TESTIMONY GIVEN ON THE ACT 47 RECOVERY PLAN AT HARRISBURG HIGH SCHOOL JUNE 28, 2011

I am Joshua Vincent, Executive director of the Center for the Study of Economics, and I respectfully disagree with the Act 47 Plan for Harrisburg to eliminate the split-rate or land value tax.

Having worked with city administrators since 1975, CSE has adjusted and formulated rates that have helped the city meet fiscal goals and tax liability outcomes in small, landlocked city that is nearly half-exempt from taxation. Since then, land value tax has served - both in tax theory and in practice - the city well since 1975. Taxes have remained reasonably low for an impoverished city, but at the same time, cut taxes for appropriate commercial uses of land, such as Strawberry Square, the recent building boom in both lodging and office facilities.

We believe that Harrisburg and its hard-pressed residents and productive businesses need the incentive effect of a permanent abatement on capital investment in structures, instead of an incentive to hold land vacant or underused.

Specifically, the recommendation to remove the split rate is predicated on the benefit of "increased competitiveness and tax efficiency." Yet, economists know that the most efficient tax, that is the tax with the least "drag" or deadweight loss on an economy, are taxes on those items which cannot be moved or destroyed through taxation. Land value is the one taxable entity in the Commonwealth that fits that description.

A higher tax on buildings will have the effect of reducing incentives to build and maintain buildings. As noted in the report, taxes will go up for homeowners, multi-family properties, as well as desirable urban non-residential uses that build up, rather than out. The report's concern for forms that may require lots of open land or exurban densities does not fit in with current paradigms of urban revival and spaces; this is not an issue of real property but one factor of real property: land.

Harrisburg's CBD needs to be encouraged to build densely, without costly subsidies; a lower tax on buildings provides that.

Yet, a lower tax on land as proposed will encourage vacant landowners to hold onto their land for a long period waiting for their speculative price and avoiding paying a fair share of taxation for city services.

Remember, it was at the recommendation of the DCA (now DCED), that in 1975 Mayor Swanson and Council implemented the split rate land value tax. Since that time, the city has expanded the tax on land to six times the rate of buildings starting from a two to one ratio.

Our first two attachments indicate several changes in the Harrisburg CBD since introduction of LVT. The difference is startling, with the new skyline. Residential building permits issuances measured against an analog city, Albany, NY are but the latest of a line of studies that have indicated that Harrisburg's economy was able to take advantage of the real estate boom, unlike most aging post-industrial northeastern cities.

The report notes that the city now collects nearly 65% of tax revenue from land values. Again, that revenue source is fixed and immobile. Reverting will cause an opposite collection rate, that is to say the majority from buildings in the order of 75%. That means that what Harrisburg will need to recover: buildings, neighborhoods and a strong CEB will be adversely impacted.

The last two charts show the significant change in tax on structures and improvements if this recommendation is followed.

The Center would suggest that a tax structure in place for 36 years is likely not as confusing as some might think. Nearly 20 cities of the 3rd and 2nd Class use the tax on land values. I should note that Altoona, is now the first city in the USA to have no tax on buildings, and revenues have stabilized during their 10-year implementation.

We would recommend that land value tax be expanded to raise revenues and plug budget holds, much like Altoona and Washington, PA have done. We would recommend that the school district finally be permitted to use a split rate on real property.

Finally, the Center, with its long history of helping and assisting Harrisburg will conduct research on a parcel-by-parcel basis for the city. Granular analysis, including patterns of exempt and absentee ownership will be examined. We believe that a higher tax on land values may prove to be a better solution to the revenue issue from property taxes as Harrisburg recovers from its recent problems. Thank you.

(The Center for the Study of Economics is a 501.(c)(3) non-profit educational research foundation that has worked with dozens of municipalities over the past 30 years to research, make recommendation and - if appropriate - assist in administration and implementation of the split-rate tax, more appropriately known as the land value tax. Josh Vincent may be emailed at joshua@urbantools.org.)

= = = =

EXCERPTS FROM NEWS ACCOUNTS ON HARRISBURG

Harrisburg residents speak out against Act 47 financial recovery plan, 6/29/11.

"...[A] universal theme of residents at Harrisburg's Act 47 public hearing at Harrisburg High School [was] the state's recovery plan chews up the city and protects bond investors. ... [A]bout 40 residents out of 200 in attendance spoke against the plan. ... The plan goes out of its way to protect bond investors, Dauphin County and the bond insurance company that backed much of Harrisburg's $310 million in incinerator debt but asks for too much from the city, residents said." [http://www.pennlive.com/midstate/index.ssf/2011/06/harrisburg_residents_speak_out.html] <<

Harrisburg mayor disagrees with three Act 47 recommendations, 6/28/11.

"Harrisburg Mayor Linda Thompson disagrees with three recommendations in the city's 418-page Act 47 plan: Thompson does not want the city to switch from a two-tier property tax system to one that blends land and building rates because that alone could increase property taxes. .... [T]he Act 47 plan [by] a state-appointed team (continued on page 12)