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COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING
COMMITTEE OF THE WHOLE

- - -

Room 696, City Hall
Philadelphia, Pennsylvania
Tuesday, April 29, 2003
10:20 a.m.

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RESOLUTION 020509 - a Resolution authorizing the Council Committee of the Whole to hold hearings on real estate taxation in Philadelphia and the potential of land-value taxation to encourage development and discourage blight creation in the city...

- - -

PRESENT:

- COUNCIL PRESIDENT ANNA VERNA, Chair
- COUNCILWOMAN JANNIE BLACKWELL
- COUNCILMAN DARRELL CLARKE
- COUNCILMAN DAVID COHEN
- COUNCILMAN W. WILSON GOODE, JR.
- COUNCILMAN ANGEL ORTIZ
- COUNCILWOMAN BLONDELL REYNOLDS BROWN
- COUNCILWOMAN MARIAN TASCO

- - -

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I N D E X

	PAGE
RESOLUTION 020509	
JONATHAN SAIDEL, City Controller	3
ED SCHWARTZ, Tax Reform Commission	9
DR. ROGER MCCAIN, Drexel University	45
BRETT MANDEL, City Controllers Office	50
JOSHUA VINCENT, Center for the Study	56
of Economics	56
JOHN KROMER, SR., Fels Center	87
FRANK CONCANNON, Controller of Allentown	104
DAN SULLIVAN, Henry George School	111
CARTER MURDOCH, National Assoc. of Realtors..	135
REV. BRUCE EDWARDS, Urban Leadership Council.	141
NAOMI ZASLOW, HAPCO	147
KEVIN MAZZUCOLA, Automobile Dealers Assoc....	149
SANDY SORLIEN	155
CHRISTINE SCHWARZ	158
FRED MURPHY, Center City Residents Assoc	162
CHRIS PATUSKY, Fairmount CDC	172
JOANNE BEACH	175
ED GOPPELT	177
KATHY HARRIS	189
ANDREW HOHNS	197
ALBERT HARTHEIMER, The Center for the Study	
of Economics	208
STEVEN CORLEY	217
WILLIAM CHECK	218
JOAN SAGE	219

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COUNCILWOMAN VERNA: Good morning, everyone. This is a public hearing of the Committee of the Whole regarding Resolution No. 020509.

I would ask Mr. McPherson to please read the title of the resolution.

MR. MCPHERSON: Resolution 020509, a Resolution authorizing the Council Committee of the Whole to hold hearings on real estate taxation in Philadelphia and the potential of land-value taxation to encourage development and discourage blight creation in the city; and, further authorizing the Committee to seek advice and recommendations on real estate tax policy and land-value taxation from citizens, community groups, economists, academia, business executives, officials from other jurisdictions, and state legislative and executive branch officials.

COUNCIL PRESIDENT VERNA: I believe Jonathan Saidel is our first witness, the City Controller. Please approach the witness table. Good morning. Please identify yourself for the record and proceed with your testimony.

MR. SAIDEL: Jonathan Saidel, City Controller.

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I come before you today to offer testimony on resolution 02059, which seeks to explore the potential of land value tax action to encourage development and discourage blight creation in the City. I applaud Councilwoman Blackwell and all of City Council for focussing attention on this worth I issue.

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As you know all too well, this past summer, homeowners across Philadelphia received notice that their real estate taxes would increase because of a change in the market value of their homes. Like you, I was upset to see so many neighbors and seniors angrily complaining that their taxes have increased by more than 100 or even 200 percent. Then, as now, I argue that we must fix our system of real estate valuation to ensure fairness, transparency, and certainty. But despite a number of legislative initiatives by this Council, tax relief for our neighbors remains elusive.

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As one way to reduce real estate tax burdens for Philadelphia homeowners, we can change how we tax property. As I recommended in my November 2002 Tax Structure Analysis Report, I advocate for a system that will tax buildings less

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2 and tax land more to encourage individuals to
3 maintain and improve their properties. At the same
4 time, such a shift will discourage speculation and
5 blight by decreasing incentives to allow buildings
6 to decay. Based on my analysis, such a system would
7 reduce real estate taxes on nearly 80 percent of
8 residential property owners. Similar systems in
9 Harrisburg and Allentown have reduced abandonment,
10 encouraged development, and generated popular
11 approval.

12 At the end of the day, I hope to convey
13 a few simple points. First, land value taxation is
14 property tax relief for Philadelphia. While we have
15 and will continue to reduce the wage tax and
16 business taxes, land value taxation will bring
17 relief to neighborhoods hit by August's
18 reassessments. My proposal is to decrease the tax
19 on structures and increase the tax on land so that
20 Philadelphia could generate an equal amount of
21 revenue from the tax on land and the tax on
22 structures instead of the current situation where
23 three quarters of real estate taxes are generated by
24 the tax on buildings. My estimate, confirmed by a
25 research team from Drexel University, is that such a

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2 change would decrease real estate taxes for almost
3 80 percent of Philadelphia homeowners. Like a
4 universal tax abatement, this tax shift would reduce
5 taxes for those who are maintaining and improving
6 their properties.

7

8 Second, the proposed shift to land value
9 taxation would be revenue neutral as the shift to
10 land value taxation would shift taxes from buildings
11 to land while generating the same revenues. Under
12 my proposal, the School District and the City will
13 receive the same amount of taxes they do now. In
14 the future, if the tax base expands, School District
15 and City revenues should increase accordingly.

16

17 Today, I will present a number of panels
18 who will address the merits of land value taxation.
19 You will hear from experts and economists that taxes
20 on land value are less troublesome than taxes on
21 wages or business and that land value taxation can
22 reduce residential property taxes, fight flight, and
23 foster community development in Philadelphia. You
24 will hear from City officials that land value
25 taxation is encouraging development and improving
neighborhoods in other jurisdictions without stress
to revenue collection bureaucracy. You will hear

1
2 from business leaders that land value taxation make
3 sense for businesses in Philadelphia. Finally, you
4 will hear from a parade of representatives from
5 neighborhood organizations and ordinary citizens
6 that land value taxation can help revitalize
7 neighborhoods across Philadelphia.

8 I hope you will find these panels to be
9 enlightening and educational, and I encourage you to
10 satisfy any questions you might have about land
11 value taxation by posing those questions to these
12 panels of experts. Staff from my office will remain
13 in these Chambers to aid you in inquiry in any way.

14 I have long believed that land value
15 taxation makes sense for Philadelphia and I am
16 pleased to see that so many individuals and
17 organizations are here today or represented today by
18 written statements to urge this Council to introduce
19 and approve legislation to make this policy a
20 reality.

21 I have long advocated for business tax
22 reductions and I've even marched on City Hall for
23 wage tax reductions, and I'm happy to report that
24 these tax reductions improved the City's business
25 climate and dramatically closed the gap between

1
2 Philadelphia employment growth and US employment
3 growth. As the City's current Five-Year Plan
4 reports, before our tax cut program, the gap was 3.4
5 percent. But since the tax cuts, the gap has been
6 reduced to 1.4 percent. Ongoing business tax and
7 wage tax reductions are working. Now it's time to
8 extend tax relief to productive property owners and
9 enact land value taxation in Philadelphia.

10 Thank you again for turning your
11 attention to this matter. I hope that you will pose
12 your questions to the experts on the panels who
13 should be able to answer any questions you have in
14 greater detail than I could. Again, staff from my
15 office will remain and address any issues you might
16 have about my proposal and that may arise during the
17 exchanges with the panels. I thank you again.

18 COUNCILWOMAN VERNA: Thank you very
19 much.

20 (Applause.)

21 COUNCILWOMAN VERNA: Since we have
22 approximately 52 witnesses who would like to
23 testify, I would ask Councilmembers to refrain from
24 asking questions of the Controller today. We can
25 certainly do so at a later date when we have another

1

2 hearing.

3

4 MR. SAIDEL: Again I want to thank
Council and you, Madam President.

5

6 COUNCILWOMAN VERNA: Thank you very
much.

7

8 MR. SAIDEL: Thank you.
9 COUNCILWOMAN VERNA: We have a number of
10 panelists who want to testify on Panel No. 1. Since
11 we only have three seats at the witness table, I
12 would ask Mr. McPherson to please call the first
three witnesses on the first panel.

13

14 MR. MCPHERSON: ED Schwartz, Dr. Roger
McCain, Josh Vincent.

15

16 MR. MANDEL: Brett Mandel with the
Controller's Office.

17

18 Mr. Schwartz can speak on behalf of the
19 Tax Reform Commission and then the Controller will
present his panels.

20

21 COUNCILWOMAN VERNA: Mr. Schwartz.
22 MR. SCHWARTZ: I have extra copies of
these.

23

24 COUNCILWOMAN VERNA: A Sergeant-at-Arms
will get it and distribute it, please.

25

Good morning.

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MR. SCHWARTZ: Good morning,

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Councilwoman Verna. I am here today as Chairman of

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the newly created Tax Reform Commission that has

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been meeting since January of this year. Our

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charge, by November 15, to produce in writing

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recommendations on how to restructure Philadelphia's

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entire tax system in order to reduce the burden of

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taxation on Philadelphia residents, to make the City

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more competitive, and to provide a better fiscal

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climate for the City for people to live and work.

12

That is our charge.

13

My name is Ed Schwartz, I'm President of

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the Institute for the Study of Civic values in my

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work life, and I've spent a few hours here along the

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way.

17

Given this timetable, the Commission

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itself is composed of 15 people who come from a

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variety of business community perspectives. There

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are 23 people on an advisory committee which

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broadens the organizational base. And so it

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provides an opportunity for a group of people, many

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of whom who have not met each other before but who

24

have been active in various aspects of Philadelphia,

25

to take a good hard look at all of the tax

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2 initiatives that have been proposed and our own
3 notions of what they might be and to see what we
4 think and then to come out and give our best
5 judgment as to what we think ought to happen. We
6 are also required to produce model bills if there's
7 legislation to be produced by this. So that's what
8 we're doing. We're methodically going through a lot
9 of different proposals.

10 We really do intend to give the public
11 some notion of what our recommendations are or might
12 be before November 15th so that there can be at
13 least one public meeting to react to them at that
14 time. So we're not going to wait until the night
15 before November 14th and come out with a surprise
16 package here. The public will be well aware of what
17 we're doing and have a chance to influence us this
18 as it does now.

19 Within this framework, I'm here to say
20 right now, we do not have a firm position on the
21 land tax. This is April, about to be May, and so we
22 have not staked out we're for it, we're against it.
23 But I am here to say that the Tax Reform Commission
24 takes the land tax very, very seriously as a
25 significant proposal for taxes in Philadelphia and

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2 one that could do the City a lot of good. And so we
3 are from the very beginning making the examination
4 of the land tax one of our major priorities.

5 For example, the first public meeting
6 that we had to focus on real estate taxes featured a
7 presentation by Benjamin Howells, a former City
8 Councilman in Allentown who led the fight for land
9 tax there, as well as Josh Vincent whom you will
10 hear from here from the Center for the Study of
11 Economics in Philadelphia. We will be having our
12 own first public meeting as the Tax Reform
13 Commission in this room on May 15 from 1 o'clock to
14 8 o'clock in the evening, and we anticipate to hear
15 additional testimony on behalf of the land tax from
16 groups there.

17 A member of our research staff did her
18 graduate thesis on the land tax, working with Robert
19 Inman from the Wharton school, so one of our staff
20 members have specific and particular expertise in
21 that. And we have a Real Estate Tax Committee on
22 the Commission and we have asked Brett Mandel from
23 the Controller's Office, who sits on the Commission,
24 to Chair that Committee. And of course, Mr. Mandel
25 and the Controller have been, as you've heard,

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2 leading advocates of the land tax.

3

4 So that while we haven't yet taken a
5 position, we have taken a position. At least on the
6 importance of this proposal and the need to
7 undertake this kind of careful analysis of it,
8 because if it works as the Controller described it
9 this morning already, this would be, obviously, a
10 huge benefit for the City of Philadelphia in every
11 possible way.

11

12 What are the issues that we're looking
13 at, and in fact, we had a meeting -- our Real Estate
14 Committee met a couple weeks ago and this was an
15 array of the issues that we felt we needed to
16 examine.

