

**CONVERTING FROM A SINGLE RATE TO A
DIFFERENTIAL RATE PROPERTY TAX:
RESULTING CHANGES IN TAX BURDEN AMONG LAND USE CLASSES
IN KING COUNTY, WASHINGTON**



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Section 1 Incentive Taxation

Four years ago the state legislature of Washington took an historic step towards effective land management by adopting the Growth Management Act (GMA). A primary objective of this law is to prevent urban sprawl and the wasteful use of land in rapidly growing metropolitan areas. There are two facets of this objective: (1) the development of more compact, human scale built environments, and (2) the preservation of resource lands beyond the fringes of urban areas. Among the secondary objectives of GMA are more affordable housing and more efficient urban infrastructure.

Regional and municipal jurisdictions have been actively engaged in preparing comprehensive land use plans and policies consistent with the state law. In the central Puget Sound region, "Vision 20-20" [1] and Seattle's evolving vision of "urban centers and

villages" [2] are evidence of the progress being made towards implementing new state-wide planning policies.

In this context, the question arises: Can the local property tax be used as a device to help implement evolving comprehensive plans, land use and housing policies? To answer this question, we begin by examining the often argued premise that the present equal rate property tax system encourages unwise land use practices by failing to distinguish between the incentives and disincentives of taxes on *land* vs. taxes on *improvements*.

The relatively low tax on land is an effective inducement to speculate. When the value of surrounding land which is becoming more intensely developed begins to rise, the owners of vacant or underutilized land have no incentive to likewise develop their

properties. Rather, they often find it more profitable to leave their sites idle until rising sales prices produce sufficiently high speculative gains.

Consequently, much land in transforming urban centers tends to remain idle or may be given over to marginal uses such as surface parking. This is inconsistent with growth management objectives to consolidate urban growth and to prevent the premature consumption of natural resource lands at the urban fringe.

Likewise, under the conventional tax system, there is no incentive to keep housing prices from rising due to increased land values. Home buyers seem willing to pay higher prices based upon their expectation of ever rising housing values and the opportunity to realize increased home equity at the time of resale.

Trend data from property sales records suggests that land prices have been driving up the cost of housing. [3] Within the city of Seattle, single family home values rose during the period 1980 to 1990 at an annual rate of 7.8 percent. Over the same period, residential lot prices rose at an annual rate of 14.5 percent. Identifying land values as the "cost driver of the 1980's", the King County Housing Partnership found that in both cases of single family and multifamily construction, the increase in land acquisition costs was larger than all other components combined [4].

A 2-rate property tax structure, as a revision of the conventional uniform rate system, would apply a higher rate to the assessed value of land and a lower rate to the assessed value of improvements. The principle is this: The differential tax (a form of Land Value Taxation) would tax mainly the value (or "economic rent") created by the community at large, not the capital improvements undertaken by individual owners. That is, the land value generated by the presence of infrastructure, nearby public facilities,

natural amenities, and the quality of the surrounding property improvements--the value vested in the land by the community at large--would be subject to heavier taxation.

Incentive property taxation is based upon the reform principles espoused by 19th Century political economist Henry George. In his widely acclaimed book, *Progress and Poverty*, George summed up his central proposition: "What I, therefore, propose as the simple yet sovereign remedy, ...is to *appropriate [land] rent by taxation.*" [6]

"To do this would not only produce an immense fund of revenue for the public good. More significantly, increasing supplies of land would be made available for production since idle land, its value taxed as highly as if it were used, would be *forced into use*. Land speculation would receive its death blow, since its profitability would be annulled by the tax, and the selling price of land would fall."

While such sweeping claims may appear overwrought in the light of

today's incrementalism, the original principle is nevertheless valid. At face value, George's incentive tax would certainly seem to work in harmony with the objectives of the state Growth Management Act. That is, a tendency to develop centrally located sites through consolidation and infill (rather than by leapfrogging across vacant and underutilized land holdings) would predictably come into effect.

Assuming the tax rate differential is sufficiently high, it would become uneconomical to hold land out of production (in the form of building improvements) while nearby land values rise due to concentrated development or redevelopment activity.

Conversely, a lower tax rate on the assessed value of improvements would facilitate the rehabilitation or replacement of obsolete buildings within in-city revitalizing areas. This is because investment in the form of capital improvements would not be penalized by heavy taxation.

Section 2

Pilot Study Methodology

Study Objectives

Implementing the land value tax in the state of Washington would require considerable effort by proponents to convince legislators that a 2-rate enabling law constitutes a meaningful "reform" of the property tax. This is a formidable task because (i) the current sentiment among state and local elected officials is to seek direct forms of tax *relief*, and (ii) the standing court interpretation of the uniformity provisions of the state constitution (Article VII, Sect. 1) precludes taxing land and improvements at different rates [5].

The first question that seems to arise from potential supporters is: What would be the likely shifts in property tax burden following a transition from the conventional equal tax rate to a differential rate on land and improvements? Following the question of fiscal impacts on rate payers, the next inquiry should perhaps deal with hypotheses related to the predicted behaviors of land owners; i.e., Is the 2-rate tax a sufficient incentive to

induce the desired effects? It is suggested that subsequent research be devoted to this topic.

The objective of this initial study is to examine, at the micro-scale level, shifts in tax burden across classes of land uses under the assumption of a 2-rate tax structure. The aim is to simulate the application of a hypothetical property tax on individual parcels, assuming such an incentive system were adopted presently and phased in over the next ten years.

Sample Selection

Selecting a sample that represents proportionately the type and number of different land uses that exist in King County is not feasible in a limited study. If a proportionally representative sample were the criterion for research design, single family properties would overwhelm the sample. Rather, the practical intent is to capture the greatest variety of land uses as

is feasible using an opportunity sampling method.

Properties selected to represent classes of land use were found in scattered locations across King County, ranging from Downtown Seattle to East Lake Sammamish, and Bothell to Tukwila.

First, a field survey was undertaken wherein groups of about five parcels within a block were selected from residential, commercial, or mixed use areas. An oblique slide photo of each block face was taken, representing a "typical" land use configuration for a given land use category.

Characteristics which describe the sample properties include: location, generalized land use, intensity of land utilization, perceived area value, and property-specific land use class. This parcel information (listed in Appendix 1) becomes the basis for stratifying the total sample. These variables were all measured by observation and recorded on field sheets. Altogether, the sample cases obtained by this method consist

of over one hundred block faces, totaling 463 parcels.

Next, field sheets were taken to the King County Assessor's Office, where addresses or lot numbers were matched to parcel records. The 1993 assessed values of land and improvements were duplicated from the Assessor's files and transferred to a spreadsheet data matrix (see Appendix 2). Each row consists of a parcel record; parcel characteristics including assessed values form the column headings.

