PHILADELPHIA

LVT: trump card in a 'real-life monopoly game'

TAX ABATEMENT on new construction naturally found favor with the Philadelphia Home Builders Association. A Bill passed in 1983 granting a 3-year abatement on new residential construction, up to the first $70,000 (exclusive of the land), is trumpeted by them in advertisements declaring: "American Dream Comes True in Philadelphia".

This is a group that along with the Chamber of Commerce opposed Land Value Tax Bill No. 1226 when it was introduced in City Council in 1982.

The essence of their opposition was that home builders who had acquired sites, but could not build because of the state of the economy, would be stung by land value taxation. Although the proposed shift was minor, it could, they argued, presage wider changes.

Of course, their members are forced to play the game just as everyone else is, whether they want to or not. It's simply a business proposition. They must inventory the land to offset the price with the rise in value over time – and the more they hold and the longer they hold it the better it is.

The Philadelphia Port Corporation, the port of Philadelphia and other enterprises whose land use operations are extensive rather than intensive were the other visible opponents of the Land Tax Bill. The big developers and major speculators were nowhere in sight. The Greater Philadelphia Chamber of Commerce presumably carried the ball for them at the public hearings on the Bill held by the Finance Committee of City Council on June 22, 1982.

The Bill would have amended the Philadelphia tax code "adding a new section relating to the imposition of real estate taxes by providing for different rates of taxation in the levy imposed on the assessed value of taxable land and improvements thereon and authorizing changes in the rate of the annual tax for use by the City of Philadelphia for the tax year 1983 and thereafter . . ."

THE DRIVE towards land value taxation (LVT) seriously began in 1980 when Richard L. Biddle, President of the Incentive Tax League, filed nominating petitions to run for a seat on the City Council. His platform was to achieve LVT in Philadelphia and his campaign slogan was "Land Value Taxation Encourages Growth". He did not expect to win, what with having no funds or campaign organization, but he intended that his viability, through judicious campaign appearances and repeated references to the scheme, would spark reaction among other candidates.

It apparently did more than spark a reaction.

● Lucien Blackwell, a Council member, stepped into the race for Mayor when another black candidate withdrew. Blackwell promptly stated at public meetings and in a TV debate that he favored the land value tax which was working well in Pittsburgh. He did not win the Mayor's chair but he returned to City Council as a friend of the measure, and he may yet do more valuable work on behalf of its adoption.

He chaired the Finance Committee and the hearings on the LVT Bill held in 1982.

● Then Republican Councilwoman Joan Specter and Democrat Councilman Jim Tayoun agreed to co-sponsor an LVT Bill, and 12 other council-members signed on. But before the Bill was finally prepared, Councilwoman Specter found reasons persuasive enough to withdraw her support.

Bill No. 1226, co-sponsored by 13 of the council's 17 members, was introduced by Councilman Tayoun on April 15, 1982 and referred to the Finance Committee chaired by Lucien Blackwell.

The April 15 edition of the *South Philadelphia Review* reported on the Bill that Tayoun was to introduce that day in an article entitled "South Philadelphia May Benefit from New Tax Proposal". An aerial photograph showed Packer Park near the Veterans Stadium as "one of the areas that may benefit from a new Land Tax Bill to be introduced in City Council". But Revenue Commissioner Eugene Cliett, Jr. was reportedly skeptical that such a system could work in Philadelphia's complex tax structure. Philadelphia gets only 18% of our revenue from the property tax while Pittsburgh receives nearly 40% from it, he told the paper.

GEORGE COLLINS
on the background to a campaign to save a city

The *Philadelphia Business Journal* devoted a full page to the story: "Tayoun Pushes New Real Estate Tax Formula". It presented Councilwoman Specter's concern for whom it would help and whom it would hurt. Center city and some changing neighborhoods could benefit, Specter conceded. But owners unable to pay the tax and unable to sell in a down market and the uncertainty of legal exemptions to avoid accelerating displacement of poor residents in changing neighborhoods, steered her against it.

Likewise, Kenneth Cohen, a commercial real estate salesman for the giant Binswanger Corporation, conceded a land value tax would raise the cost of holding valuable center city lots but saw no reason to attribute the Pittsburgh building permit boom to the land tax increase of 1979. After all, there was also a building boom in Philadelphia that year, he told the *Journal*.