16

17 First and foremost, the land tax is
18 aimed at producing economic development by putting
19 pressure on vacant land and the owners of it to do
20 something, the best use of the land. It contributes
21 in theory to the development of the City. And
22 certainly with thousands of vacant parcels of land
23 in Philadelphia, with speculators and everything
24 else, that's an inviting prospect. So we want to
25 take a good, hard look at the evidence collected by
the Controller and any other on how this might work

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2 for economic development.

3

4 A second issue, however, on the other
5 side is the question of how much of this money from
6 vacant land would be uncollectible. If we're trying
7 to make this proposal revenue neutral so that the
8 amount that we raise by shifting the burden from
9 improvements to land, the overall amount remains the
10 same, what happens if a certain portion of the land
11 that we are trying to tax higher is just not taxable
12 at all? Having spent a number of years of my life
13 dealing with the problem of vacant land in
14 Philadelphia and trying to get ahold of people who
15 own it who don't live here anymore, that to me is a
16 question. It may be a very small portion of it, but
17 we need to look at that.

18

19 But on the other side, the assertion of
20 the Controller this morning certainly has been said,
21 not only by Mr. Saidel, but by a Finance Director
22 Betsy Rivell 10 years ago when I was in the Mayor's
23 cabinet, and that is that we could raise the real
24 estate tax with a land tax and 80 percent of the
25 homeowners of Philadelphia, the residential property
owners, would get reductions in their taxes if we
raise land tax. Well, obviously, that then becomes

1
2 not simply an economic development program, but an
3 important tax relief program for a lot of people.
4 Is that true? Does it work out? The Controller's
5 numbers suggest that it does. We're taking our own
6 fresh and somewhat independent look at it.

7 On the other hand, some taxes will go
8 up. You know, there's no such thing as a free
9 lunch. Whose taxes will go up? And we've asked
10 that question specifically whose taxes go up here?
11 We know that owners of vacant property go up, but
12 there are others who may have more vacant land on
13 their property than improvements. What does that
14 mean and what impact will that have? And do we
15 think that impact is worth the benefits that we
16 would receive?

17 And finally, are there any other public
18 goods that might be undermined by a land tax? Some
19 people, for example, have pointed out that a parking
20 lot is an obvious example of a piece of land if it's
21 located in an economically hot area that might be
22 used economically for a better purpose. Well, that
23 may be true, but we do have parking problems in
24 Philadelphia. So how does that work? How can it be
25 made to work?

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So as I say, there are issues on both sites, but I have to tell you that if we thought this proposal were frivolous or ridiculous or off the table or something, we wouldn't be doing that. We're doing precisely the opposite. We think this is an extraordinary proposal and it needs to be examined with great care and that's what we intend to do.

I would just conclude by saying that last year -- and a personal note. Controller Saidel had a similar day here on the land tax, and members of Council may recall that I came in at that time and said that while it may not be possible for Council to make a fast decision on this, it certainly was a proposal that deserved to be examined very carefully. And I felt 10 years ago when Betsy Rivell proposed this to Council and it was not voted for or taken seriously then, nothing was done ever again to look at it, I thought that was a mistake because I had a high regard for her abilities as a financial manager. So I am now pleased to have an opportunity to contribute to the analysis and discussion of this, and certainly I would say if the presumptions behind the land tax

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2 that have been advanced here hold up to the scrutiny
3 that we provided, I think that -- I can only speak
4 now for myself. I'm certainly sympathetic to it and
5 I would say that the members of the Commission,
6 wherever they're coming down on this, wouldn't be
7 looking at it so hard if we didn't think of this as
8 something that really needed to be given this kind
9 of scrutiny as a possible route to improving the
10 City of Philadelphia.

11 So I thank you for this opportunity to
12 share these views. I will stay and listen to what
13 people have to say. I'm learning a lot from being
14 on this Commission and I hope to learn more.

15 COUNCILWOMAN VERNA: Thank you very
16 much.

17 (Applause.)

18 COUNCILWOMAN VERNA: The Chair
19 recognizes Councilman Clarke.

20 COUNCILMAN CLARKE: Thank you, Madam
21 President.

22 Good morning, Mr. Schwartz.

23 MR. SCHWARTZ: Good morning, Councilman.

24 COUNCILMAN CLARKE: Mr. Schwartz, I just
25 wanted to ask you a couple of questions or ask for

1
2 you to investigate some issues that we wrestled with
3 during the course of our NTI proceedings,
4 particularly with respect to vacant land. As you
5 know, being a former Councilperson and being
6 involved in the Institute of Civic Values, one thing
7 that we don't have a shortage of in Philadelphia is
8 vacant planned. One of the things that I'd like you
9 to look into is the percentage of vacant land
10 particularly extremely underutilized, because to
11 some degree some people don't consider parking lots
12 underutilized. But we have a lot of land that are
13 creating blighted conditions in our community, and
14 I'd like to really focus on that.

15 And also our ability to collect the tax.
16 One of the concerns that I have, while we may
17 increase the level of taxes on underutilized, i.e.,
18 vacant land, the reality is that our ability to
19 collect any revenue from that vacant land in the
20 past has been spotty, at best. And simply imposing
21 an additional penalty on that property owner, I'm
22 not sure that we'll get that additional revenue and
23 I don't know if you recall I actually introduced and
24 got passed a bill around two years ago. It was
25 called the non-utilization tax. And at that

1
2 particular time, the Revenue Commissioner indicated
3 that there would not be an increase in revenue
4 simply because the amount of land that we wouldn't
5 get additional revenue from as a result of our
6 inability to collect that tax would offset any gains
7 in any land of landlords or property owners who are,
8 in fact, willing to pay.

9 So in your deliberation, in your
10 analysis as a member of the Tax Reform Commission,
11 could you look into that? Because that's very
12 important.

13 MR. SCHWARTZ: Well, you'll notice, in
14 fact, in the second of the issues that I raised in
15 my comments here was that issue, and it does reflect
16 my own experience with this going back 30 years.

17 You bring up your ordinance. I will
18 remind the Council -- some of you were here then --
19 that in 1981, then Councilman the late John Anderson
20 introduced at my behest -- this was my idea. He
21 introduced it, but I brought it to it to him.

22 COUNCILMAN CLARKE: And I must admit,
23 Councilman, that I mirrored his bill.

24 MR. SCHWARTZ: I understand. I heard
25 this. So let us share it with everyone because it's

1

2 an instructive experience.

3

4 We were fighting over the fact that
5 thousands of vacant properties were destroying
6 neighborhoods. And at that point we weren't
7 collecting any taxes on them, even the taxes that
8 people owed. So I felt why shouldn't we add a cost
9 for somebody who's owning a property and destroying
10 a neighborhood. So I went to Councilman Anderson
11 and he proposed a vacancy tax, as we called it then,
12 10 percent on vacant land. And the Council passed
13 it.

14

15 The Revenue Department tried to enforce
16 it. It sent out letters. Its records as to who
17 owned what were not terribly good, and I have to say
18 here the problem was not that they couldn't find the
19 people; they did. And the people showed up in
20 Council Chambers en mass, some of them, they didn't
21 want this tax. Some of them were not served
22 properly. And so there began a negotiation over the
23 next two years since the Green Administration at
24 that point wasn't interested in this anyway. And so
25 at some point a court agreement -- and that has
never been enforced. As far as I know, it's still
on the books and now you've introduced it. I

1
2 certainly have asked the current Revenue
3 Commissioner to -- because I've never been in a
4 position to do this even as a Councilman. I want to
5 take a look as to why it wasn't collected.

6 I certainly think that people who own
7 vacant property sitting in neighborhoods not doing
8 anything with it and the very existence of the
9 property is such a blight that we now have had to
10 take a \$300 million bond issue in order to clean the
11 lots and all of that sort of thing. They ought to
12 be paying a higher price. And if a land tax is a
13 way of getting at that, I'd like to be able to do
14 it.

15 I suspect in areas where there's not a
16 lot of economic activity or it's been hard for other
17 reasons, we might have a problem. But in some areas
18 where there is economic activity, then people are
19 just getting off Scot-free and a land tax will put
20 the pressure on them. And the question is how much
21 money do we raise in the process. So, yes, it's a
22 very big concern of mine.

23 COUNCILMAN CLARKE: In your estimation,
24 if we try to set a threshold in terms of the value
25 of the land and implementing such an increase in

1
2 taxes, do you think that would go against the
3 Uniformity Clause?

4 MR. SCHWARTZ: No. We know that -- we
5 wouldn't even be looking at it. It does not go
6 against -- we could pass it tomorrow. The
7 Uniformity Clause only is people in the same
8 position should be taxed the same way. It does not
9 violate the Uniformity Clause. That's why some of
10 the other -- Allentown for a while, Pittsburgh, have
11 done various forms of taxation. It does not violate
12 the Uniformity Clause. There are some other issues
13 out here that might, but not this one.

14 COUNCILMAN CLARKE: Thank you.

15 Thank you, Madam President.

16 COUNCILWOMAN VERNA: You're welcome.

17 Mr. Schwartz, I do believe that another
18 issue that your Commission should be looking at, the
19 City currently uses various incentives to spur
20 development, such as TIFs, abatements, zones, just
21 to name a few. I think you're going to have to look
22 at how the land tax would impact the City's current
23 development strategy.

24 MR. SCHWARTZ: We are. And I was
25 focussing simply on this proposal. Even in relation

1
2 to the real estate tax, there are a lot of other
3 issues we're looking at. At the same meeting where
4 we discuss the land tax, we also have presentations
5 from the Board of Revision Chairman David Glancey
6 and Terry Gillan and Ken Gillan on the whole
7 question of assessments. And really, frankly, the
8 entire charge that we have might be guided by the
9 following proposition: If, in fact, the real
10 impediments to development are the constellation of
11 City taxes which is the core argument of the
12 Controller's tax structure report, that the wage tax
13 and the business tax are really horrendous that we
14 could do some things with the real estate tax that
15 is not as horrendous but ease the burden. That may
16 be if we changed all of these things to be tax free,
17 we wouldn't need as many special incentive programs
18 because we have a tax structure that would be
19 inviting to business as it is. So that's one of the
20 virtues of having the Commission with a charge to
21 look at the whole system is that first we have to
22 come to grips with our attitudes about any
23 particular reform and then we have to see how they
24 connect with one another, which if you do one, the
25 other.

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The Controller's report says if we were to do the land tax, we might even be able to raise the real estate tax because the amount that we could reduce the wage tax and reduce the business tax over all people in Philadelphia would be real winners. That's the kind of perspective that we'll be giving as well as on the various incentive programs.

COUNCILWOMAN VERNA: Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you, Madam President.

I've been very interested in this issue, and Lu before me from the Henry George school of tax and all of that. However, I'm still not -- and some parts of my area, especially in University City, are sold on the idea.

MR. SCHWARTZ: Councilwoman, are sold or are not?

COUNCILWOMAN BLACKWELL: Are. They support having land tax. They support Historic Commission. They support zoning to regulate the heights of buildings. They support a lot of traditional kinds of things. And this is a new idea

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2 and they support this as well.

3

4 I'm trying in my own mind to figure out
5 where I should stand. Let me ask you, and you will
6 specifically appreciate the question. If certain
7 areas in the City become popular to developers or
8 residents and land value increases or what we put on
9 top increases, how will that affect, not only
10 development, but blight removal, and all we're
11 trying to do to enhance neighborhoods? At the heart
12 my question is, if you tax the property more, if you
13 improve and others improve their block or if you tax
14 the land more where people will build, who does it
15 affect? Which is better? And which helps out City
16 most?

17

18 MR. SCHWARTZ: Well, I think the
19 argument for land tax that we are examining is that
20 by putting more emphasis on land, in the
21 Controller's formulation, have the amount of the tax
22 going on land equal to improvements instead of now
23 where it's, I think, 80 or 73 percent or something
24 like that but it's very skewed to improvements,
25 you're putting pressure on those who own vacant
property, often in areas of high economic activity
around it to do something with it, to generate more

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2 income, not sit on it. It's an anti-speculation tax
3 at that level. And that will, in a City that is
4 struggling for development, be very useful.

