

Report Part Title: Cases

Report Title: Why So Little Georgism in America:

Report Subtitle: Using the Pennsylvania Case Files to Understand the Slow, Uneven Progress of Land Value Taxation

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colleagues and I read through the CSE files on over 51 municipalities contained in approximately 25 linear feet of filing cabinets. These files and the extensive newspaper archives available from, for example, the *Pittsburgh Post-Gazette* and the *Allentown Morning Call* provide the principal primary sources for the local experience in Pennsylvania, especially in the period prior to the last ten years or so. Third, I selected six cases with particularly rich files and histories for in-depth interviews with key informants. I chose one municipality that is considering LVT—York—and three that have or had the split-rate form of LVT—Pittsburgh, Harrisburg, and Allentown. Pittsburgh established its LVT just before WWI, Harrisburg in the 1970s, and Allentown in 1990s. In 2001, Pittsburgh rescinded its LVT after nearly 90 years of continuous usage.

These four cases are chosen to reflect distinct examples: the longstanding paradigm suddenly reversed, a longstanding success story with no discernible opposition, a recent implementation that overcame longstanding opposition, and three varieties of current debate across size of locality. It is unlikely that examination of these cases would find uniform themes: the reality of the particulars will be too dominant in local settings with repeated games among real people. But it may be useful to learn and document what did in fact happen in these localities on this issue over time, both as a history of what is possible and also as context empirical studies of impact. (A strong example of the latter is the study of Pittsburgh by Oates and Schwab (1997). The authors deftly weave econometric modeling and key informant interviews.)

My approach to this material is centered on narration. My goal is to document what happened—and, especially, what was said—in these six cases. Along the way, I try to avoid evaluating the accuracy of what was said (I do not claim to always succeed in resisting) because that does not matter here. What matters is the rhetoric, the interests, and the decisions actually employed, regardless of whether they conform to theory or even to fact. Academics assert an interest in the “real world”. This is it, to the best of my ability to reconstruct it in these times and places.

Cases

Pittsburgh

In 2001, Pittsburgh rescinded its split-rate tax on real property, requiring a revision of virtually everything written on land value taxation in the U.S in the preceding decades. Pittsburgh is probably the most significant case in this study because of its long-standing preeminence in the applied field and its relatively sudden—almost casual—abandonment of the technique. Without Pittsburgh, Georgists can point to no U.S. city with a population larger than 107,000 (Allentown) that employs the split-rate property tax. How could the shining light be doused so easily?

Early Implementation by Progressives

Pittsburgh's early embrace of land value taxation was presented as a reaction to large and speculative landholding in the city.⁶ Large tracts of land were controlled by wealthy landowners who, thanks to the favorable tax structure then in place, had substantial incentives to hold the land. As noted in *The Pittsburgh Post-Gazette*,

Pittsburgh's complicated story of land, taxes, and speculation begins with an observation from George Washington... While traveling through Western Pennsylvania in 1753, the future... president noted the Point [the Golden Triangle] was "extremely well situated for a fort" and behind it was a "considerable bottom of flat, well-timbered land, very convenient for building." Several military officers saw the same potential. After the Revolutionary War, Gen. James O'Hara purchased several empty tracts on the North Side, South Side, and Downtown, including the future site of the Kaufmann's department store. Major Isaac Craig bought the land now beneath the Gateway Center. Oliver Ormsby, whose father had marched through Pittsburgh during the French and Indian War in the 1750s, paid \$170 for the Downtown lots now under the Henry W. Oliver Building. These early purchases became foundations for great fortunes.⁷

The Pittsburgh Civic Commission concluded that this scarcity had made land so costly that employers were choosing to not invest in Pittsburgh and that tax burdens were being manipulated to shift burdens among homeowners. The origins of the latter were traced to the real property classification scheme instituted during the expansion of city boundaries. Following the spectacular consolidation of the City and County of Philadelphia in 1854 (in which that city's size increased from 2 to 135 square miles), many older cities began to annex and consolidate adjacent jurisdictions, culminating in the 1898 consolidation of City of New York.

Pittsburgh began a period of annexation in 1867 and continued through 1907 with the consolidation of Pittsburgh and Allegheny (an adjacent municipality, not the surrounding county, continues to contain the city of Pittsburgh.) After the 1907 annexation, Pittsburgh moved from the eleventh to the eighth largest U.S. city. Local taxation was treated as a benefit payment for urban services and a condition of annexation after 1867 was the classification of land parcels as either "full city", "rural or suburban", or "agricultural".⁸ The classification scheme was a political bargain that induced outlying jurisdictions to accept annexation (referenda became the standard instrument of annexation in Pennsylvania and elsewhere, especially following the Philadelphia consolidation, which was done by fiat) by recognizing their lower demands on urban services. The "rural" class of land received a property tax discount of one-third and the "agricultural" class a discount of one-half. During a period of tremendous population growth, the classification system remained basically fixed, making the "rural or suburban" parcels relatively valuable. By 1910, one estimate claimed that one-fourth of the city's parcels were receiving the "rural" tax discount.⁹

In 1911, the State passed legislation proposed by the Civic Commission that abolished the land classification system, among other changes (e.g., unifying the school budget across the entire city rather than tax each local ward independently of the others). The Commission did not rest on this success, however, but continued with

...a further reconstructive program promoted by some of the tax reform forces whose initial campaign proved thus successful. Their scrutiny of the distorted equilibrium which had existed in Pittsburgh between land and building taxes led them naturally enough to propose that the balance should be struck in the other way. In a report made in December, 1911, the committee on housing of the Pittsburgh Civic Commission recommended that the legislature enact a law fixing the tax rate on buildings in Pittsburgh at 50 per cent of that on land, the reduction in the building tax to be made up by increases in the land tax...The proposal was thus not to stop at eliminating the classification plan, but to turn it inside out; from a policy discriminating in favor of land to go to one of discriminating against land.¹⁰

In 1913, the Civic Commission secured passage in the state legislature of a bill enabling a two-tier tax in Pennsylvania cities of the second class (i.e., Pittsburgh and Scranton, the latter also applied graded tax that year) that fell more heavily on land than buildings. One major concession made during the debate on the legislation was that the school tax would not be subject to the split rate.

It was quickly challenged by the new mayor elected in 1914 (Joseph G. Armstrong), the chamber of commerce, powerful land holders and politicians, who said that the tax discriminated against landowners and was “unlawful, unjust and un-American.” The governor, John K. Tener, who was from Pittsburgh and had signed the 1913 legislation, helped rebuff the appeals attempts and the split rate tax took hold in Pittsburgh.¹¹ The plan was implemented in five planned increments between 1915 and 1925, at which date the tax rate in buildings was one-half that on land.

The argumentation used to describe this policy was straight out of *Progress and Poverty*. Paul Kellogg, the long-time editor of *The Pittsburgh Survey* (a research and reporting effort on social reform that began in 1907 and continued into the 1920s) wrote in 1914 about the new graded tax in Pittsburgh:

As has already been seen, the higher tax which for forty years had been levied on built up property in Pittsburgh tended to encourage the speculative holding of land out of use; to augment the sales price of available land, and thus discourage the location of industries in the city; to discourage building enterprises thus perpetuate the ramshackle dwelling which hold their tenants when workmen’s homes are hard to buy or high to rent. High land cost and excess building tax have been the lot of the householder and factory builder in Pittsburg. The new plan does more than take the penalty off building houses and factories; it rewards that kind of

enterprise by a lower tax the same way that Pennsylvania rewards industrial capital in exempting machinery from taxation. It will cut the tax on improvements in half and spread one part out as an additional penalty for holding land out of the market.¹²

The Mid-Century Consensus

By the 1960s, most local observers were crediting the policy with all sorts of positive effects. In 1962, the Chief Assessor for Pittsburgh, Percy Williams (himself a Georgist and one of the founders and first executive secretary of the Henry George Foundation) reported that the graded tax contributed in the 1940s and early 1950s to the building boom in the Golden Triangle.¹³ According to Williams, several downtown office buildings, including those built by United States Steel and Alcoa, were paying much less (\$355,000 and \$210,000 per year, respectively, in current dollars) than they would under a single rate system. In an often-quoted statement of the mid-century consensus opinion in Pittsburgh, David L. Lawrence (Mayor of Pittsburgh, 1945-1959, and Governor of Pennsylvania, 1959-1963) said as governor, “There is no doubt in my mind that the graded tax has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements. It produced a more prosperous city.”¹⁴

By the late 1970s, the consensus began to fracture. In 1979, when Mayor Richard S. Caliguri (Democrat, mayor from 1977 until 1988 when he died in office) proposed increasing the wage tax, Councilman William Coyne proposed hiking the land tax instead. Overriding the mayor’s objections, council increased the ratio of land tax to improvement tax from 2:1 to 4:1. This increase derived from an increase in the land tax rate while maintaining a constant tax rate on the assessed value of improvements.¹⁵ As we shall see below, the assessments of both land and building value remained essentially fixed in this period and, indeed, for the next twenty years.

