13 S. 10th Street
Philadelphia, PA 1947
Phone: (215) 545-6004
Fax: (215) 545-4929

www.ourcommonwealth.org
www.urbantools.org
manager@urbantools.org

**HENRY GEORGE FOUNDATION OF AMERICA**
ESTABLISHED AS A 501 (C) 4 IN 1926

(23)

## Testimony in favor of Bills 379 and 392

## February 18, 2009- Joint Planning and Development Committee

Good morning Committee members, Chairs, Senator Coleman, and Representative Sharkey, my name is Joshua Vincent. I am the executive director of the Henry George Foundation of America, a non-profit educational foundation that has been working with cities here and abroad since 1926. Our headquarters are in Philadelphia, Pennsylvania.

Speaking as the executive director of HGFA, we support the passage of Bills 379 and 392, which will give cities in Connecticut the local option of enacting land value taxation (LVT).

Our organization has worked extensively with regard to research and implementation issues of the land value tax. Twenty jurisdictions within Pennsylvania employ this program today. I bring you a message from these cities and their officials: shifting taxes from buildings to land works, is practical, and should be done.

LVT would allow Connecticut cities and municipalities to adopt a flexible form of the property tax that would permit the city to free existing buildings, future construction and renovation from the destructive grip of taxation, and make up the revenue by taxing land value instead. *We illustrate the danger that high mill rates on buildings pose, with this to the attached graph* of tax rates in Hartford County. The stark reality of the city's dilemma is illustrated.*

It is understood: land cannot "flee" as capital does.

By permitting separate tax rates for land and buildings, cities such as New Haven, Hartford or New London can accomplish this goal, if they so wish. Along with other proposals of real and meaningful tax reform, LVT can provide a framework for markets to once again, function effectively in ALL areas of Connecticut. Everyone agrees that taxes on workers, buildings, homeowners and business must be reduced, especially in the face of a recession. Nevertheless, where do we get the revenue that our cities and schools need?

Land value is a responsible and proven answer. Unlike jobs, houses, businesses and whole neighborhoods, land cannot flee the city. Economists agree that taxes on improvements are a drag on the economy; they likewise agree that land is a far better source for municipal revenue needs.

If Connecticut is going to reduce taxes on wages and business – and it must – then the time has arrived to deal with this inherent flaw in the traditional property tax.

## Connecticut's Property Tax

In Connecticut, land and building assessments are determined separately. That means we have an opportunity to see how much tax currently falls on each component of someone's home or business. In New London, for example 30% of real property tax revenue comes from land. In New Haven, it's about 27%, in Hartford it's about 18%. Why is this important?

That means that 70% and up of most municipal or city revenue comes from buildings. In other words, if someone fixes up their house, their assessment goes up accordingly and their tax bill goes up accordingly. That's a disincentive to go ahead with such a project. If buildings are taxed less, the city will have more and better buildings. If the program is used and promoted by a city, individuals take the plunge and maintain their properties. This has been the case, all over Pennsylvania and across the world.

**This is permanent universal tax abatement on buildings.**

### LVT complements other incentive programs

LVT works within existing frameworks of planning, zoning and abatement/exemption programs. Programs to exempt improvements to houses are a good one, even in the face of lost revenue from such abatement.

Yet, what about the building owners who have already fixed up their homes before the program takes effect? This program rewards everyone in a city that owns or uses buildings. That's most of us. In addition, when the period of exemption is over, split-rate will cushion the financial blow from a sudden increase in taxable building/improvement value.

### LVT is in accord with ability-to-pay

LVT is far more preferable to senior citizens than the standard property tax. Since senior citizens keep up their homes, and since, most of their tax bill comes from the structure itself, they would assuredly see a decrease in their taxes with LVT. For families just starting out, a lowered tax bill means lower monthly mortgage payments.

Any cushion from a collapsed real estate market should be considered.