5 Now, the question really is, if the tax
6 is -- you know, is not the only reason why there's
7 something else that's not happening. Any of these
8 systems depend on other things. You cannot tax
9 people higher and nothing happens. But if we're
10 looking at an overall strategy for improving the
11 economy, would a land tax in effect be an important
12 tool to be used here? So that's really -- is this a
13 powerful tool in conjunction with the other things
14 that we obviously need to do to improve economic
15 development?

16 I believe in the last five years of the
17 '90s, the narrowing of the gap between our economic
18 situation and the rest of the country, I think the
19 tax reduction program played a role. But other
20 things also played a role. So you have to, you
21 know, build a shared strategy to the extent that we
22 can figure that out, we're going to give it our best
23 shot.

24 And I have to tell you -- personally,
25 you know I've been here for a few years now. The

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2 discussions that we are having on these issues at
3 this point in the Commission are among the most
4 intelligent and thoughtful and interesting
5 discussions on these issues that I've ever had since
6 coming here. We have a very good group of people
7 from different walks of life. And now that we've
8 gotten ourselves a little organized, we're down to
9 business here. So we'll give it our best shot.

10 COUNCILWOMAN BLACKWELL: Thank you.

11 One of my other questions, for example,
12 in my area, in University City, our real estate has
13 gone way up. One gentleman is moving who worked for
14 Penn, has two children, he's moving to Baltimore and
15 he hasn't put his house on the market, a row house
16 home. And they want 400,000, he's been offered that
17 from the beginning in the heart of a regular row
18 house block. So properties that maybe a year and a
19 half ago and with the advent of a new school in the
20 area and Penn giving 15,000 per house, the real
21 estate has doubled, tripled. But how will that
22 affect, for example -- how would land tax affect not
23 developing on land. Here we're land locked. So the
24 real estate has become -- real estate value has
25 tripled. How does this figure into that?

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MR. SCHWARTZ: Let me take University City. If you shift the burden from improvements in part to land so it's 50/50, the tax on this person who owns a parcel that might take up the full land will actually drop, not rise. But that will happen -- and you're dealing with it citywide. We don't tax University City particularly. Some of us might want to, but, you know, we don't do that.

On the other hand if there were somebody who owned a big parcel of land, let's say, in Mantua, not too far, sitting on it because he or she's seeing what goes on at Penn and they're going to wait another five years for the appreciation to finally catch up with Mantua so that they can sell their vacant property for 400,000, that person is going to discover a whopping tax increase because now that vacant property not too far from Penn is a lot better used by trying to develop it. So in your area, it would redistribute the tax burden somewhat from those who --

COUNCILWOMAN BLACKWELL: In keeping with that, as you know, we have the Lucien E. Blackwell Mantua Revitalization Project, and we're doing just that in Mantua. We are trying to market and trying

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2 to develop lots all over. We're working on
3 demolition and we've had lots because we've been
4 working on this. And as you know, it's an area that
5 has survived in spite of Penn and Drexel University
6 expansion and the institutions, Penn and CHOP. HUP
7 surrounds it as well as CHOP. And so you're saying
8 -- how will it affect -- you're saying that their
9 taxes could go up and how would it affect the whole
10 issue of blight removal and NTI, in your opinion? I
11 know it's a big question.

12 MR. SCHWARTZ: I think under these
13 circumstances, if you have somebody who owns a
14 vacant parcel in Mantua and right now you're trying
15 to get them to do it and you don't have to go
16 through eminent domain and all the things you have
17 to do that will take two years. Telling that person
18 that they're going to have to pay 50 or 60 percent
19 higher taxes for the privilege of owning that vacant
20 land would be perhaps an additional incentive for
21 them to sell it. I mean, if all of this works as
22 they're talking about -- and your area would be one
23 of them, in fact, where this could work because you
24 do have, in fact, a blighted area next to an area of
25 high development where people are sitting back as

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2 speculators and trying to wait until the price was
3 right. Think of Sam Rapaport in Center City years
4 ago, owned all those vacant properties and blighted
5 properties, et cetera and just sat on them and let
6 them die until everybody else's investment, the
7 City's and whatever made Center City an attractive
8 thing and then he unloaded for a huge profit. But
9 let's say that Rappaport properties really suddenly
10 he's paying a much higher percentage of the land.
11 He's got no improvements on these properties. He
12 would have had much greater incentive at that point
13 to unload those properties earlier and maybe we
14 could have gotten them at a better price and gotten
15 the development done even more quickly.

16 So the areas that are contiguous to
17 development are the ones, I think, that has the best
18 shot of doing this, and there are a lot of them now,
19 obviously, than in an area where you have a little
20 more work to do. But then the strategy it seems to
21 be would be the land tax then becomes a tool -- I'm
22 almost thinking through some of this as I talk. The
23 land tax then at that point becomes a tool to be
24 used to acquire additional land to see the benefits
25 to contiguous land for development.

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So I'm giving you the theory of it. By the time we have our recommendations in September, we will have run, not only the numbers that have been run, but look at it really hard. And I do think we need to look at it as you're asking. What happens in Mantua? What happens in Strawberry Mansion? What happens in Norris Square? What happens in West Oak Lane? You know, those are the questions that we need to ask hard to get a picture of how this really would work.

COUNCILWOMAN BLACKWELL: How do you think this affects revenues dedicated to the School District?

MR. SCHWARTZ: Oh, it would increase them. Well, let me say this, if it works, it's neutral. The point is that you set the amount of revenue that is being collected now and you try to structure the tax in order to be able to collect the same amount. The issue of how much revenue the real estate tax produces is a somewhat different question. Chairman Glancey has been arguing for what he calls a budget based approach to this. The Mariano bill, so-called, that you passed, is consistent with that. You're saying that if the

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2 revenues go up for a certain tax by such-and-such a
3 percentage, then use that additional revenue beyond
4 the 2 percent, I believe in the Mariano bill, to
5 reduce the wage tax. So that's a question of how we
6 structure the overall revenues. But this argument
7 would say that it's revenue neutral for the City, it
8 will be revenue neutral for the School District.
9 The question is whether it works at all, you know.

10 COUNCILWOMAN BLACKWELL: Thank you. My
11 final question is what other issue that's tangential
12 to all of this is if we were to adopt this, how our
13 whole BRT system would be set up, how we would begin
14 to structure it. So we hope that as your Committee
15 meets this summer, you'll consider that as well.

16 MR. SCHWARTZ: We are. That's, in fact,
17 the subject of the first half of that meeting that I
18 mentioned with the land tax, very much on those
19 issues and that's a separate but important
20 consideration. Do we need some radically different
21 way of assessing, conducting the assessments, of
22 giving people appeals? We're looking very, very
23 hard at that. But as I say, the object is to come
24 up with a recommendation that will be balanced and
25 that will be effective and that we can stand on and,

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2 to the best of our ability, say this will benefit
3 the people who live in Philadelphia and benefit the
4 City.

5 COUNCILWOMAN BLACKWELL: Well, I will
6 say that we think you're the man for the job. If
7 anybody can help us it's you.

8 MR. SCHWARTZ: Thank you very much.
9 (Applause.)

10 COUNCILWOMAN BLACKWELL: Thank you,
11 Madam President.

12 COUNCILWOMAN VERNA: Thank you.

13 Mr. Schwartz, I think a couple other
14 Councilmembers have questions for you.

15 Councilwoman Tasco.

16 COUNCILWOMAN TASCO: I was going to ask
17 him how would it impact on a row house residential
18 area that does not have the opportunity for
19 development?

20 MR. SCHWARTZ: Well, we're taxing this
21 citywide. So obviously, if the overall tax revenues
22 go up throughout the City for whatever reason, the
23 Council, over the last two or three years in fact
24 since the wage tax reduction, have been in effect
25 implementing a strategy around that. Revenues have

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2 gone up so we've reduced the wage tax. And in this
3 instance, any revenues that would go up would permit
4 a reduction of taxes. But beyond that, according to
5 the theory, a row house -- I mean, I live in one --
6 uses a sizable portion of the land for a house.

7 COUNCILWOMAN TASCO: I guess my question
8 is, what does it mean --

9 MR. SCHWARTZ: You get a tax reduction.

10 COUNCILWOMAN TASCO: The homeowner gets
11 a tax reduction?

12 MR. SCHWARTZ: Absolutely. That's when
13 the Controller says under the theory that 80 percent
14 of the homeowners in Philadelphia would experience a
15 reduction, it is because our land is largely fully
16 used. So if you raise the amount that the land is
17 being taxed but then lower the amount that
18 improvements are being taxed, then we get a tax
19 reduction.

20 And by the way, Betsy Rivell years ago
21 said exactly the same thing. So we've got two
22 people who have looked at this who have come to the
23 same conclusion.

24 COUNCILWOMAN TASCO: There would be no
25 tax on the property anymore, no longer any tax on

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2 the property?

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MR. SCHWARTZ: There would be -- the
4 Controller's proposal, it sounded more complicated
5 but it really is simple. If you look at right now
6 there is a proportion that is devoted to
7 improvements and a proportion that's devoted to
8 land. And they can share the exact number, but it's
9 like 80/20. All they do here is simply raise the
10 amount that's devoted to land to 50 percent. So you
11 now have 50 percent. But at this point, if your
12 improvements are largely taken up the land, then you
13 get a much higher tax on the land, lower tax on the
14 improvement. And if you're living in one of those
15 row houses, you benefit. In fact, I do think that
16 would happen. The real question is can we raise
17 enough from the vacant land to make it revenue
18 neutral. That's the issue. But I certainly think
19 that is obviously what will happen if you go to this
20 system. Our single family, renters, row homes, they
21 will experience real estate tax reduction.

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COUNCILWOMAN VERNA: Councilwoman, do
23 you have any further questions?

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COUNCILWOMAN TASCO: No. Thank you.

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COUNCILWOMAN VERNA: The Chair

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2 recognizes Councilman Ortiz.

3 COUNCILMAN ORTIZ: It's the revenue
4 neutrality question that I want you to go more
5 in-depth into. And give me examples of cities such
6 as Philadelphia, very similar situated in terms of
7 the history of how we have used land and what the
8 economic basis of -- like Pittsburgh or
9 Philadelphia. And where has this been done and what
10 has been the experiences?

11 If this question was asked --

12 MR. SCHWARTZ: It has not. And I can't
13 say. To be honest with you, I'm learning about the
14 other cities. You will be hearing more about that
15 here. I know Pittsburgh had an experiment in it and
16 a lot is made that they abandoned it, but there were
17 special things that they did wrong. No system is
18 perfect unless you did it right. A lot of vacant
19 land was owned by federal government and whatever.
20 It has worked in some places. And I think the
21 panels that Jonathan Saidel and others have put
22 together are designed to help us all understand that
23 more successfully.

24 I mean, Philadelphia's experience, as
25 you well know, is that we had all this land was

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2 occupied largely by factories and manufacturing and
3 then people who lived around it. As those factories
4 closed, we've developed industrial cesspools.

5 COUNCILMAN ORTIZ: But I heard just now
6 throughout your presentation is just the theoretical
7 aspect of something. But it has to be shown where
8 it has -- if we're going to move from one system to
9 the other, we have to look at cities such that are
10 similarly situated such as Philadelphia where this
11 has been tried and how it has worked or not worked
12 in those cities. And I want to hear whether the
13 revenue neutrality that we speak about, because the
14 school system, other aspects, depend very heavily on
15 whether we're going to have the revenue stream to be
16 able to maintain these systems in place. So before
17 you shift, you've got to be able to with a certain
18 certainty say, these things are going to happen.

19 MR. SCHWARTZ: Councilman, I absolutely
20 agree with you which is precisely why we're
21 undertaking the kind of careful study that we are.
22 And it's certainly questions our research staff very
23 much includes, look at where this has been done in
24 other cities and particularly comparable cities and
25 what happened as a basis for our deliberation. So

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2 we fully agree. I'm not prepared to share the
3 results of all that on April 29, but we will
4 certainly be well along over the summer, and by the
5 fall we will have some notion of those issues.

6 COUNCILMAN ORTIZ: Because it will make
7 a very big difference to be able to compare the
8 systems and in terms of that.