In 1980, again over Caliguri’s objections, the ratio was increased again to 5:1. According to Dan Sullivan, the director of the pro-land tax Center for Local Tax Research, “Bill Coyne went around and talked to Council very patiently. He talked to the developers and to business groups and all the neighborhoods. And his attitude was: it was more important that your opponents respect you than your supporters endorse you. He was good at not making enemies.”¹⁶

In 1983, *Fortune* magazine published a lengthy article titled “Higher Taxes that Promote Development,” focusing on Pennsylvania and its split-rate tax.¹⁷ Calling the Georgist formula of loading the tax burden on land owners “a sort of supply-side approach to real estate taxation,” the article observed that “few people, even among public officials and real estate executives, understand the nature of the tax and its economic ripples.”

At least in Pittsburgh, a pro-land-tax political regime existed throughout most of the 20th Century regardless of how widely or narrowly understood it was. As Councilman Coyne opined in the *Fortune* piece, “I believe we are on to something exciting. I do not want to claim too much for it, but we may discover that our form of property-tax modernization is a hidden treasure—like finding gold in our own backyard.” But Mayor Caliguiri, who had been twice thwarted in his efforts to reign in the land tax, had a different view, according to *Fortune*. “I don’t see where they help at all,” he said of the higher rates on land.

Breckenfeld writing in *Fortune* reported on several countervailing factors that Oates and Schwab would discover 14 years later in their careful analysis of LVT in Pittsburgh. After noting that the 1981 construction rate in Pittsburgh was nearly six times the 1977-1978 rate (albeit it is not clear what precisely is being claimed there), Breckenfeld attributes much of the building boom to a scarcity of office space and a three-year tax abatement adopted in 1980 on new construction. Without a discussion of LVT’s theoretical neutrality and without the Oates and Schwab argument about LVT’s importance as “*differential taxation*”, Breckenfeld offers only this conclusion about the building surge: “The widening differential between the taxes on buildings and land undoubtedly helped. It cut the annual bill for owners of some skyscrapers by more than \$500,000 a year when compared with a conventional 1-to-1 ratio taxation.”

In 1985, Mayor Caliguiri commissioned a study of the land tax from the Pennsylvania Economy League. Titled “Development, Equity and the Graded Tax in the City of Pittsburgh,” the study concluded that “the graded tax has very little effect on development” and that “the benefits fall primarily on single-family dwellings in more affluent neighborhoods”.¹⁸ But land tax advocates called the report inaccurate and—as often happens in real arguments between real people in the real world—they questioned the objectivity of David L. Donahoe, the PEL executive director. Donahoe had been Caliguiri’s former budget director, pointed out Dan Sullivan, in a lengthy critique of the study. “Year after year, as the mayor’s employee, Donahoe had the job of coming up with taxes other than land value tax, and of providing arguments against the land value tax,” wrote Sullivan. In addition, Sullivan said, he’d told Donahoe before the study came out that the graded tax played only a supporting role and had submitted to PEL a report that stated the surge of construction “exceeds the most optimistic predictions of land tax experts and much of the credit belongs to the city administration’s aggressive efforts at recruiting development.”¹⁹

In the 1990s, the land tax came under attack again under during another mayoral administration. In 1989, Ben Hayllar, finance director under mayor Sophie Masloff, was charged with finding a way to reduce the wage tax. He proposed replacing a percentage of it with a flat 10-mil property tax, but Hayllar’s approach was rejected by City Council, which instead unanimously passed an expansion of the land tax once again, raising it to the approximate 6:1 ratio that would hold until 2001. Interestingly, Pittsburgh’s Building Owners and Managers Association, along with the Golden Triangle Association—the same groups that had opposed the 1979 increase in the land tax—spoke against Hayllar’s

idea and supported Council as did other members of the administration and the mayor herself.²⁰

In 1992, Hayllar produced a study that claimed the tax policy fell harder on properties in poorer neighborhoods. But land tax advocates who scrutinized the analysis contended Hayllar had made multiple errors in the study. The properties burdened with higher land taxes in the neighborhood he looked at, they contended, were actually absentee owners of underdeveloped sites. Hayllar, though, remains a staunch foe of the policy. “If the land value tax had any merit there would have been construction uniformly over the last fifty years,” he maintained. Later on, after he’d moved on to work in the administration of Philadelphia mayor Ed Rendell, Hayllar continued to speak out against the land tax, criticizing local advocates efforts to bring it to that city and calling it a “really bad idea.”²¹

This was the period studied by Oates and Schwab (1997) in their research of impacts of LVT in Pittsburgh. This study is widely cited as the most credible empirical study of LVT impacts in the United States setting. For present purposes, however, perhaps the authors’ most useful contribution is clear language (and supporting findings) regarding one of the major effects of LVT:

...one finds in the more popular literature the claim that land-value taxation encourages earlier development of vacant land parcels by placing a penalty on undeveloped property. This is simply incorrect. Land-value taxes place the same penalty on land regardless of whether it is developed; indeed, it is for this reason that the tax is neutral. In sum, if land assessments are not based on actual use and if liquidity effects are unimportant, then land-value taxation is neutral: it will *in itself* have no direct effects on either the form or timing of development of unused land parcels.²²

The Oates and Schwab study is, of course, sophisticated about the importance of the assumption that assessments are “correct” and of the importance of implicitly lower tax rates on buildings (as opposed to higher rates on land) in spurring development. Furthermore, the authors (unlike earlier research, such as that by PEL) insist that LVT likely played a crucial role in Pittsburgh’s economic development during this period through the mechanism of “differential taxation”,

...to conclude from this that the role of land taxation was relatively unimportant is, in our view, a serious misinterpretation... The role of land-value taxation is to be understood in terms of the revenue alternatives...[and] not in terms of any direct stimulus to development, for there is likely to be little or none if the tax is neutral. Rather, land-value taxation provides city officials with a tax instrument that generates revenues but has no damaging side effects on the urban economy.²³

Tellingly, the next and fatal round of debate on Pittsburgh's graded tax rates was focused precisely on these questions of revenue sufficiency and equity of tax burden. Development and land use effects played no discernible role.

Sudden Death

Though the establishment consensus on LVT was perhaps less solid in the 1980s and 1990s than it had been in the 1960s, it was a county-wide reassessment of property values in 2000-2001 that led to the split rate's rescission. In the following paragraphs, the unfolding events and decisions related to the rescission are narrated. The three important factors in the story are: the press of electoral politics (a mayoral election campaign was held in the midst of a reassessment and the decision to rescind the graded tax); the problem of "many hands"²⁴ (the responsibility for the tax is divided between the county and city); and the comprehensive reassessment attempted to make simultaneous changes to the system (reassessment and full-market valuation) and thus conflated the effects of each on the resulting tax bills.

As is common across the United States, real property assessment is a county function in Pennsylvania. In 1996, Republican Allegheny County Commissioners Larry Dunn and Bob Cranmer ordered a five-year freeze on all property assessments in the county (and also fired 42 assessors in the county Board of Property Assessment, Appeals, and Review.²⁵ This created a conflict with the mayor of Pittsburgh, Tom Murphy, who had both pledged not to raise taxes and called for comprehensive reassessment. For years, Murphy had derided the chronic underassessment and claimed that appropriately increased valuations would demonstrate the effects of his economic development policies and generate increased revenues from the property tax.²⁶

Common Pleas Judge R. Stanton Wettick Jr., beginning an involvement in the issue that continues actively to this day, ruled in 1997 that the county's freeze was in violation of the state constitutional requirements of equal protection and uniformity of taxation.²⁷ Stanton ordered that all 550,000 properties in Allegheny County be assigned new values by an outside contractor and, until that comprehensive reassessment could be completed, that all properties in the county be assigned an increased assessed value of two percent each year. Appeals were rejected by higher courts.

In March 1998, Sabre Systems and Service of Ohio was awarded a \$23.9 million contract to performed the county-wide reassessment.²⁸ Over the next 27 months, Sabre performed a reassessment of all properties in the county. In accordance with Pennsylvania state law, the reassessment was based on recent sales of comparable properties. In addition to reassessing all values, the court order and the resulting contract with Sabre Systems required that Allegheny County abandon its fractional assessment system (at which assessed values were calibrated to 25 percent of fair market value) to a full-market-value assessment.²⁹ The local governments involved—the city, the county, and the school district—all acknowledged the arithmetic and legal necessity (Pennsylvania state law limits revenue windfalls related to reassessment of the tax base to five percent) of

reducing millage rates in proportion to the shift to full valuation. But even this relatively simple aspect of the change became part of the dispute that led to rescission of the two-rate tax.