● In the meantime, Incentive Tax League members pushed forward their promotion.

David Zwanetz, a member of the City's Board of Revision of Taxes (Board of Assessors) raised the issue at a meeting of the Board and City Council. He found good reactions from the council members. Incentive Tax League President, Richard L. Biddle and members Jack Himmelstein, Ed Dodson, Rich Thoma, W. Wylie Young, Patricia Lowe, David Zwanetz, Holley Linn and I stepped up visits to city council, meeting principally with the aides to the council members.

● With the assistance of the office of the City Solicitor, Prof. Steve Cord of Indiana University of Pennsylvania, who is Editor of *Incentive Taxation*, the land value taxation newsletter, authored Part 1 of an analysis of The Impact of a Building-to-Land Tax Shift on Homeowners and other Property Owners in Philadelphia at the request of City Council. It detailed the effect on six classes of property – Private Residential, Apartment Buildings and Hotels, Stores with Dwellings, Commercial, Industrial and Vacant Land. It also analysed the effect on a ward-wide basis.

W. Wyling Young and I prepared Part 2 of the report which showed the effect of the shift from 6.75% on the total assessment to 12.25% on land and 5% on buildings. The sample contained approximately 7800 residential parcels distributed over 66 wards.

The survey was issued to the members of Council, the Mayor's administration, business and community groups and the media.

BILL No. 1226 was scheduled for a public hearing at 8 am on May 20 while Council and Mayor William Green were in the midst of intense negotiation on a budget with a gaping $39 million deficit to be plugged.

The time was critical. Council was meeting day and night to finalize their version of the budget and a tax package for reading in Council on the 20th and 27th so that it could be returned to the Mayor by the 31st. A hearing of Bill No. 1226 on the morning of the 20th could have, with suspension of some procedural rules, permitted the land tax increase to be considered among the alternatives for new revenue to meet the projected deficit.

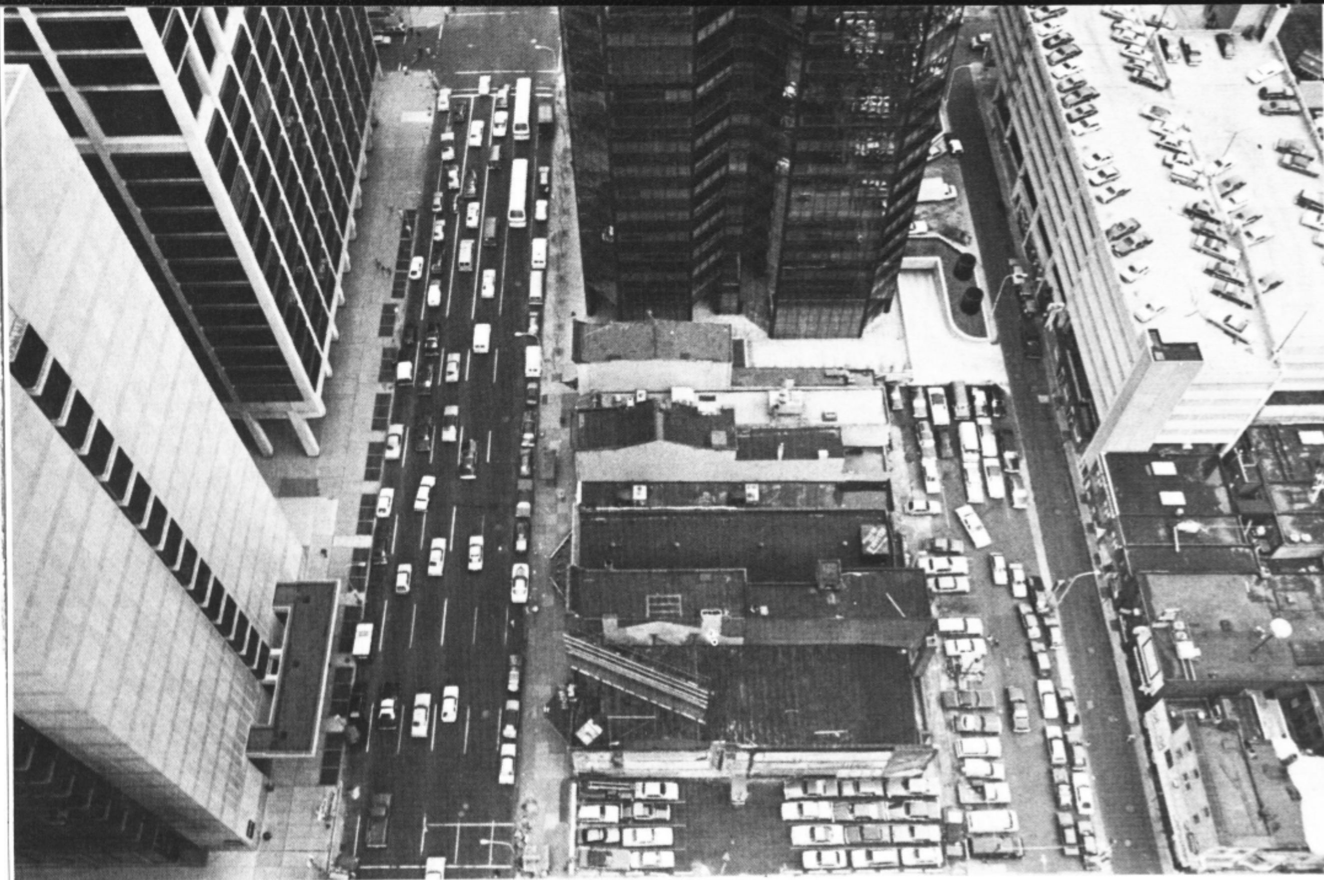
Approximately 60 supporters from the Incentive Tax League and Henry George School, plus members of ACORN, a tax reform group, and the Philadelphia Unemployment Project, alerted by Janet Filante and Vivian Williams, were set to attend the early morning hearings.