The most critical factor in determining the differential rate tax is the ratio between land and building values. That is, if land is taxed more heavily than improvements, then properties with above average land-to-building ratios will be subject to higher taxes than under the current equal rate system--if the total tax liability remains the same. Therefore, in order to simulate tax burden shifts by land use class, the aggregate land-to-building value ratios for each category of land use in the sample file should coincide with the corresponding ratios of the "universe".

A summary of all King County parcels broken down by land use--excluding vacant parcels--was derived from Assessor's records, and the ratios calculated. For ease of comprehension, ratios are expressed in terms of *land-to-total* assessed valuation. Table 1 shows the county-wide ratios for each major land use class.

In the final step of the sample selection process, individual cases were extracted from the data matrix until the target (county-wide) ratios were reached. This resulted in an adjusted sample of 439 cases.

Table 1 County-wide 1993 Assessed Values, and Land-to-Total Value Ratios (in millions)

Land Use*	Land Value	Building Value	Total Value	Ratio Land:Total
SINGLE FAMILY + 2-9 FAM.	\$28,669	\$36,858	\$65,527	0.44
MULTIFAMILY	\$1,680	\$5,376	\$7,056	0.24
CONDOMINIUM	\$1,056	\$4,011	\$5,067	0.21
COMMERCIAL	\$9,800	\$14,290	\$24,090	0.41
PARKING**	\$590	\$59	\$649	0.91
VACANT	\$4,764	\$277	\$5,041	0.95
Total	\$46,559	\$60,871	\$107,430	0.43

* Excluding farm & forest lands

** Including improvements: out bldgs., surfacing

Source: King County Assessor

Hypothetical Tax Application

Land value taxation proponents generally seem to agree that implementation of the 2-rate system should be applied over a transition or phase-in period, during which the tax rate differential on land and improvements is gradually increased to an optimal ratio short of a 100 percent land tax.

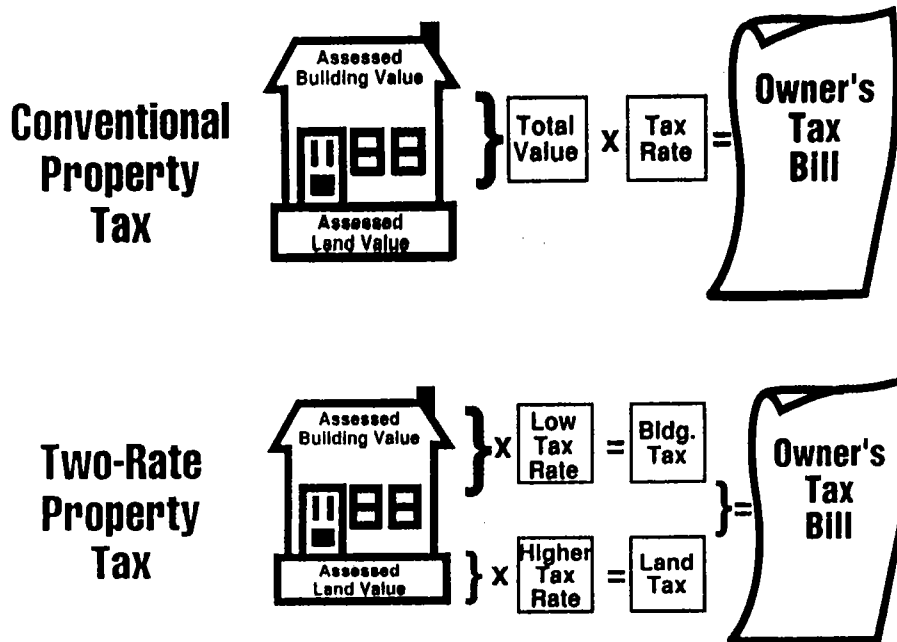
For the purpose of simulating the effects of such a transition period, a duration of ten years was chosen. Commencing at the current year (1993 base year), the conventional equal rate tax is applied, followed by an initial differential increase of 5 percent on land assessment, then successive 10% increases, at 2 year intervals. This produces the following six phase-in scenarios, with a tax year and corresponding land-to-improvement tax ratio:

	<i>L</i>	<i>I</i>
1993:	.50	/.50
1995:	.55	/.45
1997:	.65	/.35
1999:	.75	/.25
2001:	.85	/.15
2003:	.95	/.05

The tax rate chosen for projecting the effects of the progressive 2-rate tax application is the 1992 rate used in King County: 1.256 percent of assessed market value (or \$12.56 per \$1000 assessed valuation). [7] A total base year revenue figure is derived by multiplying this rate by the total assessed value of each parcel in

the sample and summing the products. For each of five succeeding scenarios, beginning with the 1995 tax year, a hypothetical tax is derived by applying two different tax rates to the sample cases: the higher rate on each property's assessed land value, the lower rate on its assessed improvement value. The principle is illustrated in Figure 1.

Figure 1



In order to achieve *revenue neutrality*, which is an assumption of this study, each of the six scenarios would have to yield this same total revenue figure. Revenue neutrality can be achieved by adjusting the tax rates of subsequent tax years so that the total revenues match the base year (target) revenue figure.

First, the unadjusted differential tax rates were applied to all cases in the sample file. Then, the total revenue figures for each scenario are brought into equality with the base year revenue figure, revealing the readjusted rates. These results are achieved by setting up an iteration problem in the spreadsheet, whereby the differential tax rate, after its initial application, is readjusted so that the tax summation of all cases reaches the target yield. Figure 2 illustrates the increasing tax rate differential applied during the hypothetical phase-in period.

Case Selection for Illustration

In essence, there is only one variable in the entire data matrix, the land-to-total assessed valuation ratio, which is a qualitative predictor of the tax burden

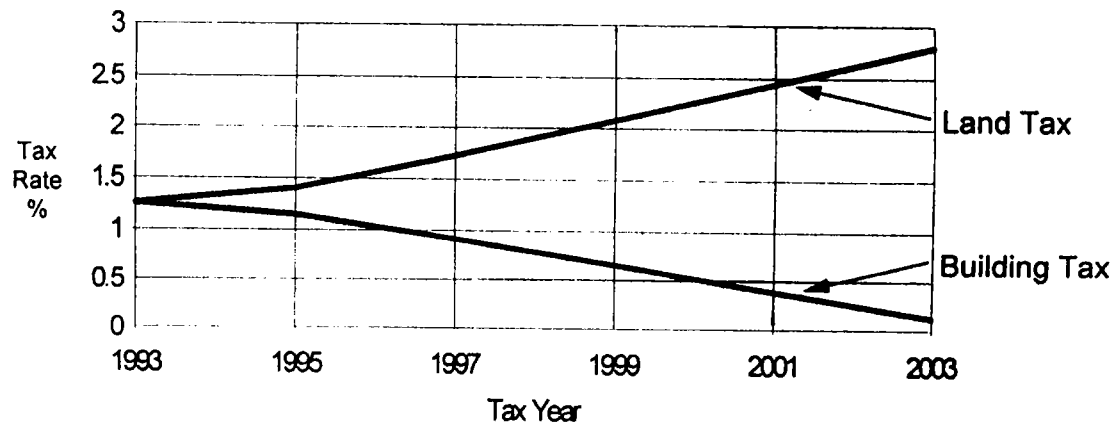
shift. As such, the variation in hypothetical tax burden will cut across all independent variables including land use. However, because some land uses by their nature are *land-extensive* (the land comprises a significant portion of the total parcel value), it can be safely predicted that, in the aggregate, their owners' tax burdens will increase. Likewise, *land-intensive* use types will experience a decreased burden. Due to the fact that the overall land-to-total ratio of the adjusted sample is approximately .43, this becomes the break-point.