Sabre Systems Operations Manager George Donatello recalled briefing city officials “at least ten times” during this period that land values in particular had been under-assessed at inappropriately low valuations.³⁰ However, in procedure that many would later claim was the beginning of the acute phase of Pittsburgh’s long reassessment crisis, in the fall of 2000 Sabre mailed preliminary statements of assessed value to all property owners---but only reported the combined assessed value of both land and improvements.³¹ These combined reassessments provoked little outrage and Mayor Murphy embraced the increased values as a vindication of his tenure.³²

A second step in what would become the larger dispute was taken when Sabre reported to the city that the overall land value share would be approximately 20 percent of total assessed value.³³ City Finance Director at the time, Ellen McLean, used that overall share to project the necessary millage rates under the new assessment. In November 2000, Murphy proposed (and City Council adopted on December 19, 2000) a rate of 31.37 mills on land and 5.44 mills on improvements (a ratio of almost 6:1, which had been in force since 1989).³⁴ These rates generated a nearly ten percent increase in property tax revenues to \$123 million, prompting many to ask whether this was a violation of the state cap on reassessment-related revenue increases.³⁵ Again, it is the move from fractional to full valuation that makes this distinction possible. Because of this change, millage rates were being lowered to reflect the new arithmetic and there is no state prohibition on adjusting tax rates per se in order to generate more revenue. So Murphy could claim that he was not raising taxes (since he was lowering the rates) and simultaneously claim that the increased revenue was not a result of reassessment alone (since he was adjusting rates to generate the revenue).

Then, in January 2001, three things happened that precipitated the actual crisis phase. First, property owners in Pittsburgh received their final reassessment notices, containing a breakdown of separate land and improvement valuations and, for the first time, a calculation of the taxes owed under the two-tiered tax rates. Second, the land component of the total valuation in the city increased more than the city had been told to expect. Third, the method by which Sabre Systems estimated land valuations came under severe criticism for, in particular, having differential impacts by neighborhood. I examine each of these in turn.

Preliminary and Final Assessment Notices

Problem definition, understood as a strategic representation of situations, is half the battle in a policy debate.³⁶ The framing of the problem that would define much of the public debate regarding Pittsburgh’s split-rate property tax is accurately illustrated in the front-page story in the *Pittsburgh Post-Gazette* of Friday, January 12, 2001 that first reported the widespread impact of the Sabre Systems reassessment:

Here's a quiz from the Allegheny County reassessment:

A property on Bartlett Street in Squirrel Hill is assessed at \$295,100. A property on Kentucky Avenue in Shadyside is assessed at \$133,000. Which owner pays more in city taxes?

Easy, right?

Wrong. The owner of the lower-priced property will pay nearly \$200 or 8 percent more.

That's one of the seemingly perverse outcomes from the city's two-tiered real estate tax, in which land is taxed at a different rate than the house that sits on it.

In prior years, the two-tiered tax was little more than a math nuisance.

This year, however, it's packing a powerful wallop. Because countywide assessors ratcheted up values for land, which is taxed at a rate roughly six times that of buildings, some city dwellers are in for an unpleasant surprise when their tax bills arrive next month.

Steve Beltz may have been lulled into complacency when his preliminary notice showed a modest overall increase for his Shadyside property—from \$123,000 to \$158,000. But he later learned that his land value had been raised from \$8,200 to \$68,000, causing his city taxes to double.³⁷

Every property owner in Pittsburgh had their perception of reassessment anchored by the initial report of change in the combined value of their land and building assessment. This anchored had two effects. First, fairness is often framed as the equal treatment of likes and, therefore, the definition of what is like what is crucial to determining what is fair. The initial assessment notices anchored the definition of likes in terms of combined assessed value rather than the two components are that combined value. In the preceding passage, a standard of fairness is being violated because two items defined as likes, the combined assessed values of two properties, are being treated differently: a combined value assessed at half the value is yielding a higher tax bill.

Second, the initial notices anchored an expectation regarding the taxes due. Consider the "man on the street" profiled employed above. The owner may have reasonably expected a 28 percent increase in property tax deriving from his 28 percent increase in overall assessed value. That in itself is a large single-year increase and reflects the long-term freeze of assessed values in Allegheny County and the apparent systematic under-assessment of land values in particular. George Donatello, Sabre Systems' operations manager, claimed that land values were "so low they weren't anywhere near reality. People in the past kept land values low, artificially low, because of the way the tax rate

was structured.”³⁸ Even without such manipulation, property valuation had remained essentially fixed in Allegheny County for at least five years.

Instead of debating various options for incrementally phasing the impact of such tax payments, which would be the standard policy response to a large increase in assessments, the existence of the split-rate made a bad problem worse and was processed as the cause rather than just a magnification. At first, this causal argument came exclusively from those outside the city. In addition to Donatello’s quote above, Bob Webb (the County Manager) claimed that the problem was not the assessments or the failure of the city to reduce millage rates but specifically the city’s tax structure, and he challenged the city to “stop taxing land at six times the rate of buildings.”³⁹ At first, city officials (the mayor, city council members, and the controller) focused their criticism on the assessments not the tax structure. As we shall see below, however, this argument was quickly picked up by a mayoral challenger and became the central contention of the campaign.

Increasing Land Values

Second, the aggregate increases in land value were larger than the projection Sabre gave to the city in the fall of 2000, when millage rates were being set for 2001. The bulk of increased value in Pittsburgh was assigned by Sabre Systems to land rather than improvements. Between 1995 and 2000, the total assessed value of real property in Pittsburgh increased 9 percent from \$8.19 billion to \$8.91 billion. In the Sabre reassessment, the total assessed value increased 50 percent to \$13.35 billion. The assessed land value increased 81 percent between 2000 and 2001 while the assessed building value increased 43 percent.⁴⁰ On its face, this assignment of increased value is consistent with a Georgist view. Indeed, Sabre’s Donatello has many statements on the record of the importance of site value in assessment, including: “We talk about location, location, location. That’s the major factor. It’s not the building. It’s the land.”⁴¹

The problem, however, arose in the millage rates the city had set based on the initial lower aggregate land value (and this was further confounded by the move from fractional to full valuation). Those rates had been set on the anticipated 20 percent share of land value to total value. City Council Dan Cohen claimed that land accounted for 10 percent of total property value in the city in 2000 and under the new assessment would account for 30 percent of total value in 2001.⁴² County Controller Dan Onorato (himself a city resident and former city councilman) claimed that his sampling of city properties showed land values ranging from 4 to 20 percent of total value before the reassessment, and ranging from 22 to 29 percent after the reassessment.⁴³

This discrepancy between the projected and final share of land value saddled the city administration with a set of land and building tax rates that aggravated rather than mitigated the effect of increased assessments. This added to the perception that the cause of the problem was the graded tax itself. The conventional policy response would have been to lower rates in recognition of increased assessed value. Indeed, while the city administration continued to complain about the quality of the assessments, they quickly

proposed a reduction in millage rates. But this, too, was swept away in the proposal to rescind the split rate.

Contested Assessment Methods

The final assessed values and resulting tax bills produced a firestorm of criticism. Local representatives recognized the merging taxpayer revolt and attempted to focus their reaction on Sabre Systems' reassessment methods and results. On the first weekend of the crisis, Mayor Tom Murphy held a "rare" Sunday news conference to decry the Sabre Systems assessment of land values. Murphy said the assessed values "defy common sense", represent a method "that we're quickly losing confidence in", and that "It defies logic, in our minds, that this has happened."⁴⁴ While criticizing the land assessments, Murphy defended the two-rate tax. He said, "Changing that system is very complicated because it shifts values around. Generally, in lower income areas, the land values are not as high so you end up shifting values from higher income areas to lower income areas." Unfortunately, complexity was not a welcome participant in the unfolding debate.

Land tax advocates in Pittsburgh and elsewhere have raised the suggestion that city/county political and economic competition is related to the Sabre System reassessment method:

According to the Center for the study of Economics, [Allegheny County Chief Executive Jim] Roddey disparaged the tax policies of the four 2-rate tax cities in Allegheny County. He essentially demanded they stop using the system that has seen lowered taxes for most and economic development without costly giveaways or sweetheart deals. It was the Republican County Chief Executive and previous County officials who had hired Ohio-based Sabre Systems.

Dan Sullivan of the Center for Local Tax Research had been calling Sabre and asking them what they were doing on land assessments and he had been assured everything was fine...The valuations defied common sense, Sullivan said, upon finally getting to see Sabre's figures. The assessments are run by Allegheny County, and only about a fourth of the county's population is in the City of Pittsburgh. The campaign contributions for Republican candidates to county officials primarily come from people who own property in the city but live in the suburbs. The county has always been our obstacle, said Sullivan. Sabre tried to assign land as a residual value, noted Sullivan. The law requires assessing land value exclusive of buildings, then assessing the buildings. Sabre instead came up with its total value and then arbitrarily assigned a value to land. Since they had no land basis they didn't know if the building was appropriate to the location or not. They used a replacement cost formula for assessing buildings.