Press and radio announcements were extremely good.

The *Philadelphia Inquirer* ran an Op-ed article by Prof. Steve Cord on May 13 titled "Property Tax Reform: Raise the Taxes on Land" which revealed the conclusions of Part 1 of the LVT study and recounted the experiences with LVT in Australia and the five Pennsylvania LVT cities – Pittsburgh, Scranton, Harrisburg, McKeesport and New Castle.

A principal point of the Philadelphia study was that 59 of the 66 wards in the city would pay less with LVT.

A letter by Kenneth Ford supporting the conclusions of the article and the Bill appeared in the *Inquirer* on May 16. On May 19, the day before the hearings were to have been held, *Inquirier* City Hall reporter Jane Eisner's article "Bill Would Set 2 Rates of Property Tax" appeared. She reported other conclusions of the two-part study, quoting me as revealing that an overwhelming majority of private homeowners would pay less and that industrial, com-



ONE DEVELOPER called it "the hole in the doughnut". It's a half-block of video arcades and porn movie houses sandwiched between two prime office buildings, just one block from Philadelphia's City Hall.

And thanks to the lure of public subsidies and the spur of offshore and domestic investment funds, the scramble for building sites has pushed land values sky-high.

Rouse & Associates and The Oliver Tyrone Co. were recently locked in a bidding war to acquire parcels of the land in what is rated as the best piece of undeveloped real estate in the city.

Each builder claimed that the Redevelopment Authority had promised him the right to develop the site. The contest was stalemated with Rouse owning 52% and Tyrone 48% of the land.

The word among realtors is that prices as high as $500 per sq ft had been paid in an area in which $250 a sq ft was thought to be the realistic economic cost for development land.

Rouse finally won the shoot-out as high bidder at auction for a rumoured $700-1,000 per sq ft.

All parties are keeping the exact price a secret. Before it was all finalized, Rouse was quoted as having said: ". . . win or lose, it's just a game of monopoly."

● TRUMP CARD

From p.65

mercial and vacant property would pay more. Private residential property, in fact, would pay 2.3% less; apartment buildings and hotels 2.8% less; stores with dwellings 1% more; commercial buildings 4.5% more; industrial property 3.8% more and vacant land 35% more.

Councilman-at-large John Anderson, now deceased, who had been favorably disposed to the measure, told Ms Eisner: "It may be a very good idea but there is no way that you can change the whole tax situation in Philadelphia in three weeks". Philip L. Goldstein, a spokesman for the Mayor, echoed the same doubt.

All hopes for adoption of the change to fill the budget needs, as Pittsburgh had done, were dashed when it was learned that a meeting between City Council and the Mayor late on the night of the 19th and an emergency 9 am Council session on the 20th forced the hearings to be postponed.