For the pilot study, a completely disaggregated approach was preferred over the aggregated approach of

using county-wide summary data to examine the effects upon general land use classes. Individual cases representing sub-classes of land uses were extracted from the six data matrices, each matrix consisting of a tax year scenario. The base year scenario (1993) represents the current conventional tax; the succeeding five scenarios represent the hypothetical phase-in period.

For the purpose of illustrating the tax burden effects of each extracted case, a graph consisting of six stacked columns was created. The original pilot study contained 40 representative cases; this summary paper contains ten of these properties, as follows:

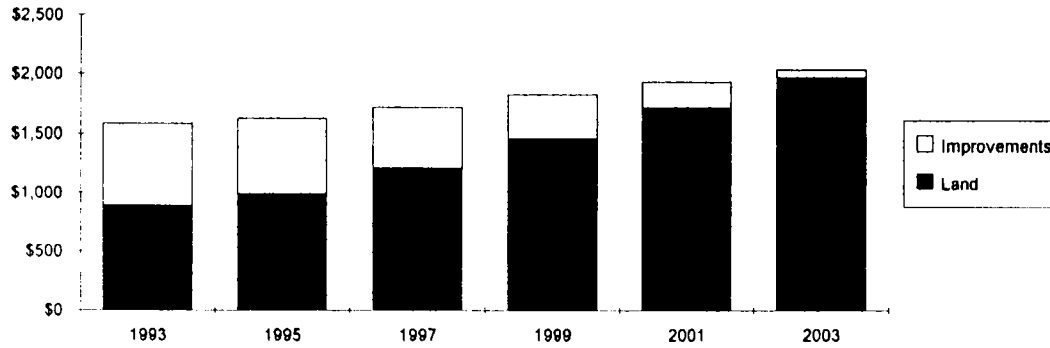
Figure 2 Differential Tax Rates Applied During a 10-Year Phase-In Period



Graph 1

2-RATE PROPERTY TAX

7

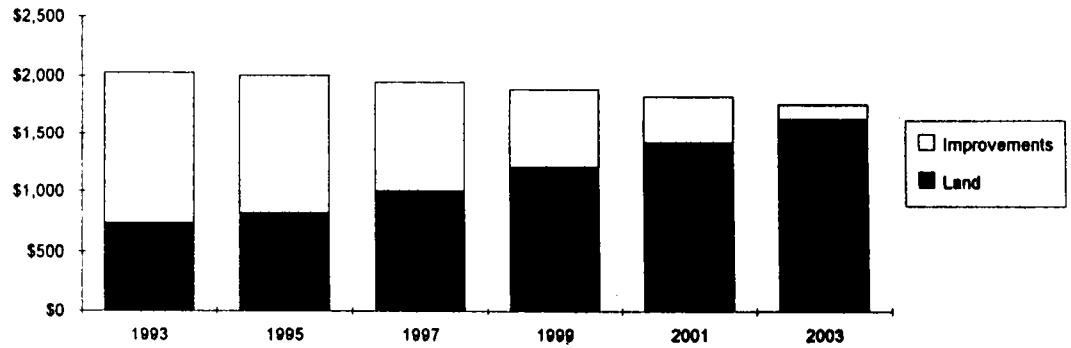


Street: W Emerson St
 Neighborhood: MAGNOLIA
 Land Use: Single family: Medium density, medium value; city
 Land, Building Value: \$70,300 \$55,700

TAX	1993	1995	1997	1999	2001	2003
Land	\$888	\$988	\$1,212	\$1,461	\$1,719	\$1,973
Improvements	\$688	\$640	\$510	\$366	\$217	\$71

Graph 2

2-RATE PROPERTY TAX



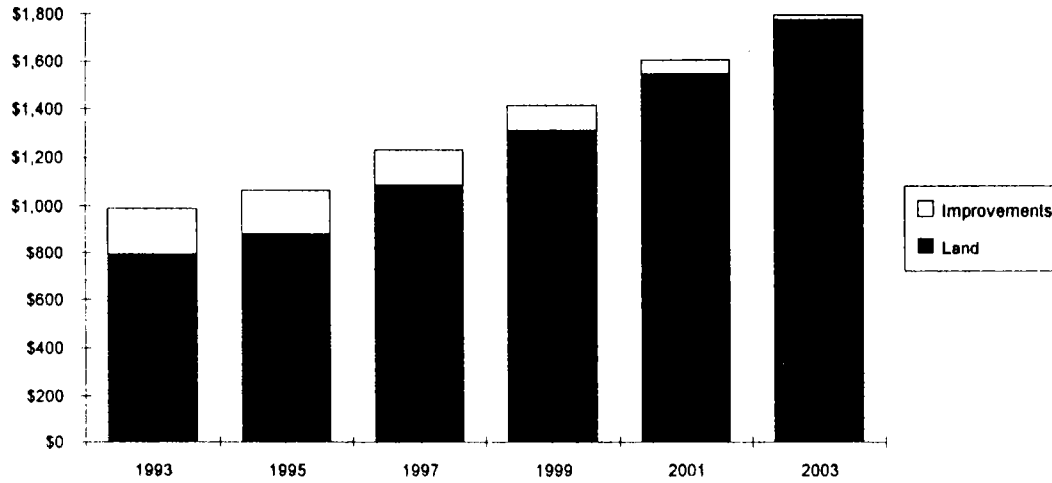
Street: 139th Pl SE
 Neighborhood: NORWOOD
 Land Use: Single family: Medium density, medium value; suburban
 Land, Building Value: \$58,000 \$103,500

TAX	1993	1995	1997	1999	2001	2003
Land	\$813	\$1,000	\$1,205	\$1,418	\$1,418	\$1,627
Improvements	\$1,250	\$1,190	\$947	\$681	\$404	\$132