The office of Pittsburgh City Controller Tom Flaherty [represented by staff attorney Kevin Forsythe] first saw the Sabre valuation figures and recognized that it had resulted in systematic overassessment of homes in low and moderate income neighborhoods and underassessment in more affluent neighborhoods. Sabre's computer model leaned too heavily toward replacement cost and away from market values.⁴⁵

These admittedly second-hand proceedings from a 2001 conference present claims that are unsubstantiated and somewhat contradictory. But they demonstrate the level of distrust in play in the midst of the crisis. Being a Philadelphian, I would never dismiss an alleged conspiracy simply because it cannot be proven. And these suspicions certainly linger. Dan Sullivan recently said, [Sabre Systems] had a whole county to do and they only screwed up the city."⁴⁶

But the decision to criticize the quality of the reassessment carried a rhetorical penalty for the city administration. Without a set of assessed land values to point to, Murphy and his allies were accepting a debate about fairness that was framed by the combined assessed values rather than the component assessed value. Defenders of the split-rate needed a set of defensible assessed land values in order to redefine the fairness debate around treating like land values in an equal manner. By focusing their critique on Sabre Systems' allegedly erroneous land value assessments, the city administration helped reinforce the emerging goal of taxing equally two properties with equal combined assessed values on fairness grounds.

None of these arguments about assessment quality or millage rates or phased tax increases had a chance to mature and define the ensuing policy debate. Less than a week after the increase in assessed land values became front-page news, mayoral candidate and City Council President Bob O'Connor proposed replacing the venerable split-rate tax with a unified property tax.

A unified rate would be easier for residents to understand and to appeal, and it would also force Downtown property owners to pay a greater share of the tax burden, [O'Connor] said. That's because the [proposed] 10.8 mill rate would apply to both land and buildings, so owners of the biggest buildings, who have been paying the 5.44 mill rate on their structures, would instead see a near doubling in the rate.

"Large property owners have learned how to manipulate Henry George's two-tiered system to the detriment of the poor and middle class of this city," O'Connor said.

"Maybe years ago this system might have been able to work. But the only reason I can think of anyone fighting [a single-rate system] is only to protect the big boys Downtown," he added.⁴⁷

It is notable that in Pittsburgh everyone, foes and friends alike, make easy reference to Henry George. It is also small consolation that such familiarity breeds contempt and misunderstanding. This quote is a brilliant framing of the issue in a way to elicit popular appeal. But it was clear from the very beginning of the O'Connor proposal that this was not just a struggle between Downtown commercial owners and "the poor and middle class" homeowners but rather between Downtown interests and the city's most affluent homeowners. The proposed 10.8 mill rate was the implied single rate derived from the existing 2-tier rates applied to the reassessed values; so it was revenue neutral in aggregate yield. Eighteen wards (including the city's wealthiest) would pay less under a single rate than the split-rate, and the 14 remaining wards (including the city's poorest) would be more. Most of the transferred impact would occur between four wards: the two most affluent neighborhoods (Squirrel Hill and Shadyside) would pay \$3.7 million and \$1.5 million less respectively under the single rate while the two wards containing the Downtown business district would pay a total of 6.5 million more. But there would also be proportional (to assessed value) increases in many low-value neighborhoods, which would receive increases of 10-15 percent. These figures were all reported in the same article announcing O'Connor's proposal to end the split-rate tax.

Murphy and his administration continued to appeal to complexity and an equity argument based on numbers.

Murphy spokesman Craig Kwiecinski said council members were briefed on the option of going to a unified rate in October, but they felt then the city should stay with the two-tiered system. Kwiecinski said a single rate could penalize those in lower-income neighborhoods.

"It's not as simple as just shifting the burden to commercial users. It's a very complicated issue," he said.⁴⁸

Mayor Murphy continued to defend the two-tiered system:

"It shifts the taxes from the more expensive houses to the more moderately priced ones," [Murphy] said. "It's not simply helping the Downtown owners.

As he has done for the past week, Murphy placed the blame for the tax uproar in some city neighborhoods, particularly Shadyside and Squirrel Hill, on Sabre, which he has accused of botching city land values.⁴⁹

While the city continued to place blame on Sabre Systems' assessments, George Donatello of Sabre quickly supported O'Connor's proposal.

"Folks should be talking to their representatives who have kept this system alive for I don't know how many years. But it's a bad system and the taxpayers are going to pay for it," [Donatello] said yesterday.⁵⁰

On Friday, January 19, 2001—one week after the reassessment story had broke—Mayor Murphy filed suit against Sabre Systems in Judge Wettick’s court requesting that Sabre explain the method by which land values were determined and assessed.⁵¹ Meanwhile, City Council President O’Connor continued his drumbeat on the ending the split-rate:

“Nobody likes the Sabre Systems evaluation. We all went up. I certainly don’t like that. I’m working very hard to try to level the playing field for all of the neighborhoods of the city of Pittsburgh. This is one option we have to explore.”

“The winners are a lot of the neighborhoods; the losers are the buildings Downtown,” he added. “The biggest winners here are the public. The people taking advantage of [the two tiered rate] for the last 50 years are the big office buildings. It’s to their benefit.”⁵²

This language may be garbled and even verging on incoherent. But the rhetoric was resonating with taxpayer resentment in ways that were clearly forcing Mayor Murphy to respond: On Tuesday, January 23, Murphy made an unscheduled and unannounced visit to council chambers during a portion of their meeting reserved for public comment. At the meeting, Murphy stated his openness “to the possibility of moving to a unified rate if together we believe that will best protect our residents.”

Murphy’s impromptu visit to council shifted some attention away from O’Connor, his political rival, who was poised to soak up most of the tax rate attention himself. Councilman Jim Ferlo, an ally of O’Connor, called the mayor’s visit “a full court press with the palace guard.”

Similar to the surprise news conference on Sabre’s assessments that Murphy called two Sundays ago, his address to council seemed to be part of a “best defense is a good offense” strategy to deflect attention from O’Connor’s proposals.⁵³

But while opening the door to a unified rate, the real purpose of Murphy’s visit to City Council was to announce a proposed change in the land and improvement tax rates:

Murphy then told council there is no easy fix to tax hikes, which he primarily blamed on the reassessment “mess” created by Sabre. But he said the best way to ease the burden of tax increases is by changing the current two-tiered rate, while continuing to push Sabre in Common Pleas Court to review its land appraisals.⁵⁴

Two cross-pressures were driving Murphy to complement if not eclipse his attack on Sabre’s assessments with the more immediate tactic of reducing rates. First, the tax bills for the city and the school district were scheduled to be mailed in February, only days away. The school district had already argued to Judge Wettick that further delay would require the district to borrow operating funds and that the assessments, having been duly

certified, were a legally sufficient basis for the district to implement its own taxation.⁵⁵ Second, another lawsuit had been filed that effectively exposed a back-door tax hike that the city would have received under its existing tax rates as applied to the new assessments.⁵⁶ The existing rates of 31.37 mills on land and 5.44 mills on improvements were expected to produce an increase of at least 10 percent in property tax revenues for the city. (The school district had explicitly planned a tax increase and was expected to receive an increase in revenues of 47 percent--another indication of the pressing need for the district to proceed with mailing the tax bills.) So in order to rebut charges that he'd raised taxes, Murphy needed to reduce the millage anyway.

So, applying them to the Sabre reassessment of land and improvement values, Murphy proposed new tax rates of 22.6 on land and 7.7 mills on buildings. Note that the new rates would have significantly changed the ratio of land to building tax rates, from almost 6:1 to less than 3:1. While this proposal might have been received differently a month earlier, its effect was to splinter opinion in unexpected ways. Dan Sullivan, the city's long-time leading private advocate for LVT, continued to focus on assessment errors and called for lowering those rather than changing the rates.⁵⁷ City Council also fractured in unexpected ways, once tax rates were put in play by both O'Connor and Murphy:

Such is the confusion of the reassessment debate that [City Councilman Alan] Hertzberg, normally an O'Connor ally, said he did not support O'Connor's flat property tax, which would nearly double the current tax on buildings while cutting land taxes by two-thirds.

He said the flat rate would lead to tax increases for middle-class residents of his West End district, many of whom have low land values as a percentage of over all value.

But Hertzberg, council's real estate expert, doesn't entirely support Murphy's plan either. He said he thinks the city millage rates are effectively a tax increase, since they are set to generate 10 percent more tax revenue than they did in 2000.⁵⁸

Meanwhile, Murphy's latest proposal found little support in City Council. In a vote on the issue, only one councilman, Sala Udin, stood with Murphy in favor of maintaining the venerable graded tax. "We had a two-tier tax system that many people did not understand," said Udin in a recent interview. "The single system might have made it simpler, but the consequences for low and fixed-income homeowners were greater with a single rate tax and I believed we ought to think about that." About O'Connor's attack on the land tax, Udin said, "He understood it least of all."⁵⁹

Understood or not, O'Connor's solution to a problem defined as imminent and large increases in property tax bills continued to gain momentum. In city council hearings on the "dueling" tax proposals, a member county assessment board, Jerry Speer, made one of the first public defenses of the Sabre assessments. Speer, a former president of the Pennsylvania Association of Realtors,

...defended Sabre's land and overall property valuations, saying they used uniform standards and were "pretty accurate". The best way to accurately use those values is a single tax on the overall value, such as O'Connor has proposed, he said.