On that morning radio station WDAS aired a commentary on the Bill and announced that hearings, which were by then postponed, would be held that day. That evening, WXPN Radio broadcast an interview with me. The following day, the 21st, a long letter by Frank Nelson, ITL member from Delaware, responding to Prof. Cord's article, captured the headline in the Letters section with the title: "Land Tax Would Benefit Philadelphia".

On May 25, there appeared a front-page article in the *Center City Office Weekly* by William Phillips, Chairman of the Fairmount Taxpayers Association – perhaps the most active and vocal community organization at the time – headed "Tax Land – Stop Penalizing Homeowners". An editorial note following the article read: "Someone outside the Mayor's 'serfdom' should sit him down and explain these facts of life to him".

Some optimism was restored for promoters of the Bill when hearings were rescheduled for June 22 and a drive to again line up supporters and experts to testify for the Bill was mounted. Advocates of the Bill rationalized the new situation as perhaps better than their original hope. The City Council was in a "no tax" mood and land value taxation may have been rejected in that atmosphere. Now that it was no longer connected with the budget issue, or viewed as a tax increase, it would be considered fairly on its own merits. If adopted it could be instituted simply as a technical change.

THE QUESTION now was whether or not the support which had been carefully built would hold firm. A strong important voice in favor of the Bill would be homebuilders.

Dante Fantasia, an independent builder owned vacant land on which he intended to build townhouses when the market improved. He also owned unsold, newly constructed houses on which he was paying taxes. Calculation of the tax consequences on all his holdings showed that he would have been a net saver with the adoption of land value taxation. Mr. Fantasia was convinced that the change would benefit most builders and he agreed to testify in support of the Bill at the May 20 hearings.

Ed Kardish of the Philadelphia Home Builders Association and Neil Hurowitz of the Multi-Family Council of Southeastern Pennsylvania represent and lobby for single and multi-family residential developers. Initially opposed to Bill No. 1226 – because it would be costly to developers unable to build in the then-unfavorable financial climate of super high interest rates – their opposition was softened in face to face discussions with Prof. Cord and me.

Furthermore, they were somewhat less alarmed by this Bill, which applied to all property owners than a Bill which Councilman Anderson was to introduce, which would impose a 10% surtax on vacant buildings. They had worked with Anderson to make provisions of that Bill more palatable and would not desert it, but would support LVT.

By June 22, their position had again shifted. Their testimony on that day seriously questioned the desirability of land value taxation and while they did not enter an outright opposition, neither did they support the Bill.

Builder Dante Fantasia did not appear.

But there was other support. Although they were not all present throughout the day, between 11 am and 3.30 pm, Lucien Blackwell's Finance Committee composed of Vice-Chairman David Cohen, Francis Rafferty, Jim Tayoun and John White plus non-committee members Ann Land, Ann Verna, Beatrice Chernock, John Anderson and several Council members' aides, heard testimony, without a break, from 21 people.

Eleven scheduled and two unscheduled speakers testified in support of the Bill. A prepared statement from Congressman William Coyne, who as a Councilman was responsible for the land tax increases in Pittsburgh, Pa., was read into the record. Prof. Cord presented the findings of his study. The late Phil Finkelstein, director, Center for Local Tax Research in New York and Larry Spancake, an economist with the Center, gave expert testimony.

Local speakers represented different perspectives – Rich Thoma, neighborhood commercial; Jack Himmelstein, LVT cities; Ed Dodson, mortgage lending; David Zwanetz, assessment; Cleo Anderson and Pat Lowe, neighborhood residents. Serving as an adviser to Councilman Tayoun, I coordinated the testimonies of the forego-ing group. William Phillips, Chairman, Fairmount Taxpayers Association, gave strong testimony in favor of LVT as the leader in a fringe area of center city, undergoing rapid change and intense speculation. Frank Nelson and Leonard Koller accepted the invitation of the chairman after all scheduled speakers had been heard and made good positive statements to close the session.

Of the other eight persons who testified, most neither firmly opposed nor supported the Bill, but along with the First Deputy Director of Finance, representing the Mayor, urged that the Council postpone its decision so that further study could be done.

The direct opponents were the Philadelphia Port Corporation, a partner in the prominent accounting firm, Lybrand & Cooper, Publicker Industries, owner of 75 acres of land it is admittedly holding for speculative purposes, and the Northeast Philadelphia Chamber of Commerce.

