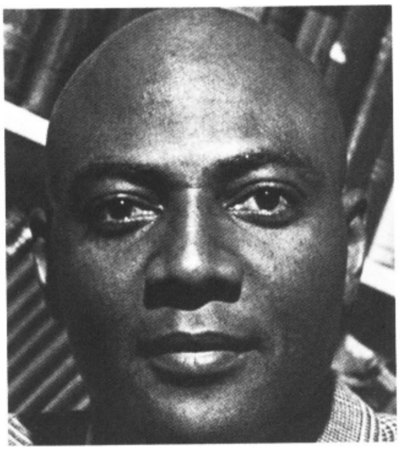
Speculation – at the taxpayer's expense



GEORGE COLLINS reports on how developers exploit tax inducements

THE FIRST TAX ever instituted in Philadelphia, adopted just over 300 years ago on January 30, 1683, may have been a land value tax. It is reasonable to judge that what William Penn and his "adventurers and purchasers" adopted was a tax upon the value of the land because of Penn's friendship with John Stuart Mill, whose declarations on the principle are unmistakable.

The minute of proceedings at the time reads:

> "Put to the vote, as many are of the opinion that a Publick Tax upon the land ought to be raised to defray the Publick Charge, say yea – carried in the affirmative, none dissenting."

Penn's "Greene Country Town" may not have long retained that levy on "the superfluities of gain and expense" as the sole source of revenue for the city's needs. But it is destined to return to that centuries-old system, in modern dress, and each new development in the city brings greater assurance that it must soon do so.

As in every other American city, the value of improvements made upon the land came to be seen as the surest evidence that the owner possessed the ability to pay, and the property tax, more heavily weighted toward the improvements upon the land, became the principal source of revenue.

The property tax retained that position up to the 1940s when taxes on gross wages and net business profits were adopted. Beginning at the relatively bearable rate of 1%, the wage tax has grown to become the possessor of a dubious distinction – the highest flat rate tax on wages of any city in the country.

The wage tax rate was recently split into two parts, imposing a higher rate (4.96%) on city dwellers, while retaining the old rate (4.31%) on suburbanites working in the city.

A constitutional challenge to that two-tier structure is now before the courts.

Engineered by suburban legislators seeking to protect their constituents from the tax-hungry big city, the law, as it was originally designed, prevents Philadelphia from increasing the wage tax on workers from Pennsylvania suburbs (New Jersey and Delaware residents working in Philadelphia pay the same as the city residents) until the rate paid by their city brethren has increased one full percentage point above the prevailing rate of 4.31%.

If the suit is successful, the city would be required to return all the money collected from the increase on suburbanites and raise those funds from some other means to fulfil the budgetary needs which made the increase necessary.

But city officials, desperate for new revenue in 1983 and being careful to avoid hitting any one source too heavily, made the hard choices.

- The property tax was increased roughly 6.5%, from 7.175% to 7.675%.
- The amusement tax was doubled.
- The mercantile licence tax, which until then applied only to sales made in Philadelphia, was reduced from 5 to 4 mills and a 2 mill tax was applied to sales made outside the city.

● Market Street East – speculators' target

THE MAYOR and his recalcitrant City Council took the calculated risk that the disproportionate burden of the wage tax on city dwellers would not swell the outward flow of population to the suburbs. No doubt the opinion of a recent task force, Philadelphia Past, Present and Future, that the population decline had reached its nadir, played a part in the decision.

Since 1950 when Philadelphia's population hit its high point of slightly over 2 million, it has lost approximately 380,000 people.

In the 1970s alone, roughly 140,000 jobs were lost, leaving a large inventory of obsolete industrial buildings along with 30,000 vacant houses, some 500 acres of cleared land held by the Redevelopment Authority and countless other unused acres in private hands.

The efforts to overcome these problems date back to the halcyon days of the "Great Society", "Model Cities", "Urban Renewal", "UDAG", and "CETA" when federal dollars poured into Philadelphia in response to every grand design to rebuild the city, resettle the displaced, house the poor, retrain workers, expand social services and end poverty.