"People don't care what their assessments are. They care what their taxes are. The one-tiered system is the only way to make this fair and equitable," Speer said.⁶⁰

In a particularly powerful vignette of how local policy debates are both closely held and symbolized by individual stories, the newspaper reported

The most emotional testimony came early in the hearing from Virginia Cornyn of Shadyside. She choked up at council's podium as she showed that she'll pay more in taxes for her Lehigh Avenue house assessed at \$183,000 (which she purchased for \$54,000) than the owner of a Squirrel Hill house assessed at \$325,000 (which was purchased for \$428,000).

"I would be carrying this mansion on Beechwood Boulevard on my tax bill. How can this be?" she complained. "Mayor Murphy's plan would not solve the problem. He just keeps confusing the problem more."

Television cameras and reporters scrambled to record Cornyn's vivid testimony. It was just the latest compelling moment on the tax issue, which on Wednesday featured a shouting match between Murphy aides and City Controller Tom Flaherty, forcing a council tax hearing to temporarily recess.

Cornyn is Flaherty's sister.⁶¹

This was all too much for Mayor Murphy's conditional defense of the city's 88 year-old graded tax scheme. He had attracted little support beyond the editorial pages for his adjusted split-rate proposal. One week after making that proposal, a week that including days of press coverage of council testimony like the preceding, Murphy proposed a single-rate tax plan that added a "homestead exemption" on the first \$10,000 of assessed value.⁶² At the proposed single rate of 10.8 mills, this amounted to \$108 credit for all homeowners. The next day, the proposal was introduced as legislation in City Council. After less than three and one-half weeks of public debate, the venerable split-rate tax was gone. In a fitting epitaph to the framing of this debate, a local tax lawyer wrote an opinion column the next day, employing exactly the same strategic representation of the issue that had occupied the front page of the newspaper on January 12:

Consider for example two properties with equal assessed values. One of the properties is on Mount Washington, and the other is in Oakland. A larger portion of the assessed value of the Mount Washington property is

allocated to land, because the property has a view of Downtown. Due to this difference in allocation, and even though the assessed values are equal, the graded tax causes the owner of the Mount Washington property to pay a higher tax than the owner of the Oakland property. Since each of these properties receives the same fire, police, and emergency services from the city, there is no rational basis for requiring the Mount Washington property to bear a greater share of the burden of government expenditures simply because the property has a view of Downtown.⁶³

In addition to the unexamined assumptions regarding benefit taxation, here we see the implicitly definition of “likes” based on overall assessed value and the assessed land value dismissed as a mere arbitrary “allocation”. Even if we stipulate to the (again, implicit) claim that the only site-value difference between Mount Washington and Oakland is the view (a claim which, if made explicit, I suspect most Pittsburghers would dismiss on its face), it is only the author’s tautological omission of the specific land and building assessments that make his claim of unfairness true, by definition.

But it was a perception that won the political debate. When Murphy and his City Council supporters approved the 10.8-mill single rate, they said it was a temporary measure to protect homeowners while fixing the assessment system.⁶⁴ The single rate, however, has remained in place ever since. One calculation of the effect of the move from the two-rate system to a single rate calculated that 54 percent of homeowners paid more under the 10.8 combined millage than they would have paid under the preceding split rates.⁶⁵

Three months later, Murphy squeaked by O’Connor by 800 votes in the mayoral primary. It was obviously a very close race that left little margin for error by either candidate. Most observers in Pittsburgh believed that Murphy’s neutralization of O’Connor’s claim on ending the city’s split-rate tax system was a political necessity.⁶⁶

Aftermath

In May of 2005, Bob O’Connor breezed to an easy mayoral primary victory, which virtually assures his election in November. Battered by the reassessment crisis as well as a (related?) fiscal crisis that has sent Pittsburgh into receivership with the state, Murphy declared in 2004 that he would not run for re-election this year. He will retire as Pittsburgh’s second longest serving mayor, after David Lawrence.

Meanwhile, the assessment system remains in crisis. The 2001 and 2002 assessments in Pittsburgh generated 170,000 appeals on 550,000 properties.⁶⁷ 12,000 remained unsettled as of 2004. After that the assessment process was essentially frozen until this year. With a Democrat now the Allegheny County Chief Executive (Dan Oronato, the County Controller during the 2001 crisis) and a new assessment contractor (Cole Layer Trumble of Dayton Ohio), assessments in Allegheny County are, if anything, even more contentious than in 2001.

In 2005, Oronato received a reassessment from his chosen contractor. The County's Chief Assessment Office Deborah Bunn verified that this latest reassessment

...showed a 19 percent increase in county values over a three-year period [2002-2005], meet the standards of the International Association of Assessing Officers...She said the percentage of inaccurate assessments is likely to be in the single digits.⁶⁸

But Oronato has spent most of this year trying to avoid the tax implications of this increased assessment. As County Executive, he cannot set tax rates in the 130 municipalities and 43 school districts in the county. Therefore, he has attempted to use the assessment process to control taxes. He first proposed a 4 percent cap on assessments.⁶⁹ These were thrown out by the long-suffering Judge Wettick in May of this year.⁷⁰ Currently, in a breath-taking conflation of his skills of a former county controller with his current powers as county executive, Oronato "revisited" the assessment submitted to him early in 2005:

Dan Oronato was determined to revise, massage, pervert, and contort Allegheny County's property assessment system until he got the numbers he wanted. The county chief executive got them this week, and to property owners who want lower taxes at any cost it was a huge sigh of relief.

Under the new methodology, assessed values on residential properties rose by an average of 5.8 percent. That's a far cry from the 19 percent average that the county produced eight months ago in its first reassessment for 2006.

Dan Oronato, by seeking to avoid the taxpayer fury met by his predecessor Jim Roddey, has taken it upon himself to try to control property taxes by manipulating assessments.

Consider this, briefly, as a kind of natural experiment. Was the Pittsburgh split rate tax simply in the wrong place at the wrong time? In 2001, the two-tiered tax made a convenient target for frustrations of taxpayers facing tax increases related to long-delayed reassessments. In 2005, in the absence of the two-rate tax, politicians are manipulating the assessments directly, much as Mayor Murphy tried to do at first in 2001. Two things stopped Murphy then: a mayoral challenger who focused on ending the two-rate tax and the fact that assessments are a county function beyond mayoral control. But in 2005, the political fight is taking place at the county level, where power is better aligned to manipulate assessments.

But while it is a part of the story, the innocent bystander explanation is too easy. In all of the debate over assessments and tax rates in 2001, it remains striking that so few clear voices for the land tax emerged. Sullivan, the longtime local champion, said he stayed largely out of the fray. He was burned out, he said, by a long, failed battle against public

subsidies for a new ballpark and football stadium and unwilling to back Murphy, who had championed the stadium projects.⁷¹

But Sullivan argues that “the biggest problem is there is no vested interest for land value taxation. “The construction unions don’t care about it,” he said. “They want publicly subsidized construction, because those subsidies mean prevailing wage clauses in the contract, which means it can’t be built without union labor.” As for the owners of high-rise buildings downtown, who had benefited by the lower tax on structures, “The politically prominent ones are often speculators. You can’t get any unanimity from them. Lower income homeowners whose small houses on small lots tend to save under the two-tier tax are tough to organize. Those who pay more, such as the affluent Pittsburgh residents most affected by the 2001 round of assessments, can be formidable in blocking it.” Concludes Sullivan, “Because we never identified a focused, special interest [in Pittsburgh] the land tax was probably eroding for years.”