### LVT attacks blight

Harrisburg, Pa., has employed and marketed this program to great success (see attached letters from U.S. Mayor of the Year 2006, Steven Reed, of Harrisburg). They have pushed the idea hard, especially to homeowners and homesteaders. In 1982, Harrisburg had thousands of vacant structures. Today, there are less than 500. In Connecticut urban

centers and neighborhoods, it is reasonable to expect that this process would be repeated. The effective property tax rate in Harrisburg has dropped since the 1980s, because of tax base increases in land value.

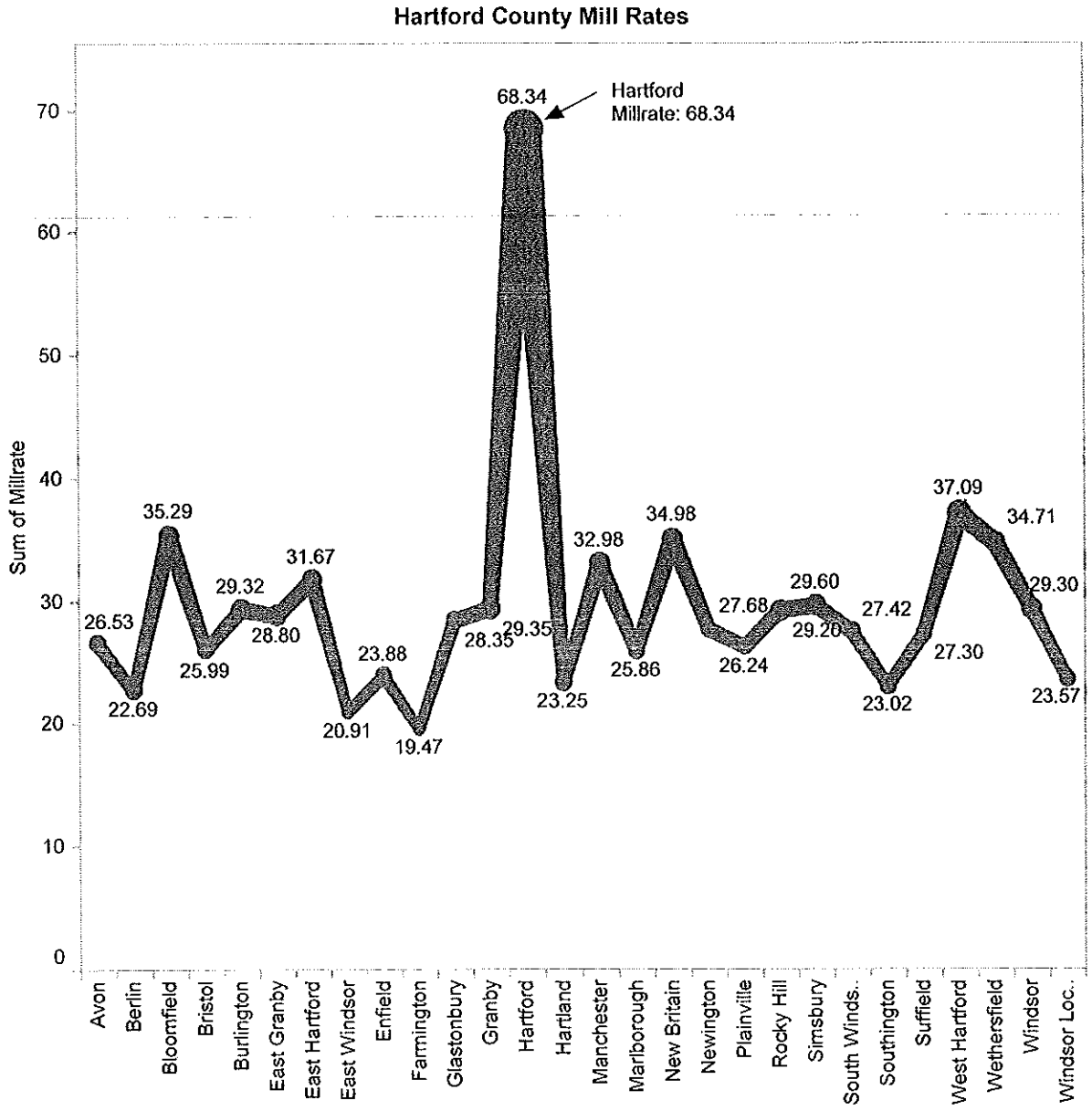
Studies of LVT by Drs. Oates and Schwab (U. of Maryland) and Tideman (Virginia Tech) in Pennsylvania and Dr. Kenneth Lusht (Penn State) in Australia made a strong connection between lower taxes on buildings and increased construction and rehabilitation of existing buildings.