9 MR. SCHWARTZ: We absolutely agree.

10 COUNCILMAN ORTIZ: Because if you say
11 Potunk (ph), Iowa, is doing it and Potunk, Iowa, has
12 a hundred or 50,000 residents and you don't know
13 what the system has been and so on, but a City such
14 as ours that has been an industrialized City, that
15 has had factories that has been basically abandoned
16 over the last 50 years or so and that we have had
17 movement in, and non-use of certain parcels of land,
18 I'd like to see where and how these things have
19 happened.

20 MR. SCHWARTZ: So would we. And we've
21 got some preliminary sketchy kinds of evidence, but
22 that's a big part of what we want to do.

23 I want to sneak in one other issue here
24 that's related in a way to your question that I need
25 to put on the table that has been raised with us by

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2 people in the economic development community. And
3 that is that our commercial real estate tax, the
4 commercial real estate tax is probably way too low
5 for what we could raise, if we could raise it. Now,
6 that does -- we cannot under the current State
7 Constitution have a different tax rate for
8 commercial properties as for residential properties.
9 But I met a couple of people, whose names I won't go
10 into, but names would surprise you, given the role
11 that they play, say that if we did that, we're able
12 to get that kind of an amendment into the
13 Constitution, we could easily raise commercial real
14 estate tax, particularly if it meant more revenue to
15 reduce the wage and business taxes.

16 So again, there's a lot of evidence
17 surrounding this that suggest that it may be a good
18 thing. But you're right, we need to look very
19 carefully at how this has been tried in comparable
20 cities and not just places that have nothing to do
21 with what we are.

22 COUNCILMAN ORTIZ: And I would imagine
23 the interplay between, as you say, the commercial
24 taxes and so on down the line and how these things
25 all play into one comprehensive set of taxation --

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MR. SCHWARTZ: That is precisely what we've been asked to do. The Controller's report from his office does that. Whether you agree or disagree with it, it's a very serious attempt to do that. This is our charge. You actually put the legislation together that put this on the ballot and that's the way this has been structured. And we must do it, by the way in a framework that is fiscally and socially responsible. Meaning, we just can't come out here and say we're going to lower everybody's tax and it's not our job to figure out what happens to the rest of the City budget. That's your job or somebody else's job. No. We're not to give you advice on how to cut spending. But we are certainly to be conscious of what the impact on the revenues that would be available for this. So that is very much along the lines of the question you're asking, Councilman.

COUNCILMAN ORTIZ: Thank you.

MR. MCPHERSON: Councilman Clarke.

COUNCILMAN CLARKE: Actually, I'm going to hold my question. I had another question about the speculative nature of the increased revenue. But I'll hold it until further testimony.

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MR. MCPHERSON: Councilman Miller.

COUNCILWOMAN MILLER: Good morning. I just actually have a question as a follow-up to Councilwoman Tasco, just trying to understand this whole business about land value tax.

Land value tax is a tax on the land itself? Is that an equal tax on land across the City or is it taxed by the amount of acreage? When you talked about living in a row home, is it by the amount of land that you own?

MR. SCHWARTZ: Well, I think that under the current proposal -- and frankly, some of the questions that you're asking me I'm happy to share it, but we have a lot of people who are here specifically with the expertise in this and, you know, I'm always happy to stay here and whatever. They've come here to specifically address it.

The proposal as I understand it is that right now if you look at your own assessment, you will see -- you go even to the database of it you'll see part for improvements, part for land. And all they're doing now is just the total amount will remain the same except the amount to land will increase significantly and the improvements will

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2 decrease. The assessment for every property, that
3 difference will remain, but what contributions to
4 that difference is how it uses the land. It will
5 contribute more than right now it does.

6 And I would suggest, again, you have a
7 lot experts who spend far more -- I'm learning this.
8 You have a lot of experts who spend far more time on
9 this than we have. I'm here to learn from them as
10 well.

11 COUNCILWOMAN MILLER: Okay. Thank you.

12 COUNCILWOMAN VERNA: The Chair
13 recognizes Councilwoman Brown.

14 COUNCILWOMAN BROWN: Thank you, Madam
15 President.

16 Good morning.

17 MR. SCHWARTZ: Good morning.

18 COUNCILWOMAN BROWN: So typically with
19 the institution of new taxes in real sharp terms,
20 there are winners and there are losers. What
21 response or explanation would you give to those --
22 the auto dealership industry which owns a lot of
23 land and contributes in a substantial way to our
24 City's tax base?

25 MR. SCHWARTZ: For the moment at least,

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2 that's something we're going to have to look at. I
3 mean, I understand that that's one of the industries
4 that might have a problem. We have not looked at
5 that and so I don't have an answer for you. That's
6 the kind of question that we need to develop an
7 answer for if we're going to move this way.

8 COUNCILWOMAN BROWN: I too share
9 Councilwoman Jannie Blackwell's concern about the
10 ultimate impact on the Philadelphia Public School
11 System, so I'll be looking closely to see what those
12 numbers reflect and what that impact will be on the
13 system.

14 Additionally, as you look to provide
15 numbers on what the impact would be on University
16 City and other neighborhoods, indicate as well what
17 the impact will be on different industries in the
18 City on the commercial side so that we can see that
19 kind of comparison.

20 And my second question is, recognizing
21 that nothing is free in government and everything in
22 America comes with a cost, is there any speculation
23 about what it will cost the City to institute this
24 new procedure across the board?

25 MR. SCHWARTZ: I think those are -- you

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2 see the list of questions that we raise. And you've
3 added some others. Obviously, we have to have
4 answers to all of that by the fall. And I can't say
5 that I have those answers now. And frankly, I
6 invite any member of Council and all of you to share
7 with us any of these issues or others that come up.
8 That's what we've been asked to look at and we are
9 and will.

10 COUNCILWOMAN BROWN: You're comfortable
11 with the expectation that you will be able to get
12 your arms about what really is a huge issue and
13 provide recommendations by the fall?

14 MR. SCHWARTZ: Yes, I am.

15 COUNCILWOMAN BROWN: Very well. Thank
16 you very, very much.

17 Thank you, Madam President.

18 COUNCILWOMAN VERNA: You're welcome.

19 MR. SCHWARTZ: I will stay and listen to
20 what others have to say and learn along with you.

21 COUNCILWOMAN VERNA: Thank you very
22 much, Councilman Schwartz.

23 (Applause.)

24 COUNCILWOMAN VERNA: Mr. McPherson, will
25 you please call the next three witnesses?

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MR. MCPHERSON: Dr. Roger McCain, Josh
Vincent, David Zwanetz.

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DR. MCCAIN: Thank you, Madam Chair. I
am Dr. Roger McCain. I am on the --

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COUNCILWOMAN VERNA: I'm sorry. You're
going to have to pull the microphone much closer to
you.

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DR. MCCAIN: Sorry. Yes, I can hear it
now, thank you.

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Thank you, Madam Chair, my name is Dr.
Roger McCain. I'm on the faculty at Drexel
University in the Department of Economics and
International Business. I was a coordinator for a
faculty research group who were asked to do a fairly
narrowly-defined job. I believe there are copies of
my testimony available.

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COUNCILWOMAN VERNA: Were they
distributed, Doctor? Were copies of your testimony
distributed?

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DR. MCCAIN: I guess they will be
coming.

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As I say, the job we were asked to do
was very narrowly defined. There had been estimates
of who gains and who loses based on ratios of land

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2 to property value that were based in turn on Board
3 of Revision of Taxation data.

4 It's concerned that the data might be
5 inaccurate, so my job was basically to go over those
6 data using different methods, statistical
7 econometric methods and, number one, to determine
8 whether there's any reason for concern that they
9 would be inaccurate. Number two, to improve on them
10 if we could.

11 The executive summary is that while, of
12 course, there are differences -- we expect some
13 differences when different methods are used for the
14 same data -- they're fairly small and we don't see
15 any reason for concern about the accuracy of those
16 Board of Revision of Taxation data.

17 I can go on to detail the method that we
18 used is basically one that's very standard, not only
19 in real estate economics but very widely in
20 economics. It's called a hedonic method. And that
21 simply means that we take market prices, in this
22 case arms length real estate transaction prices,
23 together with information about the characteristics
24 of the item that's sold that make it desirable.
25 That's why it's called hedonic.

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And in order to break out the land and structure value, that's a little more difficult and the method that used is called a hybrid hedonic method because it combines basically two statistical approaches. That makes for fairly complicated statistical work, but fortunately, my colleague is an expert on that so I relied on him.

The problem we faced was that the data were very limited. Typically in studies of this kind, there are data from 30 to 50 different characteristics of each property. Variables available for analysis in each of the three databases included geographic area, lot size, living area, secondary areas, basements, porches, garage area, construction quality, building style, age, sale date and in one case the distance to the nearest golf course and certainly things like the number of bathrooms and so forth would be included.

From the Philadelphia data we were able to get only three things: Usable living space, land area, and a rough index of the external condition. So it looked like a very tough job. Fortunately, we were able to get some help from the chorographic lab at the University of Pennsylvania. And working with

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2 them, we were able as a first stage to estimate an
3 overall quality of the neighborhoods. That's
4 important because that neighborhood quality is
5 correlated and associated with so many of the things
6 that are missing from the data. Houses with two or
7 three bathrooms are darn likely to be in very nice
8 neighborhoods. So that because of that, we were
9 able to get estimates that we have a great deal of
10 confidence in. In technical terms, we were able to
11 account for about 80 percent of the variation, and
12 that's pretty close to standard in these real estate
13 studies.

14 It appears that about 15 to 20 percent
15 of the values are just pretty much random and
16 unpredictable. In any case, human beings are pretty
17 unpredictable and so I'm happy with those results.

18 The outcome, you can see in Exhibit 1,
19 those are the ratios of land value to total property
20 value that we have in Exhibit 1 based on our
21 statistical analysis. The ones that are based on
22 the Board of Revision of Taxation assessments are in
23 Exhibit 2. You can make your own comparison. As I
24 said, there are some differences. But we regard
25 them as being pretty minor. One big point to

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2 observe is that one thing that's confirmed that our
3 estimates agree with is that Philadelphia is a
4 pretty unusual City. In that, the ratio of land
5 value to total or to structure value is lower for
6 Philadelphia than for many other cities. And our
7 estimates came out that way as well.

8 It's a little more complicated than just
9 looking at averages like this suggests. Using the
10 methods that we used we can estimate what would be
11 the average value for individual properties based on
12 the characteristics, and again, the quality of the
13 neighborhood.

14 So I set those out in Exhibit 3. This
15 is a little technical, but what you see on the
16 horizontal axis in Exhibit 3 is the ratio of land to
17 total value. And on the vertical axis is you see
18 according to two different approaches, how many
19 houses are within a half percent of that ratio. So
20 for example if you look at a 20 percent ratio, the
21 height of the dotted line should show you, according
22 to our estimates about the number of houses that are
23 from 19 and a half to 20 and a half percent from
24 which that ratio, land to total value is from 19 and
25 a half to 20 and a half percent. If you look at the

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2 height of the solid line, you'll see about,
3 according to the Board of Revision of Taxation data
4 about how many are from 19 and a half to 20 and a
5 half percent. So in that way we can compare the
6 whole range, and what we see is, yes, again there
7 are differences. The top of the curve is a little
8 different. That's what statisticians call the mode
9 and it's just as good an indicator as the mean, but
10 perhaps what's more important is that there's a lot
11 of overlap. And in fact, we see that although the
12 Board of Revision of Taxation shows a large number
13 of houses with slightly smaller ratios than we do,
14 they show some with substantially larger ratios than
15 we do. They're more spread out on both sides. And
16 I think if we had better data we probably would see
17 a distribution that looks more like what the Board
18 of Revision of Taxation links to rather than less.
19 That would be worth doing, but I'm as confident as I
20 can be under the circumstances that it would not
21 change the conclusions that the ratios that have
22 been used for these estimates of who pays and who
23 doesn't cannot be improved on by the kind of
24 statistical methods that we use.

25 Thank you very much.

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COUNCILWOMAN VERNA: Thank you very

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much.

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The Chair recognizes Councilman Clarke.