Allentown

Of all the cities that have adopted land value taxation in Pennsylvania, none can compete with Allentown for the sheer drama that surrounded the policy’s passage there. Approved by voters in April 1996 as part of a city charter change, the land tax came under attack by well-organized opponents who forced a recall vote that stirred up the town, though it ultimately failed. According to former Congressman Patrick Toomey, who was then a local businessman and a prominent land tax supporter, the events in Allentown suggest a key lesson for those with an interest in promoting LVT. Toomey said, “At the end of the day, especially in local politics, you have to have a champion for the cause. You have to have someone who has the belief to get it done.”⁷²

The 1996 passage was actually the second go-round on the land tax for Allentown. The city adopted a two-tiered tax for the first time in 1916. But under pressure from large land holders, city council repealed it after just one year.⁷³ In the 1970s and ‘80s, the land tax found a champion again in Benjamin Howells, Jr., a longtime city council member and devotee of Georgist thought. Howell got the land tax passed seven times in council, only to see it vetoed by the mayor. In 1982, for example, after Howells got council approval, a Mack Truck executive threatened the company might relocate if the land tax held and representatives of the Allentown Fair Grounds, a 43-acre tract right in the center of town, said the tax might force them to close.⁷⁴ As it happened, the last two land tax vetoes came from Mayor Fred Dadonna, who was himself a shareholder in the Fair Grounds.⁷⁵

Meanwhile, Allentown, like other aging rust belt cities, was declining. With area steel mills and factories shutting their doors, jobs were vanishing and the tax base was eroding. In 1982, singer Billy Joel made the city the emblem of America’s dying industrial towns with his hit song “Allentown.” By 1994, Allentown, whose downtown for a number of years featured a shuttered department store, was ready for change. A group of civic leaders decided what the city needed was a Home Rule Charter, which would allow the community to make a number of self-governance decisions including deciding on the kind of taxes it deemed best. Toomey, who was active in Republican politics in the

county, was elected to the Allentown Government Study Commission and was tapped to head the committee charged with overseeing the tax and revenue sections of the proposed charter.⁷⁶

Through the influence of Howells, the pro land tax councilmember, Joshua Vincent—then at the Henry George Foundation and now executive director of the Center for the Study of Economics (CSE)—came to Allentown to talk about LVT.⁷⁷ The “Johnny Appleseed” role played by Vincent and his predecessor, Steven Cord, is evident in cities throughout Pennsylvania. The files of CSE are full of correspondence and expert testimony provided to dozens of municipalities in the Commonwealth and other states, and both men are well-known to local government officials statewide. (A brief inventory of these files is provided in the appendices to this report.)

“It appealed to me immediately when I was first introduced to the idea and then I read the works of Henry George,” said Toomey, who would go on to win election in the House of Representatives and now heads The Club for Growth in Washington. “[The land tax] just fits into the framework I believe in, that when the government creates incentives and disincentives, it matters. The conventional way of taxing really creates a disincentive for development because if you improve your property you get an increase on your taxes.”⁷⁸

Toomey soon proposed including the land tax in the charter,⁷⁹ and with the local paper editorializing in favor of the idea,⁸⁰ the Charter Commission eventually voted to include a gradual five-year shift to a split rate tax of 35.6 mills on land and 7.38 mills on buildings.⁸¹ According to an informal history written by CSE head Joshua Vincent, there was little public comment in the days leading up to the vote on the newly crafted charter.⁸² With its funds limited by City Council the Commission had been unable to publicize its efforts.

Virtually all of the limited public discussion of the land tax was positive, including newspaper features and opinion writing. But a preview of the opposition that was to surface later came two days before the election when two member of City Council held a news conference denouncing the proposed Charter changes. Besides being disgruntled that it would ax Council’s automatic pay raises and require members to pay for health benefits they also warned that “the land-value tax would force supermarkets, car dealers, restaurants and other businesses with large lots to pass an increased tax onto their customers or flee the city.”

Still, on April 23, 1996, the new Charter was approved by voters in a 3, 977 to 2, 605 vote. “Pat Toomey got it through,” said Howells. “I’d sensitized people to the issue. But Pat included it in the new charter for the city and the people accepted it.”⁸³ After the election, though, a number of city officials began expressing their disfavor. Rumblings of discontent came from members of City Council, the City Solicitor’s office and the Assessor’s Office, which first said no split assessments for land and buildings existed, and then said they did have them but they were not useable.⁸⁴

By January, City Council's Legal and Legislative Committee had put on its agenda a motion to put the land tax back on the ballot for repeal. Though the charter included a provision that would allow the tax to be changed after five years, if it proved unworkable, the same council members who had called that pre-election press conference to criticize the Charter and, particularly the land tax, insisted that a vote take place during the May primary.⁸⁵ In February, Council met in full session on the repeal vote question. According to Vincent's account of the meeting, management and shareholders of the Fair Grounds, along with several car dealers, whose large lots meant higher taxes under the split rate, were there in force to argue that the voters had had no idea what they were voting on when they'd approved the measure.⁸⁶ Despite objections from land tax supporters that no public education effort could be mounted in so short a time, the decision was made to put the land tax up for a repeal vote in May.

"I didn't fully anticipate it," said Toomey of the surge of opposition. "But I should have. It's like anything else. When the government changes the rules there are winners and the losers are going to scream. And so they screamed."⁸⁷ In the ensuing months, Howells and Toomey, with the help of Joshua Vincent, mounted a campaign to save the land tax. Also pitching in was a Councilman Dennis Cramsey, sitting councilperson Frank Concannon, as well as some of the staff of then-mayor William Heydt, who, though not a land tax partisan, believed the original vote should be respected.⁸⁸

Vincent toured the offices of city officials to make the case for the land tax and he and Howells appeared on a local public affairs show to debate a used car lot owner and Bonnie Brosious, the P.R. director for the Allentown Fair Grounds, who described the Henry George Foundation as "way-out" and suggested Henry George had Communist leanings.⁸⁹ Brosious argued that businesses needed open land and that the land tax would make it impossible for them to do so. When Howells and Vincent appeared live on another local show, the aptly named "Lehigh Valley Crossfire", the producers said they had never seen such a response from phone-in callers.⁹⁰

The land tax opponents, calling themselves The Committee to Save Allentown Land, bought television and radio time to promote their views, put up billboards and placards and ran newspaper ads. One of the ads suggested that increased land taxes would prevent local businesses from being competitive with surrounding communities and would "result in their moving out of Allentown." It also claimed, falsely it turned out, that churches and were not exempt from the land tax, and pleaded: "Allentown children need backyards to play in, not high-rise buildings and parking decks."⁹¹

Though some support money for the repeal campaign came in from state-wide car dealers' associations, according to Howells, it was those with an interest in the Fairgrounds, which runs the annual Allentown Fair each summer and hosts trade shows and exhibitions throughout the year, who were mainly behind the protest. "It's a closed corporation," said Howells of the non-profit owner of the site, The Lehigh Valley Agricultural Society, which has always elected to pay local taxes, a move which exempts the organization from opening its books for public scrutiny. "They only invite people

with some influence [to be shareholders]. I don't think it's a big return. There are scattered privileges, like getting the best seats for shows."⁹²

"Having that debate really helped crystallize what this is all about," said Toomey about the fierce fight over the land tax. In the early stages of proposing the split-rate tax as part of the Charter, Toomey responded to hand-wringing by Fair Grounds officials with a suggestion that the impact of the tax could be softened by exempting Fairgrounds land that was open as a public thoroughfare through the town. But later his view of the situation toughened.

"The fact is," said Toomey, "the Fair Grounds represents this huge underutilized piece of real estate that could be put to higher use in a city like Allentown. If the consequences were as dire as they predicted and they were forced to sell the Fairground, which would probably have been an optimal result. It would mean more buildings, more jobs, and more taxes."⁹³

As the campaign heated up, the land tax supporters, who got help in getting their message out from out of town "Georgists" who leafleted the town and manned phone banks, saw public opinion growing in favor of the policy. "Citizens we had never met wrote letters to the editor supporting the idea of the land tax, including the issues of morality and justice," wrote Vincent, who believes the heavily promoted repeal campaigning may have had an unintended consequence. He believes that a perception that "special interests" were pushing the repeal may have helped the land tax garner more votes in the end.

But Howells thinks the pro-land tax forces also made strong arguments. "We said, you don't want to penalize the people who make improvements, you want to penalize the people who don't. We said It's not instantaneous. Slums won't disappear tomorrow, but if you want valued improvements, if you want to get rid of slumlords, you adopt the land value tax."

As it turned out, the land tax vote became the dominant issue in the Primary, with talk of the tax coming up again and again in candidate's forums. On Election Day, the opposition hired an airplane to fly over the city with a banner reading "Dump the Land Tax." Despite those efforts, the land tax prevailed, winning 4,941 to 3,955.

"Where a champion of land value tax can find traction in a city like Allentown is in the fact that most homeowners save with the policy," said Toomey, who continued championing the land tax as a congressman, writing letters of encouragement to municipalities considering the switch. (In a 2000 letter to officials in Lebanon he wrote that the number of building permits in Allentown had increased by 32 % since passage of the land tax.)

"But it's still hard to sell it," he said "People are always skeptical." And as a constituency, homeowners are hard to organize. Also, the savings they'll see under the land tax are relatively modest, pointed out Toomey, while the increases experienced by

an entity such as the Fairground are substantial—enough to inspire efforts to thwart the policy.