Unlike other bright ideas and taxes that have sapped city strength over the years, land taxation is an "annual event:" in the unlikely event that LVT is perceived as unpopular or onerous, it can be rescinded. This cannot be said of other options offered to help urban areas and economic development. With the benefit to hard-pressed and unfairly taxed homeowners, the chances are remote.

In closing, I would like to reiterate that LVT has been used to great success all over the world and the US and it can and should be utilized by a municipality if appropriate. In our region, such seemingly disparate groups have supported LVT institutionally: 10,000 Friends of Pennsylvania, the Greater Philadelphia Association of Realtors and the National Association of Homebuilders' amongst many others.

I respectfully ask that the Joint Committee on Planning and Development help make Bills 379 and 392 law. Thank you.

*Attached Graph




**Sum of Millrate**

- 19.47
- 30.00
- 40.00
- 50.00
- 60.00
- 68.34

# Office of the Mayor
## The City of Harrisburg

M.L.K. City Government Center
10 North Second Street
Harrisburg, PA 17101-1678

Stephen R. Reed
Mayor

(717) 255-3040


October 26, 2006

Honorable James Ruberto, Mayor
City of Pittsfield
70 Allen Street
Pittsfield, Massachusetts 01201

Dear Mayor Ruberto:

It is our understanding that the City of Pittsfield is considering the prospect of establishing a split-rate property policy, such that the tax rate on land would be higher than the millage rate applied to improvements. The City of Harrisburg, Pennsylvania has had such a policy in place for over two decades and with great success.

In Pennsylvania, cities are not permitted to annex surrounding areas. Our borders are therefore inelastic. This requires that we assure the highest and best use of land, which is in finite quantity here. Further, we want to discourage the practice of real estate speculation which has, in many cities, served to deter economic development and has further served to be a means of supporting and rewarding irresponsible absentee owners.

By having a higher tax on land, we are specifically rewarding those who invest in the productive use of land through development and improvement. With the notable exception of the relatively few property owners who own large expanses of undeveloped land, the split-rate property tax policy has served to actually reduce the overall tax burden on taxable property owners than what would have existed if there was a single millage rate applied to land and improvements equally.

The City of Harrisburg, Pennsylvania was listed as the second most distressed city in the nation under the federal government distress criteria at the beginning of the 1980's. Since then, three decades of previous decline have been dramatically reversed. We have now registered over four billion dollars in new investment here. The number of businesses has increased from one thousand nine hundred eight to over eight thousand nine hundred. The crime, fire, unemployment and vacant property rates have dropped considerably during the same timeframe.

While there is not a single policy that is the "magic wand" to assure urban revitalization, I can unhesitantly report that the split-rate property tax policy is a very significant economic development incentive and that, without such, we could not have achieved the economic development success of this era. We regard the split-rate property tax policy as a critical and strategic incentive that both induces and rewards investment in projects great and small.

We wish you well in all of your good work with your city.

With warmest personal regards, I am

Yours sincerely,

Stephen R. Reed
Mayor

SRR/klk

cc: Joshua R. Vincent