There are only a few stars in that firmament of federal largess, and they are not without tarnish.

An old section of town, including the original square mile of Philadelphia, stretching from the Delaware River waterfront westward, renamed Society Hill, was redeveloped from a rotting marketing center and poor tenement section to the most expensively-restored, colonially-appointed, residential area of the city. It has received worldwide acclaim as a model of urban restoration. It has succeeded in attracting the wealthy back to Philadelphia.

But even while restorers were acquiring the colonial facades at the federal write-down subsidy rate, complaints were being voiced at the large increases in tax assessments which followed each restoration. As a result, assessed value in the area has remained at a very low percentage of market value when compared with the rest of the city.

The resettlement of the displaced poor was a fiasco. Large numbers never found alternative housing through the program and much of what was done simply crowded too many more poor residents into already declining neighborhoods.

The more recently developed Gallery 1, an urban shopping mall designed like a suburban mall, with 124 shops in a quadri-level enclosure, anchored by two major department stores, has been an overwhelming success.

It has consistently earned higher returns per square foot of space than any other shopping mall anywhere in the country. But a recent study has concluded that, considering the cost, the area is generating no more business than did the independent stores and other enterprises that had to give way for the mall to be built.

A community activist group has charged, with some justification, that public funds expended in the development were diverted from sorely needed neighborhood housing for the poor for which the money was intended.

THE MOST dramatic results in the city's drive to renew its commercial and industrial stock and resurrect its sagging economy has been the assistance programs provided by the Philadelphia Industrial Development Corporation (PIDC).

On a selective basis, determined by the adjudged worthiness of the project, the total investment involved, the number of jobs it will create, etc., the PIDC arranges tax abatement on the value of the new construction (not including the land) for 5 years.

● **First parking lots – then high rises**

It has also arranged below market rate financing and site acquisition at writedowns as low as 10% of market value.

Almost all of the beneficiaries of these subsidies have been downtown developments, although some industrial projects have also been assisted. Virtually every office building, hotel and high-rise apartment house built in Philadelphia over the last 15 years has enjoyed the tax abatement and other subsidies.

Some planners working in the program which provides the abatement and other sweeteners to attract investment argue that many, even most of the developments would have located in Philadelphia without these inducements.

Many localities are now competing with each other, using those same means to entice investors, and Philadelphia has suffered a net loss of population and jobs, shockingly evidenced by the physical decline of its neighborhoods and, until recently, its urban core.

On the other side of City Hall, on Market Street East, where the city has announced plans to reconstruct the roadway, provide separate bus and car traffic lanes, redesign the subway entrances and generally beautify the strip to the tune of $13 million, the former Reading Railroad, now the Reading Company, is building a 32-storey, $70 million office tower.

The successor to the bankrupt railroad company is the possessor of some 330 parcels of real estate in Pennsylvania and New Jersey. Some of the most potentially rewarding of their 13 acres in the city are on Market Street East. But despite Gallery 1 & 2, the nearby completed 1.7 mile tunnel linking all the commuter rail lines beneath the center of the city and the other public and private plans, Market Street East is not yet booming. The players are all waiting for the city to spend the projected $13 million on the road improvement and for someone else to make a move.

But the Reading Company isn't about to wait. It is anxious to capitalize its land assets and move into other investments that will enable it to take advantage of millions of dollars in federal tax credits accumulated during the railroad company's slide into bankruptcy.

The Reading Company has all but convinced everyone concerned that the best place for the city to build a Convention Center is on the 7-acre site of its old railroad shed just off Market Street. And with the city as a prime tenant, contracted to lease more than one-third of the space, they are constructing their office building on an adjacent parcel. It is going up in an area where there are as yet no office buildings and where no one, except the city whose pre-construction lease agreement made the building possible, has yet shown the slightest interest in renting. The hope is that these projects will start the ball rolling and give their other land holdings on Market Street East the big boost.