While Allentown as a whole seems to have made peace with the land tax since the repeal vote failed, the Fairgrounds has not. Bonnie Brosius, the group's PR director, who editorialized against it and debated Howells and Vincent before the vote, still takes issue with the policy. She says the Fairgrounds taxes have risen 137% since the land tax came in. "People threw tea into the harbor for less," said Brosius, who would not give a dollar figure but who was quoted in a newspaper article after the failed repeal vote opining that the land tax would add \$72,000 to the Fairground's tax bill by end of the five year phase-in.⁹⁴

While the Fairgrounds remains in the black—only registering a loss for the first time in 2003 thanks to rainy weather during fair week—the higher taxes, she said, have meant the Agricultural Society will have to defer maintenance on buildings. "The land value tax was developed for these big barren pieces of land that these moguls were leaving undeveloped for years. But we're an agricultural society with a dedicated mission of promoting agriculture through the fair. This city has so many troubles the land value tax has done nothing to help. But to hurt an institution like this..."

Despite the Fairgrounds organization's continuing animosity, William Heydt, who had stepped out of politics and is now running for mayor again against incumbent Roy C. Afflerbach, sees no prospect of another attempt at repeal in Allentown. Heydt, whose campaign has come down hard on the incumbent's role in creating a budget deficit that is expected to rise to \$11 million in five years if spending is not reduced and new funding streams found, said, "Seventy six percent of people paid less in property tax at the end of my term." While Heydt can't point to any significant example of where the increased land tax encouraged development of an underutilized parcel of land, that may be, he said, because the burden isn't onerous enough. For the average resident though, the land tax has been a boon. "We have a lot of senior citizens in town on a limited income and for them it was extremely beneficial. If someone were to bring it up as a political issue again, they would have to be pretty stupid."⁹⁵

Harrisburg

When Harrisburg's City Council first voted to shift to a split-rate property tax in 1975, the town was in desperate straits. In June 1972, Tropical Storm Agnes had dumped nearly 18 inches of rain in some places in the area, causing the Susquehanna River to surge over its banks. Entire neighborhoods were flooded in Harrisburg, the state's capitol. Some were virtually destroyed. Official damage estimates in the Susquehanna Valley were put at \$2.1 billion at the time.

In the aftermath of the storm, the federal government moved in to help with a relocation grant program. But that aid effort had unintended consequences for the town, according to Harrisburg Mayor Stephen R. Reed, who as a 21-year-old helped man a rescue boat

during the storm and saw a woman drown on a downtown street. “Over a third of Harrisburg was eligible for assistance, and those grants made it possible for many residents and businesses to leave the city,” Reed said in a 2002 magazine article.⁹⁶ “Entire neighborhoods that were 85 percent owner-occupied prior to 1972 ... overnight became 85 percent vacant or low-cost rentals. Slum lords, elevated crime rates and blight are costs we continue to pay in some neighborhoods as an indirect result of Agnes.”

According to Napoleon Saunders, Reed’s longtime business administrator, now retired, the storm’s effects accelerated a pattern of disinvestment that had begun in the 1950s. “You can trace it back to *Brown v. Board of Education*,” Saunders said, citing the 1954 Supreme Court Ruling that propelled the desegregation of public education and set off white flight in many cities. “As time went on and people started moving we saw block busting coming in, with realtors saying, ‘Oh, those folks are coming.’ You better sell now before your property value goes to pennies. After the flood, when they offered incentives to move out, that played right into the hands of those who didn’t want to go to desegregated schools.”⁹⁷

Saunders continued, saying, “We had speculators coming in turning properties into apartments. And they would just let them run down and then run away. The pattern was buy, blight, abandon, and declare bankruptcy.” Between 1950 and 1970, Harrisburg lost more than 20,000 residents, many of them to the newly developing suburbs. In that time the surrounding region added more than 90,000 people. By 1980, the population had shrunk by another 14,000, while the region had gained nearly 40,000. Current population is 48,950, which is 45 % decrease from the 1950 peak.

Saunders credits then-Harrisburg Mayor Harold A. Swenson for introducing the idea of land value taxation as a way to encourage development and hinder speculators. “It was basically done without a lot of fanfare,” said Saunders of the shift in 1975 from a system that levied 16 mills on both land and buildings to a split rate of 17 mills on buildings and 23 mills on land. A correspondent writing in a 1975 issue of *Incentive Taxation* newsletter had this to say about the climate in the city surrounding the change: “City officials report that this modest application of the Graded Tax has been well received by the taxpayers. ... There were almost no complaints ... Officials also report that an owner of an industrial park had left half of his acreage undeveloped for years but now has decided to improve it, in large measure due to the increased land tax.”⁹⁸

Two years later, the city shifted even more of the property tax onto land, approving a rate of 29 mills on land and 16 mills on buildings. The Winter 1977 issue of *Incentive Taxation* again reported that there were no objections voiced to the change. This time it quoted Councilwoman Miriam Menaker, the chair of the budget committee as saying, “The reduction in the tax on improvements will encourage maintenance and improvements on property, one of the major goals of the city’s housing rehabilitation program.”⁹⁹

But Harrisburg’s challenges remained formidable. By the time Stephen Reed became mayor in 1982, Harrisburg was ranked as the second most distressed city in the United

States. It had 4,200 vacant structures and countless empty lots where buildings had once stood. Reed embraced the land tax as an important tool in battling blight, gradually increasing in three increments the land to building ratio to 6:1, where it stands now. The longest running mayor in the city's history, Reed has been re-elected five times and is widely credited with engineering a renaissance for Harrisburg.

Since 1982, the city has recorded 30,429 building permits that represent over \$3.46 billion in new investment in the city and an 85 percent reduction in the number of vacant properties. Among those investments: a \$30 million office complex, an 18-story mixed-use tower, and a development of 200 market-rate homes in the Capitol Heights neighborhood. The value of taxable real estate has risen to over \$1.6 billion, despite the fact that 47 percent of the land, because it is tied to state, county or non-profit entities, cannot be taxed. By the end of 2003, the city had 6,951 businesses on its tax rolls, the highest number ever recorded and a vast jump from the 1,908 that existed in the early 1980s.¹⁰⁰

Reed, who has described the land tax as “a reward for initiative and private investment risk,” and “a way to discourage speculation by irresponsible absentee owners,” has become a tireless proselytizer for the land-value tax policy, dashing off letters promoting its value to any municipality that expresses an interest in the idea. In 2003, he wrote an open letter to Philadelphia City Controller, Jonathan Sidel that declared the land value tax key “to a significant amount of new investment” in the city. But, he cautioned, though attracting taxable real estate investment without it would be difficult, “the land-value tax policy is not a cure-all.” The policy should, he said, “be part of a package of other incentives, which include various low-interest loans, the availability of low-cost vacant land, tax abatement, and the like.”

Some observers contend that Harrisburg is not a good example to hold out regarding LVT's potential. A factor in the city's success that can't be replicated, they say, is Reed himself, an energetic, single-minded leader whose entire life for the past 23 years has revolved around running the city. “Mayor Reed is not your normal mayor,” said Robert Kroboth, Reed's business administrator.¹⁰¹ “He is an outstanding leader. He's tenacious. He's smart. He loves politics and he loves his city.” Still, said Kroboth, “For an urban center, the land tax is crucial and I can't imagine the concept not being effective as long as it is in place as part of a package of incentives and you do a good job explaining why people are better off.”

York

In York, land value taxation has come up for discussion many times over the last 30 years. Four different mayoral administrations have considered the idea. City council members have looked into it too. Yet in all that time the land tax has never moved beyond the talking stage. Despite the examples of nearby Allentown and Harrisburg, where the concept has been adopted, and a series of analyses offered by land tax

advocates showing that shifting taxes from buildings to land could benefit York, no mayor or council person has ever officially proposed the plan.

It's not surprising that so many city leaders should be casting about for new ideas for York, a town whose rich history includes a Revolutionary War-era stint as a meeting place for the Continental Congress. Like so many other older cities in the U.S., York has been suffering a steady decline for decades. White flight, accelerated by violent race riots in 1969, has helped drain the city of much of its middle class. Between 1970 and 2000, York lost almost 19 percent of its population. Now a city of just over 40,000, more than 40 percent of York's residents are minority. With a per capita income of \$13,439 in the city, nearly a quarter of York's citizens live below the poverty level. Some estimates put the number of working poor residents (above the poverty line but still struggling) at 70 percent. Home ownership has fallen too. Just 46.8 percent of York residents own their own homes—far below the 71 percent rate for Pennsylvania as a whole.

As people and businesses have left York, property taxes have climbed. York, the county seat, now has a municipal real estate tax rate more than double that of all the other boroughs in York County. The town's school taxes are the highest in the county as well. Still, the school board was forced to make major personnel and program cuts for the coming school year thanks to budget woes. Violent crime is up in the city, which has seen 11 murders this year. And 200 structures in the city are so deteriorated they are on a list to be demolished. Meanwhile, the surrounding county is booming.