Graph 3

2-RATE PROPERTY TAX

8

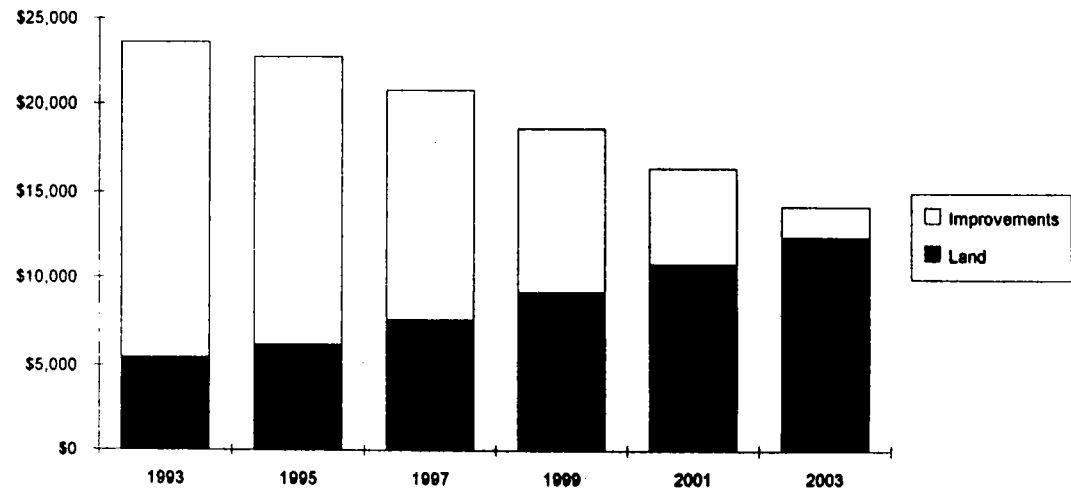


Street: N 105th St
 Neighborhood: NORTHGATE
 Land Use: Single family in area of conversions to commercial use
 Land, Building Value: \$83,000 \$15,900

TAX	1993	1995	1997	1999	2001	2003
Land	\$793	\$883	\$1,086	\$1,309	\$1,540	\$1,768
Improvements	\$198	\$183	\$146	\$105	\$62	\$20

Graph 4

2-RATE PROPERTY TAX

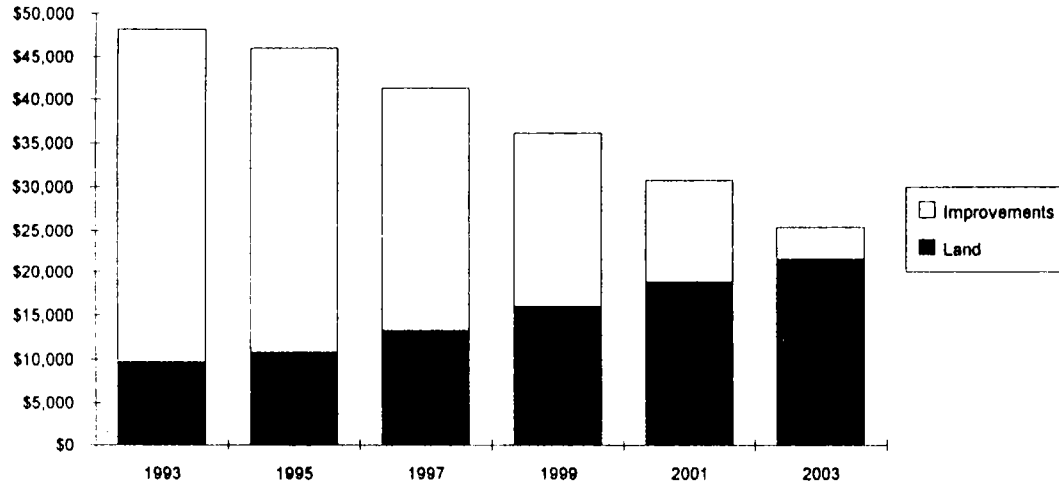


Street: Meridian Av N
 Neighborhood: NORTHGATE
 Land Use: Multifamily: large building
 Land, Building Value: \$440,000 \$1,440,000

TAX	1993	1995	1997	1999	2001	2003
Land	\$6,170	\$7,584	\$9,142	\$10,758	\$12,348	\$11,832
Improvements	\$18,552	\$13,181	\$9,469	\$5,817	\$1,832	\$0

Graph 5

2-RATE PROPERTY TAX

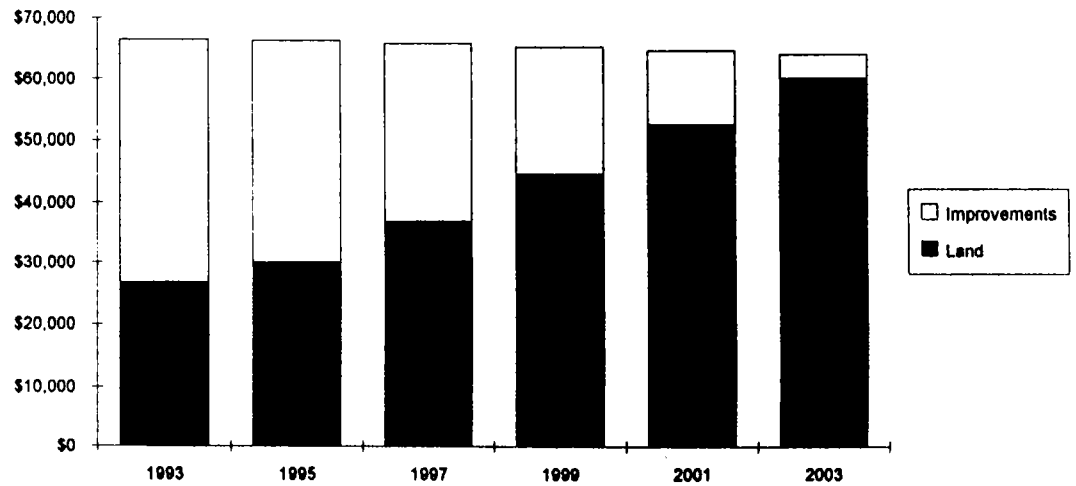


Street: NE 132nd St
 Neighborhood: CEDAR HILLS
 Land Use: Multifamily: complex; suburban
 Land, Building Value: \$768,000 \$3,072,000

TAX	1993	1995	1997	1999	2001	2003
Land	\$9,646	\$10,770	\$13,238	\$15,957	\$18,777	\$21,549
Improvements	\$38,584	\$35,311	\$28,120	\$20,200	\$11,982	\$3,907