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COUNCILMAN CLARKE: Madam President,

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were all three of the individuals going to testify?

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COUNCILWOMAN VERNA: They're all going

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to testify, yes.

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COUNCILMAN CLARKE: I can wait until

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then.

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COUNCILWOMAN VERNA: That would be fine.

12

Who's going to present the next

13

testimony? Mr. Mandel?

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MR. MANDEL: Brett Mandel from the City

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Controller's Office. I'm going to present the

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testimony of David Zwanetz who is the Vice Chairman

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for the Board of Revision of Taxes. I will also

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present testimony from time to time during these

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panel presentations of others who submitted

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testimony but could not make it personally to the

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Chambers. I'll also be here now and all day to

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answer any questions Councilmembers have about the

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City Controller's proposal itself.

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This is the testimony from David

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Zwanetz, who is the Vice Chair of the Board of

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Revision of Taxes in Philadelphia.

COUNCILWOMAN VERNA: Do you have copies of the testimony you're reading? If so, may we have a copy of it, please?

MR. MANDEL: David Zwanetz Vice Chair, Board of Revision of Taxes of Philadelphia. I'll actually summarize this. I don't have to go through the entire testimony. You'll have it at your leisure and I'll be here.

"City has been in the forefront of the efforts to bring tax relief to the homeowners of Philadelphia.

"I support the land value tax and City Council authorizes an in depth study of its implementation and effects on each parcel of real estate in Philadelphia. The City Controller should be commended for bringing this issue up for public discussion. The last person to do so was former Councilman James Tayoun.

"The two tier land value tax is a disincentive for land speculation and for owners to allow their properties to run down and avoid taxation while they wait for a rising market to sell into inflated prices. They can do this because the

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2 present systems rewards them with little or
3 minuscule taxes while it penalizes those who make
4 improvements. The land tax is an incentive for
5 efficient utilization of land.

6 "I believe the land tax will discourage
7 the inefficient use of land and will encourage land
8 to be utilized for its highest and best use. It
9 should encourage the vertical development of land
10 and attract building in our City. The existing
11 abatements are an incentive but engender great
12 resentment among adjacent homeowners who feel they
13 are being treated unfairly.

14 "If word gets out that you can build
15 corporate headquarters in Philadelphia without being
16 penalized, I believe we will attract corporate
17 giants the world over to locate in Philadelphia,
18 assuming we also concentrate on solving quality of
19 life problems such as crime, cleanliness, schools
20 and burdensome taxation.

21 "There is an old quotation in the fairy
22 tale land of real estate taxation and it goes like
23 this: Tax man, tax man don't tax me, tax that man
24 behind the tree.

25 "We are all behind that tree, and to

1
2 some extent we must all share in the burden of
3 supporting this wonderful City. If Council feels
4 there is merit in the land value tax, then permit me
5 to humbly suggest that Council might want to first
6 consider even acting a millage rate on land and
7 improvements that duplicate what we have now, that
8 is .08264 percent on land and the rate on
9 improvements. This would be revenue neutral and
10 establish the principle of separate taxes on land
11 and improvements there on. This will permit a
12 period of investigation into the implementation and
13 effects of the system. In the meantime, things
14 would not change drastically.

15 "A comprehensive study of the effects on
16 taxpayers and revenue can be conducted over a period
17 of years with a view in mind of how each of the more
18 than 550,000 parcels of accessible real estate will
19 be affected and who other than the man behind the
20 tree will pay what. I conservatively envision a
21 period of at least two years to be confident with
22 the new system. It will require a great deal of
23 work on the part of the Board of Revision of Taxes,
24 but I feel confident that under the leadership of
25 our outstanding chairman, David Glancey, and

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2 additional funding, this can be done. I'll be happy
3 to participate in this process since I have some
4 very specific ideas on what we need to know to truly
5 be confident.

6 "I thank you, Madam Chair for the
7 opportunity for presenting my views. I also wish to
8 thank City Controller Jonathan Saidel for bringing
9 this issue before the public, and you especially for
10 allowing citizens to express their views on such a
11 timely topic.

12 "I'll be happy to meet privately with
13 any member of Council for discussion at a later
14 date. I should state, however, that although this
15 letter is from the Vice Chairman of the Board of
16 Revision of Taxes, these are my personal views and
17 do not necessarily reflect those of any other member
18 of the Board of Revision of Taxes.

19 "Respectfully, David Zwanetz, Vice
20 Chairman, Board of Revision of Taxes."

21 (Applause.)

22 COUNCILWOMAN VERNA: Our next witness,
23 please.

24 MR. VINCENT: Good morning.

25 COUNCILWOMAN VERNA: Good morning.

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2 Please identify yourself for the record and proceed
3 with your testimony.

4 MR. VINCENT: Thank you. My name is
5 Joshua Vincent. I live in East Falls, 19129. I'm
6 the Executive Director for the Center for the Study
7 of Economics. We're a non-profit foundation that
8 has been doing research and advising municipalities
9 on implementation issues of land value tax since
10 1980, and we were originally founded, our mother
11 organization, in 1926 in the City of Pittsburgh by
12 the City Assessor and several City Councilpeople in
13 Pittsburgh who at the time thought that land value
14 taxation was a successful idea and should be studied
15 nationwide and internationally.

16 Our center has been established at 1422
17 Chestnut Street since the year 2000, and we've done
18 research parcel by parcel on how land value taxation
19 would affect various communities, neighborhoods,
20 types of houses all throughout the City. We've
21 spoken to many, many community groups, mostly
22 homeowner groups. And generally the reception to
23 land value tax has been very, very good indeed. I
24 can see by the presence today of so many homeowners
25 that the idea that they should be rewarded for once

1

2 for keeping their houses fixed up and keeping their
3 neighborhoods in good condition is an idea that's
4 getting out there.

5 The program that we're talking about
6 could be implemented this year by the Council. It's
7 a program that is what I call an annual event. It's
8 just changing your annual property tax ordinance so
9 that you have a higher rate on land values and a
10 lower rate on building values in a revenue neutral
11 manner. Wherever this has been tried throughout the
12 Commonwealth of Pennsylvania and indeed overseas, it
13 has been revenue neutral to the jurisdiction
14 involved. Indeed, I won't go into the other cities
15 since we have representatives and testimony from
16 there.

17 In Harrisburg, for example, they have
18 had a ratio of land tax to building tax at about 6
19 to 1 for five years. And they've had it in toto
20 since 1975. In that time, the tax base of
21 Harrisburg has increased systematically and
22 dramatically enough that the effective tax rate in
23 Harrisburg has stayed stable and indeed dropped in
24 the past 25 years. For any post-industrial City,
25 especially a City like Harrisburg with so much tax

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2 exempt property, that's good news indeed. So the
3 revenue neutrality has never really be a question
4 throughout Pennsylvania.

5 In January of this year, the City of
6 Altoona was the latest to adopt land value taxation.
7 They've already sent out their tax bills and the
8 report from the city government there is that the
9 take, the revenue, has not been decreased at all
10 and, in fact, is very stable.

11 In the City Pittsburgh expanded land
12 value tax in 1979 to about a 4 to 1 ratio. Jack
13 Saunder at the time, the head of the Allegheny
14 County Assessment Office reported that appeals and
15 delinquencies dropped in the City of Pittsburgh.
16 And the reason for that is the reason why we want to
17 enact land tax here in Philadelphia. Once people
18 know that their hard work on their dime and their
19 time in fixing up a house or even buying a house
20 will not be punished by the tax man, they have a
21 tendency to stick around to stay in the City, to
22 take a stab and to maybe fix up new neighborhoods.
23 And that's what's happened in the City of
24 Pittsburgh, Allentown, and Harrisburg.

25 Most of our work has been done in row

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2 home communities in Philadelphia, as I said. They
3 see dramatic drops if there were a land value tax.
4 I've been working actively in zip code 19120, which
5 is Olney, East Oak Lane, and we're looking at about
6 90 percent of the homeowners seeing a reduction on
7 their taxes. And it's the kind of reduction that
8 applies to everybody. This is a universal tax
9 abatement. They don't have to apply for a TIF, they
10 don't have to live in a KOZ, they don't have to
11 apply for a 10-year tax abatement; all they have to
12 do is exist in the City of Philadelphia. And with
13 the change in the property tax rates, they will get
14 that benefit.

15 I should say that as far as cost of
16 implementation, there has not been any added cost of
17 implementation in any cities that have used land
18 value taxation.

19 Essentially, that's about the message I
20 have. I think that we've shown over the past two
21 years that land value taxation will be a great
22 benefit to people who have never had a program for
23 them before. These aren't the big dogs in the City.
24 They don't apply for programs, are afraid to come to
25 City Hall like most people, and this is a chance for

1
2 the City simply to say, "Thank you for staying in
3 the neighborhoods. Thank you for keeping the faith
4 in Philadelphia. Thank you for doing all this on
5 your own."

6 Now, behind me is an illustration. This
7 is the impact of land value taxation on residential
8 properties in the City of Philadelphia. Green
9 essentially means tax savings. Each dot represents
10 one parcel. What you're seeing is an overwhelming
11 number of tax reductions in our poorest and our most
12 working class neighborhoods. You do see increases,
13 for example, in North Philadelphia, 19122, 19121.
14 Why? Because there's so many vacant parcels.
15 There's so many abandoned homes. They would see a
16 tax increase for sure. And that's good. These
17 people for years have benefited while other people
18 against all odds keep investing in their homes.

19 Now when you get to 19121 or 22, who
20 saves? It's the owner occupiers. The people that
21 have kept the faith in North Philadelphia, they are
22 aye sayers, just like everybody else in Kensington,
23 Port Richmond, Olney, Overbrook. I could go on to
24 the many neighborhoods, especially South
25 Philadelphia. Eastwick, the many neighborhoods

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2 where almost every homeowners would see a reduction
3 on their taxes and the people that have contributed
4 to blight and the corrosion of our communities would
5 finally have to pay the piper.

6 Thank you very much for your time.

7 (Applause.)

8 MR. MCPHERSON: Councilman Clarke.

9 COUNCILMAN CLARKE: Thank you, Mr.
10 McPherson.

11 Good morning, gentlemen. Gentleman, I'm
12 glad to see a proposal before us, because I agree
13 that we have to come up with some strategy to give
14 relief to property owners, particularly property
15 owners that have maintained their properties in the
16 City of Philadelphia. But I do have to ask the
17 questions as it relates to this particular proposal.

18 One, you just made a reference to the
19 North Philadelphia, a substantial part of which I
20 happen to represent. And you implied that North
21 Philadelphia residents who own homes may receive
22 property tax relief as a result of the increased tax
23 imposed on the vacant land in North Philadelphia.
24 And the reality is, is that we're not collecting any
25 revenue from that vacant land now because people

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2 simply will not pay the taxes on that vacant land.
3 So frankly speaking, I don't see any rush to pay
4 additional taxes on vacant land that they're
5 currently not paying on. An overwhelming of that
6 vacant land in North Philadelphia is extremely
7 delinquent because people have just chosen not to
8 pay or absentee landlords. So reality is, I don't
9 see a real increase in our ability to collect from
10 that vacant land in North Philadelphia. There would
11 have to be an extreme -- and we're wrestling with
12 that now -- to make that land valuable in order to
13 make the owners or any potential developers want to
14 build on that land, i.e., the cost of doing
15 business; i.e., the cost of construction. There
16 would have a number of things that are put into
17 place before that land is then brought to some
18 productive use.

19 I just want to get to one question that
20 was made earlier, one statement. With respect to
21 the map determining the vacancy, what methodology
22 did you use? Did you use the BRT or the Department
23 of Revenue? Because I've known when we talked about
24 this earlier, there was a very difficult time
25 determining the vacancy on a yearly basis. While we

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2 have an estimate currently about how many vacant
3 lots and how many vacant properties are in place on
4 a yearly basis, there seems not to be the ability to
5 do that in a timely way. Can you tell me how we
6 deal with that? Utility bills? I mean, how do we
7 do that? Do we do it by site visit?