“People are coming from Baltimore, buying properties in York County and paying exorbitant prices, and developers are putting up houses on what used to be farms,” said William Lee Smallwood, a York city councilman for 24 years.¹⁰² “But York city is isolated in the county. We have the highest percentage of minorities and the highest poverty.”

Through those years of municipal erosion, advocates of land value taxation have steadily promoted the land tax in York as a way to help return prosperity to the city. While they have regularly caught the ear of York's leaders, they haven't been able to inspire action. A chronicle of York's long dalliance with LVT can be found in a thick file housed at the Philadelphia office of the Center for the Study of Economics. (CSE) A sister organization of the Henry George Foundation, the group's mission is to help governments adopt the land tax and to study its effects. The CSE file begins with a 1974 correspondence between Prof. Steven Cord, then head of a predecessor organization to the CSE, and Mayor John D. Krout. In his missives, Krout welcomed a visit from Cord “to work out the mathematics of a graded tax,” promised to introduce the idea to city council, and later cryptically declared that he was hoping for “some movement” on the issue. Despite subsequent entreaties from Cord, in 1975, urging Krout to introduce the tax shift, it never happened.

By 1978, it was Mayor Elizabeth Marshall who was meeting with Cord about LVT, and inquiring about the cost of a feasibility study. In 1983, it was Mayor Bill Althaus who was taking a look. This time though, the idea seemed to find a true champion in Althaus's

community development coordinator A.L. Hydeman. Hydeman managed to make LVT the subject of a front page article in the York Sunday News. The October 1983 story, one of the only substantial discussions of the subject to appear in the local press, described Hydeman as “an ardent supporter of the Georgist concept.”

The reporter also quoted Hydeman’s ringing endorsement of the idea that shifting the bulk of property taxes to land instead of buildings could compel owners of empty lots or run-down properties to build or renovate. Said Hydeman, “Encouraging landowners to make improvements or make their land more productive would promote continued, stable, economic growth and would likely create more jobs too.” Yet, just one month later, Hydeman wrote to Cord to say that a “severe short fall on revenues” had put any plans to change the city’s taxing procedure on hold, and asked that he try to understand “the political reality.”

Cord maintains he could have made the case for the land tax if he’d just had the chance to explain to city council members how they could get the revenue they needed with a split-rate tax. Said Cord, “The best reason York never acted was this: I never testified before Council.”¹⁰³ But a decade later “political realities” again stymied another effort by land tax advocates, this time led by CSE head Joshua Vincent. Throughout 1994 and 1995, Vincent worked to persuade the administration of Mayor Charles Robertson, a former police officer who would be indicted at the end of his second term for his alleged role in the death of a woman during the 1969 riots. Vincent ran informational sessions for city council, lobbied city officials and calculated how property would be affected in York. Since most houses in York sit on very little land, most homeowners, he estimated, would see taxes reduced.¹⁰⁴

But again the land tax was rejected. “It was definitely something I found personally intriguing and I felt convinced that the policy basis for it was sound,” recalled R. Eric Menzer, who was Robertson’s director of economic development and the point person on the land tax question. “There was a lot of interest from policymakers, it wasn’t like they were saying we won’t touch it with a ten-foot pole. But what I recall is that the data in York showed the potential benefits were small. Every time you change the status quo, someone is not going to be happy. You can’t reduce taxes on some without raising them on others. I think people did the political calculation that they were not willing to take on the griping and complaints that might go on.”¹⁰⁵

Vincent sees another element in city leaders’ resistance to land value taxation. “The mantra in Pennsylvania is that managing a city means managing decline,” he said. “The idea that you could do something different is strange.”¹⁰⁶ Menzer, who left city government in 2001, acknowledges he has meager hopes for York’s future. “The reality is that there is virtually nothing you can do with a small city like York, which is totally built out, with a static tax base and no ability to expand. It’s impossible to be successful. You can only be less worse off.”¹⁰⁷

Matthew Mann, an independent candidate for mayor in York’s upcoming election, has his own theory about why land value taxation, though much discussed, has never been

adopted. "I think the main problem in getting the land tax done is that big power players who own most of the property don't want it," said Mann, a Green Party member who is making land value taxation a central issue to his campaign, just as he did during two earlier runs for a city council seat.¹⁰⁸ "For example, we have a state representative who is very influential in city politics who owns a car dealership in the city and car dealerships tend to pay more under a land tax. Of course, that's not what they'll tell you."

Smallwood, the longtime city councilman, agrees with Mann's assessment. "I call them the bluebloods," said Smallwood.¹⁰⁹ "They're the movers and shakers of the county, the money people, and they control everything that goes on. In many instances, some of them have held onto land that was plausibly developable and did nothing with it for years." Shifting the burden of taxes to land, would not serve their interests, said Smallwood, who alleges that these same power brokers have had such close ties to most of the city's mayors, they've been able to quietly quash any move toward a land tax.

And trying to build popular support for the land tax in York has been no easier, said Mann.¹¹⁰ "People just get intimidated when you talk about taxes and rates. And they're always skeptical about it. I can tell them to go and read this report [about land value taxation], but few will, and even if they do they still think, He's just making it sound good. There's got to be a catch."

Michael O'Rourke, York's business administrator, has sat through several presentations on the impact of land value taxation conducted by representatives of the Henry George Foundation, as well as Napoleon Saunders, a former city administrator in Harrisburg, but is so far unswayed. "I am not yet convinced that it would have any kind of beneficial impact on the city," O'Rourke said of the land tax.¹¹¹ "I have not seen any examples in Pennsylvania where it has had a dramatic turnaround effect. And one of the things that is touted as a benefit is the development of vacant land, but we don't have much vacant land. [Another] example that is give a lot is that low income folks in certain areas will get a tax reduction, but who then is picking that up? A lot of the time it is the people who are already picking up a majority of the tax burden. That's a concern. If the tax goes down in areas of the city where there are large valuable improvements, the real estate tax burden has to go someplace."

The subject of taxes, though, and how to spur revitalization in the city are certain to be central issues in the upcoming mayoral race. Incumbent mayor John Brenner, a Democrat, has emphasized downtown development and touts the construction of a new court house and a commerce center, the expansion of the town's performing arts center, and the arrival of several new restaurants in the formerly moribund city center as a sign of changing times for York. But Brenner barely squeaked through the May primary, winning by just 234 votes against challenger Jeffrey Kirkland, the head of the school board.

In the Summer of 2005 Kirkland, a Democrat, made an unusual move that is sure to put even more pressure on the incumbent. He announced he was backing the Republican candidate for mayor, Gerry Turner.

While Brenner's administration has shown no interest in the land tax, Turner, a retired management consultant, believes the idea might be a useful tool for York. "I am very interested in it," said Turner.¹¹² "Our tax base is declining and the collection rate has gone down. From what I understand a land tax can help foster growth. I like the idea that you would not be penalized for fixing up your property. That just encourages people to leave it alone or abandon it, or go out of the system and not get a building permit at all. People are being taxed out of their homes in York. We need to put everything on the table."

Should Turner be elected, he could find support on city council for LVT. Smallwood was one of the people instrumental in bringing Joshua Vincent to town in the Summer of 2005 to school city leaders on the concept. Council vice president Vicki Washington said she is open to the idea as well. Both Smallwood and Washington take a dim view of some of the current mayor's economic development efforts, especially his backing of a \$27 million minor league baseball stadium in the city. "One of the concerns is that they are trying to justify taking people's homes to build it," she said. "And the owners don't want to pay taxes at the assessed value of a ball park. They want to pay on what the land is worth now." Said Washington, "We can't keep using property taxes the way we have. I think the land tax is something we need to look at."

Conclusion

These case studies do not and were not designed to provide definitive conclusions. Instead, I am hopeful that these detailed documentations of debate and decision making in four Pennsylvania cities may provide some real-world insight into the future research on LVT empirical impacts and policy design. These local cases are highly particular, as revealed in the extensive quotations we have made from interviews and the extracts we have drawn from archival materials. These are narratives of particular people in particular places making particular decisions. The strength is the weakness in this kind of method.

The main deliverable in this project is the attempt to provide a definitive narrative of LVT policy making in these four places. Beyond that, I am willing to offer three tentative conclusions. First, the kind of analytic support offered by advocates such as CSE can help set the table for local debates. There are real economic interests at stake on this issue, and careful assessments of who wins and loses are important. Absent careful assessments, speculative assertions will be made that fill in the gaps. While an analysis of impacts deriving from LVT proposals never seem to settle debates, they inform them in ways that focus attention on real concerns and, potentially, lay the foundation for how winners might compensate losers. Second, this kind of analysis can be swept away in the heat of a larger political campaign. The other side of the analytic coin is that complexity makes it difficult sustain an informed debate about LVT when other, simpler issues are under discussion. Third, the fundamental issue in LVT ultimately implicates bedrock ideas about property ownership. Local decision makers are perhaps reasonably loath to address those fundamentals. They have their hands full just in authorizing and managing a two-