Graph 6

2-RATE PROPERTY TAX

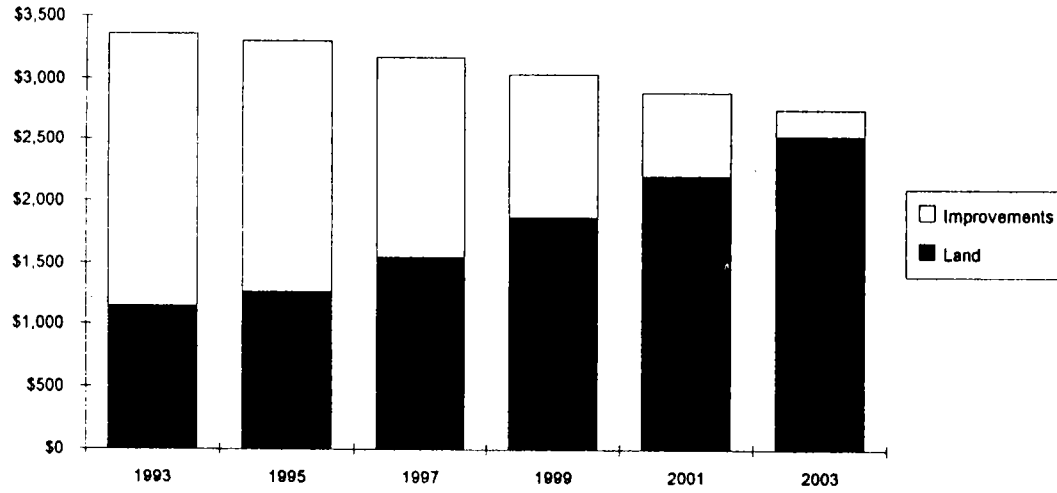


Street: W Nickerson St
 Neighborhood: QUEEN ANNE
 Land Use: Office park
 Land, Building Value: \$2,134,000 \$3,159,700

TAX	1993	1995	1997	1999	2001	2003
Land	\$26,822	\$30,000	\$36,783	\$44,336	\$52,176	\$59,878
Improvements	\$39,678	\$36,319	\$28,923	\$20,777	\$12,324	\$4,019

Graph 7

2-RATE PROPERTY TAX

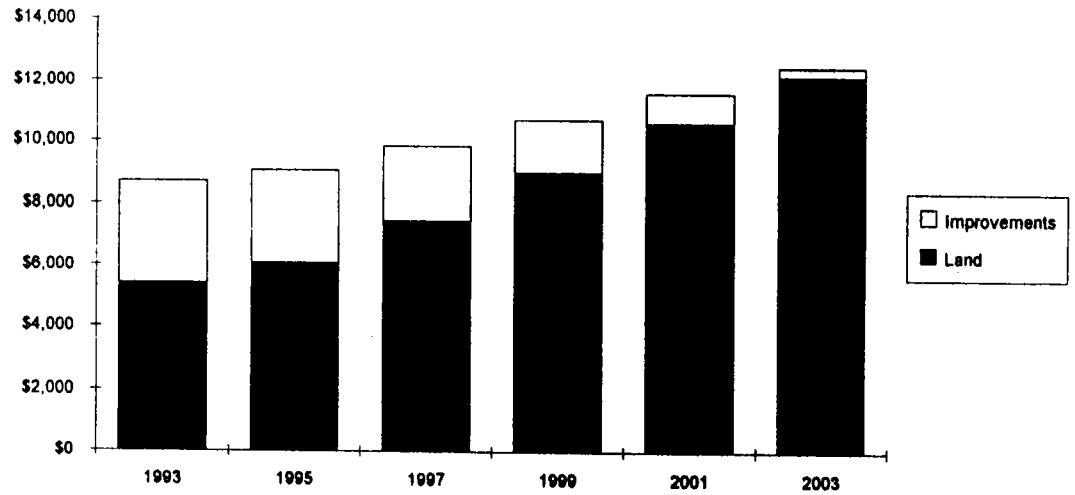


Street: NW Market St
 Neighborhood: BALLARD
 Land Use: Ribbon commercial
 Land, Building Value: \$89,900 \$177,600

TAX	1993	1995	1997	1999	2001	2003
Land	\$1,142	\$1,261	\$1,550	\$1,868	\$2,198	\$2,522
Improvements	\$2,218	\$2,041	\$1,626	\$1,168	\$693	\$228

Graph 8

2-RATE PROPERTY TAX

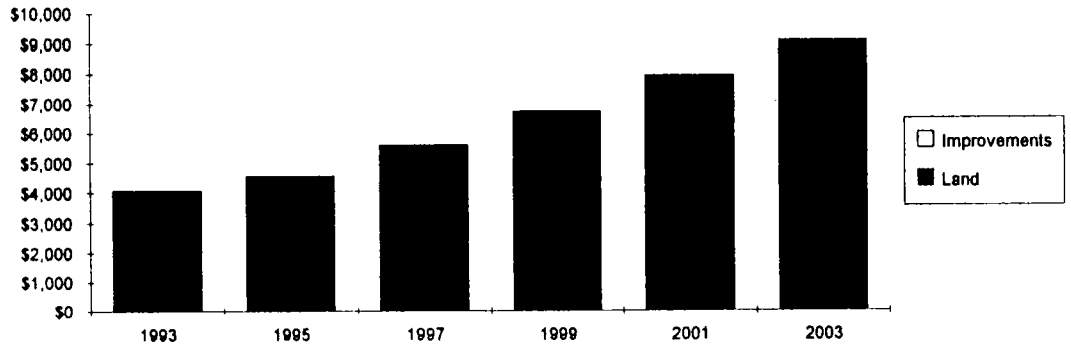


Street: 158th Av NE
 Neighborhood: BELLEVUE
 Land Use: Suburban strip commercial
 Land, Building Value: \$432,300 \$259,900

TAX	1993	1995	1997	1999	2001	2003
Land	\$5,062	\$7,451	\$8,982	\$10,570	\$12,130	\$12,130
Improvements	\$3,297	\$2,379	\$1,709	\$1,014	\$331	\$331

Graph 9

2-RATE PROPERTY TAX

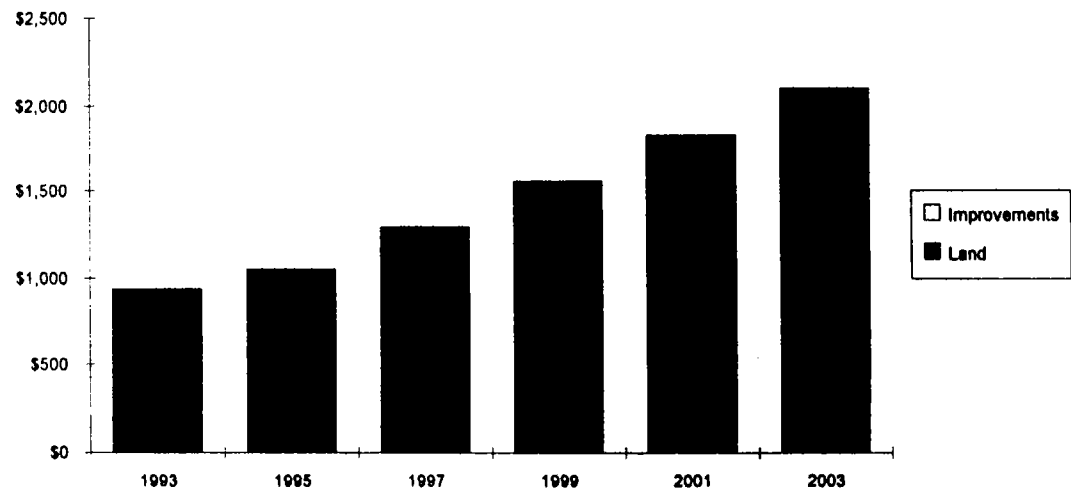


Street: University St
 Neighborhood: FIRST HILL
 Land Use: Surface parking, center city residential area
 Land, Building Value: \$324,000 \$100