8 MR. VINCENT: The numbers that my center
9 used were based on BRT numbers using the
10 classifications that they give you, 1 through 6
11 residential, commercial, industrial and vacant.
12 Plus, we also hand sorted, essentially, through all
13 the properties just to make sure that there was no
14 structure. So when we talked vacant on this chart,
15 what we're talking about are vacant lots and we
16 would have to do -- our center would have to do
17 further analysis on what are determined by the
18 planning department or NTI as to absolutely
19 abandoned properties.

20 I should add that interestingly, 19121
21 or 22, it's gotten to the point where the property
22 tax take from those areas is so low at this point
23 across the board that a land value tax actually
24 would not impact those zip codes very much because
25 of the delinquency that you're talking about. I

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2 mean, we already know that they're not paying. I
3 think that in this -- we've done a rough study, and
4 it's a fairly recent one that I'll provide it to
5 you, that shows that if we took all the vacant
6 delinquent lots throughout the City, we would
7 probably have out of about 780 million in tax
8 revenue, about an increase of \$2 million a year in
9 delinquency on vacant lots.

10 But on the flip side, you're going to
11 finally be stemming the tide of people abandoning
12 houses that are livable and people that are still
13 living there. And by reducing the tax on those
14 folks, we'll be able to maybe stop the tide further.

15 I've included in my testimony a little
16 study that I did for Councilman Cohen on just the
17 subject of owner occupiers in North Philadelphia.
18 So you can refer to that, and I'll always be
19 available for questions.

20 COUNCILMAN CLARKE: I'm all for creating
21 an environment to give relief to property owners,
22 particularly owner-occupied property owners. My
23 issue is, our ability to reasonably determine the
24 vacancy of properties -- vacant lots that's
25 relatively easy, but properties on a yearly basis.

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2 I'm told that that would require substantial amount
3 of resources by the Revenue Department and I think
4 also the Board of Revision of Taxes. I need you to
5 address that, not necessarily today, but to tell me
6 how we do that on a yearly basis because there are a
7 lot of properties that are in flux, particularly on
8 a yearly basis.

9 One of the other issues I have, when you
10 talk about a revenue neutral proposal, somebody's
11 obviously going to have to pay. And one of the
12 issues I need you to address is some of those
13 marginal retail commercial properties that could
14 potentially -- and I haven't done the analysis, so
15 I'm not sure what that would be -- who have
16 substantial amount of vacant land as opposed to the
17 amount of occupied structure. As an example, a
18 supermarket. I've been told based on our inability
19 to get supermarkets in large portions of our urban
20 community that the profit margin is extremely thin.
21 Most supermarkets tend to have a 4 to 1 ratio
22 parking lots versus building. What now happens to
23 that supermarket or a similar type of retail
24 operation that has a substantial amount of vacant
25 land as compared to the occupied structure on that

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2 building? Does that then create an environment
3 where their ability to stay a float is diminished
4 or --

5 MR. VINCENT: Well, my philosophy, if I
6 may, is that you have supermarkets, and the idea, I
7 think, is that we have to really work hard to get
8 people to live in the City. In other words, if we
9 had strong vibrant neighborhoods, then a supermarket
10 would come to serve them and their profit margins
11 would go up because there would be more people. In
12 practical day-to-day terms where we've done studies
13 before, say, in Allentown, about half would say,
14 about half would pay a bit more. Individual
15 analysis would have to be done.

16 At the same time, I think that we all
17 support a lot of the aspects of the Controller's
18 program of cutting wage taxes and cutting business
19 taxes, which would make it even more attractive. I
20 think those taxes have much more impact on
21 especially a retail cash environment like a
22 supermarket than the profit tax might. But maybe
23 Mr. Mandel can comment on that.

24 MR. MANDEL: I would echo Josh's
25 comments. Certainly, what we want to do is create

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2 an environment where people want to be in the City.
3 And the more people who want to maintain residences
4 in our neighborhoods make this a more vibrant place
5 for people to do business to serve them.

6 COUNCILMAN CLARKE: Okay. I'll be more
7 specific. Right now, actually in a week or two, we
8 have a public hearing on a particular
9 supermarket/shopping center that we're hopeful will
10 develop, and it's called Progress Plaza. And that
11 surrounding area, particularly in the immediate
12 surrounding area is bordered by Yorktown, Temple
13 University, some other developments on the southern
14 end. But it has taken us six years to get an
15 operator who is interested because they view that as
16 a viable location.

17 In spite of that, we're being asked to
18 provide a tax increment finance legislation to
19 create a viable economically viable deal for that
20 particular supermarket. My concern, if now we
21 impose an additional tax on the vacant land, i.e.,
22 parking lot, would that deal fall by the wayside
23 because of our inability to provide the necessary
24 incentives?

25 MR. MANDEL: I'll take a crack at

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2 answering the question and then I'd actually
3 redirect it to the professor. In terms of simple
4 economics, the reason that we have to provide a
5 tremendous public subsidy to get Progress Plaza done
6 is a market failure. The private sector will not
7 enter the marketplace in that neighborhood because
8 for whatever reason they don't think the numbers
9 work for them. The public then has to provide a
10 subsidy to make it so that they can turn a profit.

11 COUNCILMAN CLARKE: I agree. So that's
12 why I'm asking the question. If we're going to
13 impose an additional tax, what happens to --

14 MR. MANDEL: If Progress Plaza would pay
15 more under the situation, it would move the numbers
16 a little bit that make it a little bit more
17 difficult for them to turn a profit. On the other
18 hand, I think Josh's point, and this is the point
19 that the Controller's Office report makes again and
20 again and again, census data just out that said
21 since the last census appeared, we've lost an
22 additional 25,000 residents in the City of
23 Philadelphia. If we continue to lose residents, it
24 makes it harder and harder for people who try to
25 make a business serving these residents to serve

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2 them. And if the professor wanted to give the
3 classic economics of why people would enter the
4 market or not enter the market -- there's a
5 supermarket at 21st and Callowhill, the Fresh
6 Fields. I don't recall having to subsidize them.
7 They came because there was a vibrant marketplace
8 for them to serve. The more vibrant marketplaces
9 that we create in the City by creating a tax
10 structure that attracts and retains residents, that
11 doesn't discourage businesses to enter Philadelphia
12 means that there would be more entry into the
13 marketplace.

14 COUNCILMAN CLARKE: Well, with respect
15 to 21st and Callowhill, an area that I also
16 represent, the real estate market down there is
17 extremely hot, without a land value tax, without any
18 incentive from the government. As a matter of fact,
19 I think that particular area, if you look on your
20 map, may be one of the areas where the value of real
21 estate may possibly increase as a result of this
22 proposal. But I'm looking at marginal type of
23 retail commercial opportunities and I'm concerned
24 that they could be impacted upon by this proposal.
25 I'm just simply asking you to look very clearly,

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2 because I have a district that's extremely diverse
3 and I need to be in a position where we have viable
4 commercial opportunities because I'm being told in
5 my 20 years of government every time we try to do
6 something in a very tough area there's an issue
7 about economics. And while we're hopefully pushing
8 ahead in terms of getting residential development in
9 those communities, the numbers still don't work. So
10 I'm just a little worried about the impact on some
11 of those commercial developments.

12 MR. VINCENT: Well, I can just add one
13 thing. The tax is based on the value of land and,
14 of course, where the land is relatively --

15 COUNCILMAN CLARKE: Sir, could you speak
16 up a little bit.

17 MR. VINCENT: Sorry. The tax is based
18 on the value of land. If the land is low value,
19 then that in itself would keep the tax burden down.

20 There is evidence that the market values
21 will compensate for changes in the taxes. So that
22 the cost of a piece of land is really a basket of
23 what you pay to buy that land or what you have to
24 give up to keep it and what its future tax liability
25 is going to be. And those two do tend to shift in

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2 ways that offset one another. So simply saying this
3 is going to increase the burden of tax on this
4 particular piece of land is not the whole story when
5 we're talking about future development. Existing
6 developments -- you know, bygones are forever
7 bygones. But in the future developments, you're
8 going to see those land prices shift.

9 COUNCILMAN CLARKE: This is in the
10 future. We haven't gotten this deal done yet. And
11 the reality is if there's a supermarket and there's
12 a parking lot, the reality is if there's a viable
13 supermarket, I doubt if they're going to build on
14 the parking lot because they have this ratio where
15 they require so many parking spaces per square foot
16 for certain types of retail development. I
17 understand, you know, the proposal in terms of
18 increasing incentives for individuals to develop or
19 to, frankly speaking, get off of the dime and get
20 rid of the land. Because as I said earlier, we did
21 some legislation earlier to impose an additional tax
22 on vacant land. I just need to get a clear sense
23 that if we're talking about a revenue neutral
24 program, based on your map, where a substantial
25 amount of individuals property owners in the City of

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2 Philadelphia will receive reductions, that revenue
3 has to come from somewhere. And the question is how
4 much of that revenue comes from those individuals
5 who receive increases and what type of or potential
6 burden does it create for those particular
7 businesses? Because I, frankly speaking, don't
8 think we're going to get a substantial -- and I
9 think some of your testimony indicated that we're
10 not going to get a lot of revenue from a lot of the
11 vacant land throughout the City of Philadelphia
12 because that's just simply not been the history,
13 particularly in some of the most blighted
14 neighborhoods. So I just want you to give me some
15 real analysis on that because I'm very concerned
16 about that.

17 Thank you, Madam President.

18 COUNCILWOMAN VERNA: Thank you.

19 Mr. Mandel, I was just very quickly
20 reading part of the testimony from Mr. Zwanetz. It
21 says, "If word gets out that you can build your
22 corporate headquarters in Philadelphia without being
23 penalized" -- I don't know how we're penalizing
24 people -- "I believe that we will attract corporate
25 giants the world over to locate in Philadelphia,

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2 assuming we also concentrate on solving quality of
3 life problems, such as crime, cleanliness, schools
4 and burdensome taxes. However, it requires a
5 massive national and international advertising
6 campaign to publicize our land tax value two tier
7 system. My slogan would be, Philadelphia means
8 business. Come build with us." Perhaps I have
9 painted too rosy a picture. Let me caution you that
10 I believe the two tier tax system needs to be
11 implemented gradually and be revenue neutral. Any
12 promise that most people will pay lower taxes maybe
13 misleading." And he goes on.

14 And we talk about wanting business to
15 come in and build with us. Recently, we had a bill
16 for Ikea, how -- that just came to my mind because I
17 think we sat on that for, I don't know how many
18 hours. What happens to a commercial area like Ikea.

19 MR. MANDEL: Obviously, it depends on
20 what the value of the land is right now and what the
21 value of the structure they would create. I
22 wouldn't pretend to know exactly what it is that
23 Ikea is doing, although I know right now that
24 there's nothing on that land, so right now before
25 any building is built if we're going to increase the

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2 tax on the land, decrease tax on building, obviously
3 if it's a parcel that's just land, their tax burden
4 would go up. If they build on that parcel, their
5 taxes would not go up as much under the new system
6 than it would under the current system because we
7 would be taxing their building less.

8 COUNCILWOMAN VERNA: How about Sunoco
9 that's located in South Philadelphia that has that
10 massive land and all the old tanks and the tanks are
11 presently being used? Are we going to then tax them
12 out of the City?

13 MR. MANDEL: I certainly wouldn't
14 pretend to know what it would be that Sunoco would
15 do based on what would happen if we changed their
16 taxes, but I would caution you to understand the
17 logic from the other side as well. If you by the
18 argument that says a firm that sees their taxes go
19 up or an individual that sees his or her taxes go up
20 would make a decision to leave the City, you would
21 have to look at it from the other side and say the
22 firms who see their taxes go down, the individuals
23 who see their taxes go down would be more inclined
24 to make a decision to stay in the City or those who
25 might otherwise not be looking at the City would

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2 look at lower taxes and say, "Those taxes are lower,
3 I would be inclined to move in the City." So if
4 you're looking at who wins, who loses and you say
5 Liberty Place wins, that means that Liberty can
6 charge lower rents and make it more attractive to go
7 into the City while a surface parking lot loses
8 which makes it less attractive for this parking lot
9 owner to run a surface parking lot. You have to
10 look at the argument from both sides.

11 COUNCILWOMAN VERNA: And we assume those
12 savings would get passed on? We can only assume
13 that.

14 MR. MANDEL: Certainly. Just as from
15 the other side, we can only assume if we raise the
16 taxes on anybody that they would either cut into
17 their profits or pass those extra taxes on to the
18 consumer.

