesses with disastrous consequences for our local economy. Saidel's plan would reduce or eliminate all of the city's major business taxes. However, the bulk of that tax relief would be targeted at firms that do business in the regional and global marketplace. In effect, the controller seeks to make Philadelphia a tax haven for people and businesses that export to the outside world -and import money into the city rather than simply re-circulate dollars already here. ... Third point: Saidel's plan assumes a modest "supply-side" effect. That means that the controller assumes that cutting taxes will lead fewer people and firms to leave the city and persuade some of each to come or expand here. Of course, that's the main point of cutting taxes, as any economist will tell you...."

Philadelphia Mayor John Street was not receptive to City Controller (also an elected office) Saidel's plan. "It would be hard to endorse the proposal at this time," Street said of the land value tax proposal. The Mayor's aides said that with the nation's economy sliding into recession, the city cannot start changing the complicated mix of taxes that funds the city's $2.9 billion budget. City Budget Director Rob Dubow said any change in the city's taxes must await a (years away) statewide overhaul of the property tax system. Philadelphia plans to decrease the wage tax to 4.39 percent for city residents and 3.81 percent for non-residents over the next five years. Debow said the administration's view is that changes should be made gradually and called Saidel's proposed changes too expensive and said that they could negatively affect city services. The wage tax raises $1.2 billion, or 45% of the city's revenue, and currently is 4.54 percent for city residents and 3.95 percent for non-residents. Philadelphia officials say that city government can't afford what they estimate over five years under Saidel's proposal would be the loss of $900 million revenue in wage and business tax cuts. According to Philadelphia Finance Director Janice Davis, where there's built-up demand, something like the land tax would work, but it doesn't really address the absence of demand in the existing environment.

(Philadelphia lost 4 percent of its population since 1990, and 500,000 residents since 1950. The number of jobs dropped 6 percent, and its taxes remained among the highest of any city.)

By making the city more business-friendly, Saidel said his reforms would "expand the tax base and increase revenues in the long term," (continued on page 14)
but his plan acknowledges that in the short term, the city would likely see a reduction in tax revenue. He maintains that there is enough breathing room in the city budget to handle up to $629 million in lost revenue over four years - what the report calls the "worse-case scenario." Though he admits the plan is going to be a hard sell because of the region's worsening economy and the plight of the public school system, Saidel challenged naysayers. "If you say no to all my charts and assumptions and demographics and work that we've done, give me an alternative, because the alternative can't be that we stand still." (The Philadelphia City, School District, and County are all one taxing unit.)

On November 29, the City Council passed a resolution to hold hearings on abandoning the existing property tax system that taxes land and buildings at the same rate. The hearings to instead tax land at 3.44 times the rate imposed on buildings probably won't be held until after January 1, 2002. Besides the previously built-up support for Saidel's proposal, the Center for Study of Economics arranged for meetings with the Mayor's financial staff.

Philadelphia is the birth city of Henry George, who proposed the land value tax in his world-wide best selling book in 1879, Progress and Poverty. The birth home is the location of the Henry George School of Social Science in Philadelphia. Edward Dodson, a long-time advocate of exempting property improvements altogether in favor of the tax on land values has helped to organize a public forum on land value taxation, scheduled to be held at the Federal Reserve Bank in Philadelphia in two parts (January 30 and February 20.) Professor of Economics NicTideman will be a featured presenter at the January 30 session. Dodson is the author of "Can a City Raise Needed Public Revenue and Stimulate Its Economy at the Same Time?" that was published in the Sept.-Oct. 2001 GroundSwell.

The Center for the Study of Economics, of which Joshua Vincent is President, moved in the spring of 2001 from Columbia, MD to Philadelphia (see May-June 2001 GroundSwell). Pennsylvania Fair Tax Coalition State Coordinator Alanna Hart-zok organized the "Public Finance Alternatives Regional Forum" held January 29, 1998 in Philadelphia (see March-April 1998 GroundSwell). Hartzok and Philadelphians for LVT coordinator Uda Bartholomew, a Henry George School graduate, organized a Philadelphia Tax seminar June 9, 2001 in Philadelphia (see May-June 2001 GroundSwell). The organizations of Hartzok, Vincent, and Bartholomew also hosted a one-day intensive seminar, "Land Rights and Democracy in Philadelphia" on December 1 at the University of Pennsylvania. Former Philadelphia City Councilman James Tayoun, who in the 1980s introduced a two-rate bill for Philadelphia which did not make it out of committee, now owns and operates the Public Record newspaper and helps publicize Controller Saidel's proposal as well as other pro-LVT articles. Other Henry George School-Philadelphia associates involved in backing the Saidel proposal are Jacob Himmelstein, Pat Lowe, Brian Cole, Richard Biddle, Donald Hurford, Sr., Joan Sage, Education Director Ken Forde, and his assistant Lu Cippol- loni. □