Supporting literature against the idea presented by the Chamber spokesman was a 1971 article written for the Tax Institute of America by Mabel Walker, later printed in the January, 1973 issue of *The Appraisal Journal*.

Ms. Walker argued that land value cannot be separately assessed and is only expressed when a property is sold; a heavier tax on land would, furthermore, benefit big speculators at the expense of small homeowners; and, in fact, land speculators provide the valuable service of allocating land to its best use.

The questions asked by some Council members at the hearings, continuing con-fusion regarding application, the

THEY have been dubbed the Parking Lot Czars of Philadelphia, and it's easy to understand why.

Father and son team Herman and Joseph Zuritsky reputedly own or control 25 to 30 acres in the downtown area, on which they operate 40 parking lots.

***Philadelphia* magazine, in its January 1984 cover story 'Who Really Owns Philly', quotes developer Willard Rouse:**

"Joe Z. basically has a printing machine.

"It's a parking operation that is probably as efficient and as smoothly run as any in the country. It's a great way to hold land.

"Buy it, pave it, and the income from the parking will pay off all or most of the debt on the property."

While his own involvement intensifies the effects of the speculation, Joe Zuritsky seems to marvel at the result.

"The prices people are paying for land are so high that they can't possibly be justified for years to come," he explained to *Philadelphia*.

But with all the subsidies, tax abatements and accelerated write-offs available, there are faster, bigger bucks to be made from the leveraged position of a developer.

The Zuritskys have built parking garages and were in partnership to build a $70m commercial-residential complex – with adequate parking facilities, of course – opposite the historic Walnut Street Theater, just two blocks south of busy Market Street East. But, on this occasion, they lost the agreement to purchase the site.

● **Parking lot owned by Zuritsky – who waits for developers to move in** anticipated results from the tax change, and the findings of the study, confirmed that there was a need for still more education. The same kinds of questions, eliciting similar answers from different people in testimony, led Council members to opposite conclusions. Some saw it as harmful to business, others as serving only big business. The homeowner was seen variously as beneficiary and victim. The Committee ended the day by declaring the hearings in recess, allowing time for further study and research to better prepare itself to make a final decision.

The hearings were never rescheduled.

IMMEDIATELY after the hearings, Councilman Tayoun began receiving pressure from Democratic Party officials to drop the Bill completely. He was told that it could hurt some of their people and that he should be careful about this sort of thing.

Other Council members, co-sponsors of the Bill, received similar caution and Tayoun predicted that support would vanish. He vowed, however, to continue to push.

The President of Philadelphia Port Corporation, G. Fred DiBona, Jr. wrote to all members of Council expressing strong opposition. He cited the conclusion in our own study – that commercial and industrial categories as a class would pay on average 4.5% and 3.8% more – as injurious to the economy of the city and the survival of many enterprises. Trucking operations were cited as businesses with terminal yards requiring little capital improvements and therefore vulnerable to land value taxation.

The Port of Philadelphia did likewise.

The Chamber of Commerce set up an anti-LVT hot line for members to call in their opposition to the Bill. Chamber President W. Thacher Longstreth, now retired from that position and a newly elected member of City Council, repudiated all the glowing remarks he made about Henry George and LVT as a speaker at the Progress & Poverty Centennial Banquet held in Pennsylvania in 1979. In an article in the Chamber newsletter, he wrote that there has been no evidence of any benefits to cities that have tried land value taxation; negative results have been experienced from it. If such a change, he said, merely gave cuts to some taxpayers and increases to others, that would be no good for Philadelphia.

In a letter to the Incentive Tax League, Councilman Tayoun urged the group to organize its efforts toward convincing Council and the community that land value taxation was absolutely necessary if Philadelphia was to survive economically. It was agreed by the group that the business community, through the Chamber of Commerce, had staked out its position and was not movable at that point.

Direct effort was again aimed at Council members and community organizations. W. Wyle Young wrote a series of letters to members of Council and compiled a booklet titled "A Tax Reform Whose Time has Come".

Speakers and film presentation were made to the Philadelphia Council of Neighborhood Organizations and individual neighborhood groups by several league members. Banker Ed Dodson, nurtured the budding interest that he had aroused among some colleagues in the financial community and David Zwanetz quietly kept up his commentary on the measure among his wide circle of Republican and Democratic office-holders and office seekers.