TAX	1993	1995	1997	1999	2001	2003
Land	\$4,070	\$4,543	\$5,585	\$6,732	\$7,922	\$9,091
Improvements	\$1	\$1	\$1	\$1	\$0	\$0

Graph 10

2-RATE PROPERTY TAX



Street: 222nd Av SE
 Neighborhood: PINE LAKE
 Land Use: Vacant parcel: large; exurban
 Land, Building Value: \$74,900 \$0

TAX	1993	1995	1997	1999	2001	2003
Land	\$1,050	\$1,291	\$1,556	\$1,831	\$2,102	\$2,102
Improvements	\$0	\$0	\$0	\$0	\$0	\$0

Section 3

Pilot Study Results

Initial Findings

An initial look at the changes in property tax burden among 40 representative properties selected for graphic illustration seems to confirm our expectations. Land-extensive uses, such as large lot residences and strip commercial establishments, bear an increasingly larger tax burden over the 10-year phase-in period. Land-intensive uses, such as multifamily apartment buildings and complexes, experience lower taxes.

- With regard to *area value*, a crude estimate of the observed income class of the neighborhood surrounding selected properties, one might expect to see high value areas experiencing a steeper increase in taxes and low value areas a decrease in taxes. This would be the case if there were a linear relationship between site property values and land-to-total assessed value ratios. But the data do not support this hypothesis.

- With regard to *location*, it appears that some single family home owners residing in suburban neighborhoods experience less of a tax burden than owners of comparable properties residing in the city. The upward pressure on taxes in the city is attributable to generally higher land values in central locations.

- Owners with single family and multifamily property in *conversion areas* seem to pay higher taxes due to the locational effect. That is, increases in the property values of adjacent parcels attributable to actual or anticipated upgrading and conversion to higher value uses are conveyed through rising site values.

- Owners of *duplexes* and other small apartment buildings do not appear to reap the tax benefits of larger *multifamily* structures. This is expected because the "plex" configurations consume more ground space per dwelling unit than do multi-story buildings.

Yet, it is notable that the large suburban rental complex configuration, with roughly half the ground space consumed by surface parking, appears to experience tax decreases comparable to the in-city multi-story, street-oriented building. Again, suburban multifamily land tends to be assessed at a generally lower level than centrally located multifamily sites.

- *Condominium* owners appear to enjoy the greatest relative advantage attending a conversion to the 2-rate property tax. Here, all owners share in an equal portion of the site value.

- On the other hand, the assessment of *mobile home parks* does not include the value of tenants' living units. As such, the land-to-total ratio of parcels is higher than their land utilization would indicate. Hence, 2-rate property taxes rise at a rate similar to land which is nearly vacant.

- In-city *industrial* properties which utilize the bulk of their sites for value-added activities seem to receive no more tax benefit than suburban enterprises which devote considerable space to surface parking, an ancillary use. The same effect holds for older street-oriented *office buildings* compared to newer *office parks*. Again, this is probably a result of higher land assessments in central locations.
- *Older and obsolete buildings* lose much of their value particularly in central business districts where, if the land-to-building ratios are extraordinarily high, the improvements are only nominally valued. The effect of the resulting increased taxes under a 2-rate system, if the liability is sufficiently burdensome, may be to precipitate a structural upgrade or a conversion to a more land-intensive use.
- The *ribbon commercial* configuration, characterized by zero lot line set-backs, continuous storefront facades, and pedestrian-oriented streetscapes, is a beneficiary of the 2-rate tax scenarios. By way of contrast, auto-oriented *commercial strips* are subject to higher taxes. Evidently, this particular set of financial benefits and

liabilities is consistent with local and regional land use policies.

- *Vacant or underutilized* central city parcels, in the process of being assembled and held for future conversion, are subject to increases in taxes. The tax bill for parcels currently used for *surface parking* and surrounded by high density uses, will double within the 10 year phase-in period.

Vacant parcels experience an increase in tax burden. For in-city developable ± 2 acre lots, this may amount to an increase of over \$1000 per year. For in-city single family lots in a modest value neighborhood, the additional tax may amount to \$100 per year. A three acre lot in a largely undeveloped exurban location increases at the rate of about \$120 per year during the phase-in period.

Summary Results

Tax burden shifts among selected classes of land uses can be quantified and compared by utilizing either the county-wide assessment file or the sample data file as a basis for hypothetical tax application. In the

former instance, only general land use categories can be identified. One problem with using aggregated data to produce summary findings is that generalized results mask the high degree of variation among individual properties within each land use class.

Utilizing the sample parcels, several independent variables can be selected for cross-tabulation with aggregated tax yields from any of the tax year scenarios. These include location, area value, land use mix and land use class.

Results show tax burden to cut across all of these variables; none is strongly associated, save land use intensity--which actually defines the shift in burden. That is, hypothetical increases in tax are shared by both high value and low value properties, and by high and low value neighborhoods--in city and suburban locations.

Prior studies of LVT have employed data sets consisting of the entire assessed value of jurisdictions, subdivided into generalized land use classes. Results of these studies tend to support the conclusion that residential properties (inclusive of multi-family)

can expect lower taxes, while commercial properties can expect a higher burden under the land value tax. As Lusht notes in his Pennsylvania study, the low land-to-total valuation ratio among apartments accounts for a very significant reduction in residential taxes. [8] These conclusions, of course, depend upon the composition of these generalized classes.

The 439-case sample data set was examined for variations among subclasses. Among single family owners, the shift in burden is towards those whose homes are situated on large lots. As expected, there is considerable variation in tax burden among commercial property owners. Land extensive users, in general, can expect rather rapid rises in property tax liability.

In the aggregate, high value areas circumscribing residential and commercial sites are found to be associated with marginally lower taxes, while low value areas are associated with marginally higher taxes. A possible explanation for these findings is: as building values in older neighborhoods decrease due to age, obsolescence and neglect, the sites upon which they are

situated tend to increase in value. Due to central location, for example, land values may remain relatively high.

Location does influence land value. In the aggregate, city single family land is more valuable than suburban single family land. Under the 2-rate system, central city properties, being in higher demand, are subject to higher taxes than outlying neighborhoods which appear similar in condition. There are exceptions to this generalized pattern, however. The Central Area and some neighborhoods in Rainier Valley exhibit below average land values.