19 MR. VINCENT: Actually, last year we
20 talked about Sunoco a little bit and I didn't have
21 the answers then, and I did the research and I
22 promised Council and I sent them out. And I brought
23 them here and it's in my testimony again.

24 COUNCILWOMAN VERNA: Could you pull the
25 microphone just a little closer, please? Thank you.

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MR. VINCENT: I actually did the numbers for Sunoco, and their taxes, interestingly enough, Sunoco gets a bit of the benefit of what a land value tax is because so much of the tanks and the machinery is not taxed. It's not real property. So actually they kind of enjoy the program that we're trying to get everybody else to be able to have. But their taxes, yes, of course, they will go up a little bit less than \$500,000 a year. And we got their profits from the northeast refining division last year I could find. For the year 2000 and their profits, net corporate profit was \$260 million. So the reduction of their profit would be by .186 percent of an increase land tax. Meanwhile, almost all of the workers at the refinery on Passyunk Avenue and the workers that live in the neighborhood would see tax reductions. And I think they're the ones that are going to benefit. And by extension, Sunoco will even benefit because they're still going to have a workforce that's healthy, happy and owns good homes.

COUNCILWOMAN VERNA: I don't think there's any one of us that would not love to see real estate property taxes decline. You know, we've

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2 been saying that we certainly have been overburdened
3 with taxes for, I guess, forever.

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I think Councilman Goode has certainly
5 been very patient in waiting to be recognized.

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COUNCILMAN GOODE: Thank you, Madam
7 President.

8

Good morning, gentlemen. I am generally
9 supportive of this proposal. And I understand
10 within this proposal there are winners and losers.

11

And within our decisions as lawmakers, particularly
12 around tax issues, there are always going to be
13 winners and losers. My concern is being honest
14 about who the winners are and who the losers are.

15

So I have two primary concerns. And I don't believe
16 you directly addressed Councilman Clarke's question
17 about how this impacts retail development in

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Philadelphia. I am very big on retail development.

19

Even though people don't like the fact that they
20 only create entry level, low-skill jobs, there are
21 thousands if not tens of thousands of Philadelphians

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who need those entry level, low-skill jobs. And I

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believe to the extent that while we have been losing
24 businesses and losing population within this region,

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we still have the most businesses, the most

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2 population, the most jobs, and we still have as an
3 asset our disposal income here. And so I will in
4 the future continue to make the case for retail
5 development as economic development strategy within
6 Philadelphia. But a lot of retail development that
7 has been successful in recent time, you know, there
8 is an issue of parking. There is an issue of how
9 the structures are set up. And I'm just curious as
10 to have you done an analysis of how this impacts
11 retail development in Philadelphia?

12 Because if that is going to be a loss,
13 I'm not going to say that makes me against this
14 proposal, but we have to clearly identify the
15 winners and the losers and be honest about it before
16 we take a step that is this large.

17 MR. VINCENT: Well, my office,
18 Councilman Goode, has actually done an analysis
19 under the assessment existing for every type of
20 commercial use.

21 COUNCILMAN GOODE: I'm for future
22 development in terms of looking toward what we're
23 trying to develop in Philadelphia in terms of
24 economic development and how this will impact future
25 retail development.

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MR. VINCENT: If the tax structure can be reformed such as the Controller is suggesting, then you will not discourage people coming in.

COUNCILMAN GOODE: We are actually talking about, when we're talking about retail development, not whether just more people moving into the City, whether we can provide goods and services to them in a convenient way. That retail development might exist in the suburbs or exist in only certain sections of the City because it is not feasible to have retail development everywhere because of this shift. So I'm asking not just in theory whether you think more people bring more revenue to businesses. That's not an answer to the question in terms of how it impacts retail development. And that's the same answer you gave Councilman Clarke, and it's not acceptable.

MR. MANDEL: I'll answer. If you have an existing retail development where the significant portion of the value of that development isn't the fact that it provides parking, chances are their taxes would increase. There's going to be other people here the Controller's Office bringing forward from other cities that I would encourage you to ask

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2 how the actual implementation of land value tax
3 affected retail developments in those communities.
4 We're also going to have developers come before you
5 that you can ask the question of what this is going
6 to do for development. Because in terms of moving
7 forward, one of the attractive aspects of a program
8 such as this is, at least in theory and borne out by
9 what has happened in other cities, you should be
10 able to free up some of the land that currently is
11 being speculated on which should drive down some of
12 the cost of land and make it easier for people who
13 are going to open up business to acquire land and
14 build.

15 COUNCILMAN GOODE: I guess real simply
16 I'm saying -- and we can look for some further
17 analysis from other examples. But this is good for
18 homeowners, which is why I'm for it. But to suggest
19 that it's automatically good for economic
20 development, I don't think it's fair to say to
21 suggest that whether it's good for retail
22 development or not does not have significant impact
23 on the City. It can have significant impact on the
24 City when we need to probably create, in my view,
25 thousands, if not tens of thousands of jobs that

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2 could possibly come from retail development.

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Second part -- I was not even going to ask that question until listening to Councilman Clarke's question. The second thing I'm concerned about in terms of winners and losers is it's clear that most of the homeowners in Philadelphia benefit from this proposal, benefit from this shift, particularly low income homeowners. But I'm concerned about in the testimony Mr. McCain says that the BRT data proved limited but says that the basic question we were to address was, are the estimates of the impact of a shift toward land taxation biased or inaccurate because they are based on BRT assessments rather than statistical analysis of market prices of properties.

Can you further explain that. I have a follow-up question to that.

DR. MCCAIN: Well, I'll try. The BRT estimates are basically --

COUNCILMAN GOODE: Let me ask a more direct question. Are you saying that BRT assessments are in line with market values?

DR. MCCAIN: I'm not saying that. I'm saying whatever differences there are do not lead to

1
2 any errors in judging the ratios because whatever
3 differences there are -- if for example, the land
4 values are only valued at half of market but the
5 structure values are only valued at half of market,
6 then when we look at the ratio, that cancels out.

7 COUNCILMAN GOODE: You're essentially
8 saying if it's 71 percent, it's 71 percent is 71
9 percent; or 50 percent is 50 percent. But do you
10 believe, from your analysis of the assessment
11 process -- one thing that we have responded to here
12 but not dealt with here -- I'm not sure we can deal
13 with here, is changing the assessment process. I
14 think what the actual problem is. And in that
15 discussion of trying to change the assessment
16 process, wanting to change the assessment process,
17 one of the things that has come out is the fact that
18 it is believed and to a certain extent has been
19 proven that the burden of property taxes is actually
20 borne by lower income people. Do you agree with
21 that?

22 DR. MCCAIN: I'm not in a position to
23 judge whether more of the burden is borne by lower
24 income people or not.

25 If I can go back and try to answer your

1
2 original question, basically the BRT use the
3 expertise they have. And the way that experts
4 operate, I'm sure they use a wide range of
5 information. When I say the data that were
6 available were inadequate, that is the data that's
7 systematic enough to make a statistical analysis of
8 it. And there seems to be -- I'm sure they use a
9 lot more information than just that. So that's an
10 advantage they have in making those assessments.
11 Taking into account what data were available to us,
12 we saw no reason to think that the ratios were
13 misleading.

14 COUNCILMAN GOODE: The ratios are not
15 misleading, but if we wanted to deal with the
16 inequitable burden that low income homeowners deal
17 with, can we just -- can we afford to use BRT
18 assessments and still even believe we're going to be
19 in a revenue neutral situation?

20 DR. MCCAIN: Well, I don't see -- I
21 guess I don't quite follow your question. The
22 methods to make it revenue neutral based on the
23 assessments are pretty straightforward.

24 As to whether the assessments are just,
25 well, that's not something we addressed. What I

1
2 know of assessment processes around the country is
3 that there's a certain amount of unpredictability in
4 them, and that is unjust.

5 COUNCILMAN GOODE: We get to a point of
6 revenue neutrality because we spur people toward
7 development or toward improving their homes, but are
8 we satisfied that the BRT assessment process gets us
9 there in a way that we should feel comfortable and
10 ending up in a revenue neutral situation? I mean,
11 do we trust the BRT assessment process enough?

12 DR. MCCAIN: I really can't speak to
13 that. It sounds like pretty much a matter of
14 personal judgment, and I'm not in a position to make
15 a personal judgment that I have a great deal of
16 confidence in one way or the other.

17 COUNCILMAN GOODE: I understand what you
18 said was you don't believe it affects the ratios,
19 but there is a larger question I was asking.

20 MR. VINCENT: If I may, we did a
21 pretty --

22 COUNCILWOMAN VERNA: Please identify
23 yourself for the record.

24 MR. VINCENT: Joshua Vincent, once
25 again.

1
2 We did a pretty exhaustive study of
3 Olney, actually. And you're right, the values for
4 working class or a poor homeowner, especially a row
5 house, are generally higher. In other words,
6 they're assessed more accurately, therefore,
7 unfairly than more prosperous areas such as Chestnut
8 Hill, for example. And so what we discovered is
9 that a land value tax would not necessitate a
10 wholesale reassessment, but it would reduce because
11 the proportion, the ratio in these poor and working
12 class homes is so high on the building that their
13 reductions would be percentage-wise very high.
14 You're talking if we had the Controller's idea of
15 50/50, land and buildings, equal revenue, that we
16 would see about 25 percent in Olney and Oak Lane.
17 In other words, these people would have
18 disproportionate benefit reduction of taxes simply
19 because they're clearly, in my opinion, overvalued,
20 and I think in the opinion of a lot of people that
21 just look at the numbers. For example, you have a
22 sales price for a typical row home that's surrounded
23 by abandoned houses or things of that nature, and
24 they bought the house in 2001 for \$45,000, yet it's
25 market valued at \$65,000 by the BRT. So, yes, this

1
2 would help that situation.

3 COUNCILMAN GOODE: Would help what
4 situation?

5 MR. VINCENT: The fact that poor and
6 working class homeowners are overvalued. They just
7 are. They never appeal their assessments. I don't
8 know exactly why. I'm not equipped with the
9 expertise --

10 COUNCILMAN GOODE: So it would shift the
11 burden somewhat from working class homeowners, but
12 the truth of the matter is they would still bear the
13 disproportionate burden. More of them would get
14 decreased, but they would still bear more of the
15 burden?

16 MR. VINCENT: In some cases, yes, they
17 would.

18 COUNCILMAN GOODE: Thank you.

19 Thank you, Madam President.

20 COUNCILWOMAN VERNA: You're welcome.

21 Are there any other questions of the
22 panel?

23 (No response.)

24 COUNCILWOMAN VERNA: Gentlemen, thank
25 you very much.

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Our next witnesses.

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MR. MCPHERSON: John Kromer, Dr. Kenneth
Lusht, Janet milkman.

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COUNCILWOMAN VERNA: It's nice seeing
you again, Mr. Kromer, how are you?

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MR. KROMER: Likewise. Thank you. I'm
very well.

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COUNCILWOMAN VERNA: Please identify
yourself for the record and proceed with your
testimony.

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MR. KROMER: Council President Verna,
Members of City Council, my name is John Kromer.
I'm here on my own behalf. I'm currently employed
by the Fels Institute of Government at the
University of Pennsylvania. I know that you see
people who used to appear before you as City
employees return before Council as experts on urban
policy and urban affairs, and that is not my
position here today. I'm glad to have an
opportunity to testify, and I'm very glad that
Council has devoted this amount of time and
attention to this issue, which clearly needs to be
aired fully before any further action is taken.

I've been out of City government less

1
2 than two years, and I've done most of my work in
3 that period of time out of town. But I certainly
4 kept in touch with the goings-on in Philadelphia,
5 and I must say that in many neighborhoods across the
6 City, the improvements that have taken place just in
7 that brief period of time since I left the public
8 sector are really quite remarkable. And from City
9 Hall with all that goes on here, you may not have
10 the full appreciation that a current outsider such
11 as myself has. To see some of the worse off most
12 dangerous buildings demolished and to see the kinds
13 of open space improvements completed as we have in
14 places such as eastern North Philadelphia and Mantua
15 really is very gratifying. It's a temporary but
16 very important change. It's great to see all the
17 work that has been done with respect to public
18 housing, the demolition of the worst high-rises and
19 some of the most poorly designed public housing
20 sites is a really big accomplishment. So I feel
21 that a lot of improvements have been completed in
22 neighborhoods over the past couple of years, and the
23 stage is really very well set for future investment
24 in the neighborhoods that we're concerned about.