But the end of fiscal 1982-83 arrived without a recall of Bill No. 1226.

By then, some big changes in the city were afoot and changes do offer opportunities. Mayor William Green decided not to seek a second term and his managing director, W. Wilson Goode, became the first black man ever to win the Democratic Party nomination for Mayor of Philadelphia. He went on to win the election in November 1983.

Jim Tayoun won re-election to Council in November with a plank in his platform which read: "I pledge to continue the fight I have been waging for a land value tax which will reduce taxes for most homeowners at the expense of land speculators". But he has now resigned from Council to run for a seat in the U.S. Congress. The opportunities in this change are not so obvious. Lucien Blackwell may be the only real LVT supporter remaining on Council. Time will tell if he will carry the fight for LVT as forcefully as Tayoun did.

The changes of leadership in the business community may not be all bad for LVT. A prominent representative of a business advisory group admitted in a recent off-the-record discussion that land value taxation has to come to Philadelphia. Mayor Goode, who has spent his entire professional life in public service, began his career as head of a housing organization. During his campaign, he told me that his administration would thoroughly investigate the measure and implement it if the results proved favorable.

Emerging circumstances may make the resort to LVT inescapable. After the present speculative land and building spree in downtown Philadelphia is over, it will no longer be possible to describe the city's real estate as the "best bargain in the East". Enormously elevated downtown housing and commercial costs, contrasted with further neighborhood deterioration through failed programs and neglect, will usher in a new construction slump, physical erosion and financial doldrums. Taxpayers will still be paying the subsidies that the lucky players are winning in this real-life monopoly game, and real reform will have to come.

There is support for the change, even at the federal level, but all the necessary work must be done here at the local level. W. Calvert Brand, Deputy Assistant Secretary for Policy and Budget at the Department of Housing and Urban Development (H.U.D.), in correspondence with an ITL member, wrote: "We would not favor coercing localities to shift to site value taxation by linking funding to adoption of the change. Nevertheless, in the spirit of cooperation that is symbolized in the Joint Venture for Affordable Housing, we would positively consider encouraging, assisting and publicizing the efforts of any community that adopted the ideas of Henry George to reduce land costs and improve land use in this country".

Who owns the Matterhorn?

THE SQUABBLE over who owns the Matterhorn, the Swiss mountain that attracts 25,000 skiers and climbers a year, was recently taken a stage further in the Lausanne federal court, *writes Paul Knight.*

The court decided that the mountain and its surrounding areas of snow and ice rightfully belong to the village of Zermatt – to the village as a whole rather than to the association of 21 Zermatt families who style themselves the "Burgergemeinde".

As we reported last autumn*, a Zermatt hotelier named Zimmerman has been challenging the Burgergemeinde's claim to have owned the Matterhorn since their families acquired the land-rights from feudal lords in 1618. His claim that the mountain belonged to "Zermatt as a whole" had earlier been accepted by a local court, and it is that ruling that has now been upheld by the federal court.

The indications are that the Burgergemeinde, who trace their title to the Matterhorn back to King Rudolf III, will not accept the federal court's decision lying down. Werner Julen, son of the association's president Othmar Julen, has said that the Burgergemeinde are prepared to take further action through the courts.

For the authorities of Zermatt, however, the matter is regarded as settled. They expect to charge the Burgergemeinde rent for the areas of the mountain they are occupying.

The innate frailty of land titles, based as they are on conquest or appropriation, is well illustrated by the Matterhorn case.

The transfer of the mountain's ownership from a small privileged group to all the people of Zermatt can be seen as a step in the right direction. But it still prompts the question of why the benefits that flow from the popularity of the Matterhorn should be funnelled solely to one group of Swiss people, albeit a larger group than claimed it before.

It would seem far more just and equitable that the earnings of Switzerland's best-known mountain – the earnings over and above the proper returns to labour and capital – should accrue, not to Zermatt as a whole but to *Switzerland* as a whole.

And if this is right for the Matterhorn, would it not also be right for the whole of the God-given land of Switzerland, mountain and valley, town and country? In short, is it not a fair proposition that the land of Switzerland belongs to the people of Switzerland? It takes only a land-value tax to turn that proposition into reality.

*Sept-Oct 1983, p.94.