While disaggregated data in the form of individual cases is useful for illustrating effects among sub classes of land use, aggregated data consisting of the entire universe (King County) is useful for producing summary statistics. Shifts in tax burden by generalized land use category can be illustrated by selecting any tax year during the hypothetical phase-in period.

Table 2 reveals almost no change in tax burden among single family homeowners in 1997 resulting from a conversion to a 2-rate system.

Extrapolating this finding for a moment to other counties in the state, an expected decrease in tax liability for homeowners may in fact be closer to a state-wide norm. This is because urbanized King County land values seem to be comparatively high. A cursory examination of Thurston County Assessor's records indicate very considerably lower land-to-total value ratios within the residential class of land.

Further findings from the hypothetical application of a 2-rate tax to the county-wide assessment are consistent with sample findings: (1) a significant reduction in tax liability among multifamily properties; (2) a very slight overall reduction among commercial properties; (3) a heavy increase in tax liability on vacant land and parking lots.

Section 4
Comment & Recommendations

The Current Property Tax

State law requires county assessors to assess real estate property values at 100 percent of true and fair value. Property has been generally appraised on a two year cycle, whereby appraisers conduct drive-by inspections on half of the county's property each year. The law requires that the two components of real property, land and improvements, be assessed separately (RCW 84.40.040.5).

Two major exemptions to full tax liability have been codified in this state:

1. Senior Citizens Exemption & Deferral - allows qualified homeowners tax relief incrementally on the basis of age, disability, or limited disposable income. A portion of the assessed valuation is deducted before taxes are calculated. The threshold for this relief mechanism is age 61 and combined household disposable income of \$26,000 [9]

2. Current Use Valuation - applies to agricultural, timber and open space lands. Productive resource lands must meet minimum gross income and acreage requirements (20+ in agricultural use, and 5+ in forest crops). A local advisory board assists the County Assessor's office in determining current use value, an amount less than fair market value.

Other exemptions extend to non-profit corporations and to the substantial rehabilitation of single family structures.

Table 2 Total Assessed Value, Shift in Tax Burden, by Land Use
1997 TAX YEAR SCENARIO (65% land tax)
COUNTY-WIDE ASSESSMENT *

Land Use	Total Value (bill.)	Percent of Grand Total	Conventional Tax Yield (mill.)	% of Tot. Yield	2-Rate Tax Yield (mill.)	% of Tot. Yield	Pct. Change in Tax Yield
Single family	\$65.5	61.0%	\$823.0	61.0%	\$825.2	61.2%	0.3%
Multifamily + 2-9 Fam	\$7.0	6.6%	\$88.6	6.6%	\$77.8	5.8%	-12.2%
Condominium	\$5.1	4.7%	\$63.6	4.7%	\$54.7	4.1%	-14.1%
Commercial	\$24.1	22.4%	\$302.6	22.4%	\$297.5	22.0%	-1.7%
Parking	\$0.6	0.6%	\$8.2	0.6%	\$10.6	0.8%	29.6%
Vacant	\$5.0	4.7%	\$63.3	4.7%	\$83.5	6.2%	31.9%

* Excluding farm & forest lands

Comment

The rationale for converting to some form of Land Value Taxation has already been addressed. The following points are emphasized:

1. The value of land would reflect the level of public services, infrastructure and amenity. Improvements undertaken by the owner would be subject to lighter taxation. In this sense, the 2-rate tax is more of a use tax, or a user charge, for the local "bundle of public services".
2. A heavier tax on land would speed up the process of infill development and the renewal and replacement of obsolete buildings. This, being one of the central claims of LVT proponents, has been a major focus of the few empirical studies actually undertaken on this subject.

Pittsburgh and other Pennsylvania cities have had a 2-rate system in effect since 1913. While researchers have experienced difficulty isolating all intervening variables, the evidence of increased building permits associated with the up taxing of urban land pro-

vides a convincing argument for LVT as an incentive tax. [10,11]

The Australian experience is also a focus of recent studies. [12] Empirical findings comparing site value taxation jurisdictions with others support the view that site value taxation will stimulate more rapid residential development and larger numbers of units; furthermore, a "flow" of building activity will gravitate to land taxed locations. In time the flow will cease if there exists an equilibrium between supply and demand for land, i.e., when infill development is optimized.

3. Residential land prices (adjusted for inflation) will decline as a result of higher taxes on land, thereby making housing more affordable. Though economists generally agree with this statement as a theoretical argument, no empirical studies known to the author have been able to isolate causes and effects.

4. Some owners of low value single family homes will find property taxes rising under the 2-rate system. This will occur on King County properties where the land-to-total ratio is greater than .43. Often, obsolescence or poor

building maintenance results in low assessed improvement values, whereas the land may hold its value. Yet, the reduction in tax on buildings is expected to be an economic incentive to undertake structural improvements.

What the long term area-wide affect of a 2-rate tax is upon land and improvement prices is an open question. As a posit, perhaps the following synopsis might be offered:

(1) In central urban zones, where a supply of underutilized land exists and city policies encourage concentrated development activity, land prices will fall as the land tax ratio increases during the phase-in period. As the level of development activity picks up during a period of incumbent renewal, and as the quantity of underutilized land decreases, capital investment in buildings and infrastructure will manifest in higher land values. That is, as the community grows it is possible that land values will outpace the disincentive of higher land taxes.

(2) In predominantly residential zones, land prices will fall gradually, as the increasing tax on the land under single family homes is negatively

capitalized into lower sales prices. The effect will be very gradual, however, as the burden among homeowners is not particularly heavy. Then, as infill takes place and density increases, and as amenities in the form of infrastructure and services multiply, land prices will begin to rise. Alternatively, the power of the 2-rate tax might be put into effect whereby the tax rate on land value is further increased to correspond with the increase in market demand, thus dampening the inflation of land prices.

Applying the 2-Rate Tax

The success of a differential tax during the transition period depends upon conditioning factors, some of which are internal to the revised system and some of which are external--outside the direct control of the taxing jurisdiction. The following conditions are identified:

Internal Factors:

1. The rate at which the gradually increasing tax rate differential is put into effect will influence the level of

possible economic dislocation. A way to ameliorate this would be to extend the ten-year **phase-in period**.

2. It is important that **assessment practice** keep up with advanced methods of land appraisal. [13] Land and buildings have always been the basis for determining assessed value, but seldom have land assessments on improved parcels been contested. Mapping land values across a metropolitan landscape is a science which only a few jurisdictions have mastered. Some, British Columbia Assessment Authority for example, are marketing their computerized land records management systems. [14]

Locational characteristics such as transportation access, traffic flow, aesthetics, and desirability need to be periodically obtained and factored into site values. Additional sales data, such as sites with new buildings or to-be-raized buildings should be utilized in the appraisal process. [15]

3. This study has revealed instances where the impacts of a 2-rate property tax might be felt by residents unable to use market decisions to mitigate them:

- Single family homes in low value areas appear to be lightly impacted by the 2-rate tax. Public administrators will need to be aware of an ongoing policy tension between: (1) maintaining low income home ownership in lower density centrally located neighborhoods (as a low income anti-displacement benefit), and (2) encouraging the rational process of rebuilding central locations more intensively, by making underutilized land available for consolidation and redevelopment.
- Homeowners in transition areas would be subject to increasing taxes as land values rise. While, from the standpoint of community objectives and planning policies, accelerated redevelopment may be desirable, advancing new methods of handling the relocation of affected residents would be advisable.
- Owners of obsolete or deteriorating apartment buildings in transition areas where urban renewal or gentrification is anticipated, can expect higher, not lower, tax burdens. Again, relocation is a concern which needs to be addressed.

- With respect to rental properties in stable neighborhoods, there is no guarantee that the tax savings anticipated under a 2-rate system will be passed on in the form of rent reductions. However, it is likely that through market forces, lower operating costs will result in comparatively lower rents.

Some economists maintain that the LVT is neither progressive or regressive per se--that there is no direct correlation between total property value and tax increase or decrease. Thus, the introduction of a 2-rate system is no guarantee against dislocation. **Relief mechanisms** currently in effect in Washington state take the form of exemptions, deferments, and current use valuation.

Among the group of land economists arguing against current use valuation is Jane Malm, who contends that preferential assessment does not tax the land's speculative value [16]. Current use may delay the development of resource lands at the urban fringe, but unless the prohibition to convert is accompanied by unalterable zoning or urban growth boundaries as legal methods of preservation, owners could

simply absorb penalty costs through high resale prices.

Likewise, the redevelopment process in central cities such as Seattle, instead of accelerating, could be hindered in low income areas targeted as "urban villages". If current use valuation were applied generally to low value areas, then land speculators (receiving the same preferential treatment as owner-occupants) could benefit from lower taxes while holding out for higher land prices.

It remains to be determined whether property tax exemptions may be simpler to administer and more targeted in coverage than current use valuation when used with a 2-rate system [17]

External Factors:

1. The public purpose would be best served by a working combination of the 2-rate tax system, and GMA-specified urban growth boundaries. In fact, the advantages of the modified tax appear likely to be greater in central cities and surrounding urbanized suburbs whereas the supply of

developable land is relatively fixed. Here property owners would find it advantageous to undertake development in the form of consolidation and infill. Contiguous land development and the extension of utilities would be planned in phases and implemented according to locally adopted **land management policies**. [18]

2. Preventing "leapfrog" development is a public purpose that may be better served by the **uniform application of property tax incentives** across jurisdictions within the same real estate market. If one jurisdiction, by changing to a 2-rate tax, reduces taxes on improvements, it could favorably compete with single rate jurisdictions for capital investments [19].

Whether this is actually desirable, however, is debatable. On the one hand, regional growth management policy could be undermined by conflicting development incentives, i.e., discouraging land underutilization in one locale while rewarding it in another. On the other hand, the visible effects of incentive taxation could become evident to all the neighboring jurisdictions.

3. Implementation of the 2-rate property tax is more likely to be politically acceptable if it is introduced as a **revenue neutral** proposal. Its success is also enhanced if other state revenue sources (e.g., sales tax, possible income tax) are ample. Thus, any dislocation resulting from shifting tax burdens would be moderated. The property tax burden among Washington residents is, on a per capita basis, about average among all states. [20]

4. Finally, a land value tax would function more effectively as an incentive in a **growing regional economy**. Infill construction and development on consolidated sites is dependent upon effective demand for residential, office, retail, commercial and manufacturing space.

Developers who use land wisely, and residents who choose living units that conserve land, will be rewarded under a 2-rate tax system. The rate at which the sprawling metropolis of Puget Sound is transformed into tightly-woven communities is dependent upon the state of the regional economy, the

shape of evolving growth management policies, and the political will of elected officials.

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APPENDIX 1: OBSERVED VARIABLES AND VALUE LABELS

LOCATION

C: Central city
O: Outer city
S: Suburban
E: Exurban

NEIGHBORHOOD

Named

GENERALIZED LAND USE

R: Residential
C: Commercial
OS: Open space

LAND USE MIX

P: Predominant
M: Mixed

LAND UTILIZATION

H: High, medium intensity
L: Low intensity

AREA VALUE

H: High
M: Median
L: Low

LAND USE

S: Single family
2: Duplex
5: 5-9 family
MF: Multifamily - Rental
MC: Multifamily - Condominium
C: Commercial, industrial
MH: Mobile home park
VL: Vacant parcel - Large
VS: Vacant parcel - Small
P: Surface parking
Ps: Parking structure

APPENDIX 2: SAMPLE DATA MATRIX										
Case	Field Sheet #	Photo #	Location	Neighborhood	Generalized Land Use	Land Use Mix	Utilization (Intensity)	Area Value	Number	Street
1	3	3.1	C	Q ANN	R	P	H	H	####	W Highland Dr
2	3	4.1	C	Q ANN	R	P	H	M	####	Taylor Av N
3	3	4.1	C	Q ANN	R	P	H	M	###	Highland Dr
4	3	4.1	C	Q ANN	R	P	H	M	####	6th Av N
5	5	7.1	C	Q ANN	C	M	H	L	####	W Nickerson St
6	10	20.4	C	ELAKE	R	P	H	M	####	Eastlake Av E
7	10	20.4	C	ELAKE	R	P	H	M	###	E Edgar St
8	10	20.4	C	ELAKE	R	P	H	M	###	E Edgar St
9	11	10.1	C	CENTRAL	R	P	H	L	####	17th Av
10	11	10.1	C	CENTRAL	R	P	H	L	####	17th Av
11	24	23.1	O	MAPLE LEAF	R	P	L	L	####	NE 76th St
12	24	23.1	O	MAPLE LEAF	R	P	L	L	####	NE 80th St
13	25	24.1	O	MAPLE LEAF	R	P	L	L	####	15th Av NE
14	25	24.1	O	MAPLE LEAF	R	P	L	L	####	15th Av NE

Parcel Land Use	Assessed Land Value	Assessed Bldg. Value	Total Value	Ratio: LVal.:TVal.
S	704300	455800	1159900	.61
5	259200	190800	450000	.58
2	117500	96600	214100	.55
MC	25500	80500	106000	.24
C	540000	30000	570000	.95
MF	385000	25000	410000	.94
S	61900	81700	143600	.43
S	74200	81700	155900	.48
VL	153600	1000	154600	.99
VS	69100	0	69100	1.00
S	95200	16400	111600	.85
C	120000	135000	255000	.47
S	62700	57600	120300	.52
S	70300	40100	110400	.64

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