25 It was great to read in the Daily News

1
2 last week about Universal Community Homes and the
3 great strides that Kenney Gamble and his team have
4 made and the completion of the first phase of King
5 Plaza. And closer to my current place of business,
6 it's great to see the University City area perking
7 up again and to see housing market values
8 stabilizing and correcting the disinvestment that
9 had been occurring during the prior decade.

10 But there's certainly a downside to
11 this, and I know you're aware of this. And that is
12 that as neighborhood improvements begin to take
13 place, people get interested in acquiring land and
14 holding it. Speculation begins to become a problem
15 and vacant properties that have previously been
16 abandoned suddenly begin to be regarded as things of
17 great value and you begin to see overpricing and the
18 difficulty of acquiring land and assembling sites
19 for development increases. That problem of
20 speculation certainly is in existence in the area
21 that I've referred to. South of South Street and
22 some areas of West and Northwest Philadelphia, and
23 that will continue to be a problem as housing
24 markets go strong in the City.

25 So I don't have an analysis of the land

1
2 value tax. I don't have new information that will
3 convince you that this is the best possible policy
4 as it has been presented. But I do have a word or
5 two to say about vacant property.

6 It's really critical that we continue to
7 do as much as we can to address vacant property in
8 Philadelphia. It's still a widespread problem. I
9 applaud the action that Council has taken to which
10 Councilman Clarke referred in imposing more costs on
11 owners of vacant, undeveloped land. And if this
12 proposed legislation can do more, it would be great
13 to do even more about that.

14 On the other side of the coin,
15 preservation and home improvements and the upgrading
16 and stabilization of existing housing is going to be
17 absolutely critical in the years ahead. We've got
18 to see even more preservation than new construction,
19 and that preservation has to cut across all
20 neighborhoods. And to the extent that the land
21 value tax and some variation of this proposal is
22 going to make it easier for existing homeowners and
23 new homeowners to upgrade and improve and expand, I
24 think that would be great for Philadelphia.

25 So I hope that you'll consider those two

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2 issues, imposing the penalties we can impose on
3 people who hold unimproved vacant land and making it
4 more easy and reducing barriers to upgrading
5 existing housing is a really critical part of our
6 neighborhood reinvestment policy going forward.

7 I've done no analysis on the retail
8 pictures, Councilman Goode, but as I know you're
9 aware, if there are more people then more retail
10 will follow. And that's clearly not the whole
11 picture, but an incentive that brings more people
12 into the City and helps existing residents feel
13 comfortable in staying is certainly going to be good
14 for retail.

15 Clearly, more work needs to be done on
16 this proposal. It would be great to see something
17 constructive come out of the dialog that has
18 continued here today. If the Fels Institute can be
19 helpful in looking more closely at some of these
20 neighborhood impacts that I mentioned, then I'm sure
21 there would be a great deal of interest in doing so
22 without, I may say, a City grant or contract. We'd
23 be very interested in anything we could do to help
24 Council with further consideration of this matter.
25 Thank you.

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COUNCILWOMAN VERNA: Thank you very

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much.

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Are there any questions?

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The Chair recognizes Councilman Goode.

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COUNCILMAN GOODE: Good afternoon, Mr.

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Kromer. It's good to see you again.

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I actually have never followed that

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argument that retail follows people. And I know

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that has considered to be a housing bias argument in

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terms of community development. And, in fact, we

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have seen our greatest population growth in this

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City probably in Northeast Philadelphia where there

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are abundant options in terms of retail and large

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malls and those types of things where we've done

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most of our investment in housing in terms of

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affordable housing. We have not been able to

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attract the same type of retail development. So I

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just don't buy the argument that the retail will

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follow the people. I believe that people want

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convenient shopping and the provision of goods and

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services where they are. It has to be a coordinated

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strategy that can't be led by housing development.

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It has to be a coordinated strategy, and that you

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cannot create disincentives to create convenient

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shopping for people.

MR. KROMER: Absolutely. There's got to be a synergy there that works on both sides.

COUNCILWOMAN VERNA: Thank you.

Any other questions or comments from Members of the Committee?

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: Mr. Kromer, how would the NTI program affect this?

Assume that the program goes through in a couple of years and the City has thousands of vacant lots. Maybe a few have been developed, most of which have not been developed, most of which have probably come to be City property as a result of defaults. How would this affect the situation?

MR. KROMER: My personal opinion is that a measure like this would compliment NTI very effectively by, as I said, making it easier for people who currently live here and people who are thinking about moving in and upgrading to fix up housing that is here already. New construction clearly has to be a priority, but I'd argue a greater priority across the board has got to be housing preservation, home repairs and home

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improvements, and expanding existing housing.

COUNCILMAN COHEN: How would it improve that? How would it bring that about?

MR. KROMER: As I understand it, it would not penalize homeowners from making home improvements and upgrading their homes by reducing the increment of taxation on those improvements.

COUNCILMAN COHEN: Would it help, for example, to create more -- for want of better word -- suburban-like housing where there would be more yard space, more garden space, more of the kind of amendments that seem very attractive to younger couples with children even before the school age?

MR. KROMER: I think the NTI-funded housing such as the Brewerytown proposal will certainly help achieve that. But I think an even broader need is for upgrading the existing housing stock. And as the example society proves, people love to love older houses that are well-maintained and well-reserved. And that's what we need, not only in Society Hill, but everywhere where there are viable neighborhoods.

COUNCILMAN COHEN: Well, the specific benefit from your proposal comes from the fact that

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2 people would not be taxed for improvements?

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4 MR. KROMER: Yes. This is not my
5 proposal, but that is my view of one of the positive
6 benefits of this approach, yes.

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7 COUNCILMAN COHEN: Haven't we already
8 passed some legislation that runs in that direction?

8

9 MR. KROMER: Yes. And I think that's a
10 very positive move. But I believe there may be an
11 opportunity to do even more. From my perspective,
12 the more the better.

12

COUNCILMAN COHEN: Thank you.

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COUNCILWOMAN VERNA: Thank you.

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15 Are there any other questions from
16 Members of the Committee?

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(No response.)

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18 COUNCILWOMAN VERNA: Thank you very
19 much.

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MR. KROMER: Thank you.

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21 COUNCILWOMAN VERNA: Mr. McPherson,
22 would you please call our next two witnesses,
23 please?

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24 MR. MANDEL: Brett Mandel from the
25 Controller's Office. I'll read into the record a
summary of the testimony of Janet Milkman, the

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Executive Director and interim President --

COUNCILWOMAN VERNA: Mr. Mandel, do we have the copies of the testimony?

MR. MANDEL: I have it right here.

This is the testimony of Janet Milkman, the Executive Director and interim President of 10,000 Friends of Pennsylvania.

"Chairwoman Verna and Members of City Council, thank you for the opportunity to present the views of 10,000 Friends of Pennsylvania on this important subject. I am Janet Milkman, the Executive Director and interim President of 10,000 Friends. 10,000 Friends of Pennsylvania is an alliance of organizations and individuals from across the State committed to land use policies and actions that will enable Pennsylvania to strengthen its diverse urban, suburban, and rural communities and reduce sprawl. We seek development that will support the social and economic viability of Pennsylvania's cities and towns, protect environmental quality, conserve fiscal resources, and preserve our State's exceptional rural and heritage resources. 10,000 Friends' principles have been endorsed by over 200 organizations represented

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well over 310,000 Pennsylvanians.

"I am here today to support the Controller's proposal to institute a land value tax, changing the way land and real property are taxed in Philadelphia, to a system where the tax on land and the tax on structures and improvements each generate an equal amount of revenue. As an organization committed to policies that direct public and private investment into existing communities such as Philadelphia, we believe that the land value tax could be an important tool for revitalizing City neighborhoods. This reform would lower an economic barrier to reinvestment in Philadelphia. At a time when Governor Rendell is proposing a large program to spur economic development in older communities across the State, it is especially important that local tax policy also encourage that economic growth. Moreover, by directing that growth into developed places, we will help to preserve our State's natural resources.

"10,000 Friends of Pennsylvania has long supported land value taxation. From our perspective, the land value tax is an important tool for urban revitalization primarily because it

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addresses both higher taxes and declining values.

"Land value taxation could provide a host of benefits for the City, while penalizing land owners who intentionally hold property in an underdeveloped state. From a statewide, a regional and local perspective, any policy that discourages this behavior while making it easier to invest in Philadelphia is a good policy. We encourage the City Council to take action on this proposal."

COUNCILWOMAN VERNA: Thank you.

Any questions from Members of the Committee?

(No response.)

COUNCILWOMAN VERNA: I would ask Mr. McPherson to please call the next witness.

Mr. Mandel, you have written testimony.

MR. MANDEL: I also will read a summary of the conclusions of Dr. Kenneth Lusht who is a professor at the Pennsylvania State University and he has done extensive research into land value taxation. I will not burden you with the entire document. I'll just give you a conclusion. If Councilmembers so desire, I would be thrilled to give you the full couple hundred pages of stuff that

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2 leads up to this.

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4 COUNCILWOMAN VERNA: I would ask that
5 the Sergeant-at-Arms to please circulate that
6 testimony.

7

8 MR. MANDEL: Dr. Lusht's conclusion
9 after looking at land value taxation and its
10 implementation in Melbourne, Australia, is that
11 there is evidence of a long run association between
12 the use of site value tax and the intensity of
13 development and indications that the use of the site
14 value tax stimulates faster development. Taken
15 together, these results support to varying degrees
16 recent analysis of the site value tax which conclude
17 that the tax is non-neutral, encouraging faster and
18 more extensive development.

19

20 I would certainly encourage Council to
21 pose the questions of actual experience in land
22 value taxation to our next panel which is going to
23 be peopled by officials and folks from other
24 jurisdictions who have actually had experience
25 implementing this policy.

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27 COUNCILWOMAN VERNA: Thank you very
28 much.

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30 Any questions from Members of the

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Committee?

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: What factual data is there as to how this has worked in Allegheny County?

MR. MANDEL: Well, I would encourage you to ask that question to our next panel which will have a representative on it from Allegheny County as well as the City Controller from the City of Allentown who is, like yourself, an old Northeast archive.

COUNCILMAN COHEN: On a scale of, say, a hundred percent, what would be the percentage of change in Philadelphia if we enacted this legislation? Would it be a 10 percent change from what we're doing? Would it be 50 percent?

MR. MANDEL: It would depend on what you have on your property right now. The Controller's proposal would be to take the current system where we tax both land and building value at 8.64 percent of assessed value, we would dramatically decrease the tax that is imposed on the structure down to about 5.3 percent while dramatically increasing the tax that one would pay on their land, up to about 18 percent. So if you owned a vacant lot that has no

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2 building on it, your tax will increase by more than
3 100 percent. If you have a building that is a row
4 house, for example, in a working class City
5 neighborhood, your taxes may go down 10, 20, 30, 40
6 percent.

7 COUNCILMAN COHEN: Suppose you had a lot
8 in a neighborhood where developers have shown no
9 interest?

10 MR. MANDEL: The lot itself, regardless
11 of interest or not, the lot itself would increase
12 the percentage by more than 100 percent. It goes
13 from 8.624 up to more than 18. And if you have
14 nothing except for your land, well, then the
15 percentage-wise your tax is going to increase by
16 more than 100 percent.

17 If you're talking about an area of the
18 City where there's not very much interest in
19 developing, chances are that land will not be worth
20 very much. Let's just say the person is paying 100
21 or 500 a year in taxes, \$50 a year on taxes. Well,
22 obviously, it would -- the proportion-wise it would
23 increase into proportion to what they're paying
24 right now. If it's \$50, it would go up to more than
25 \$100.

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If you have a downtown surface parking lot that right now is paying about \$30,000 in taxes a year, their taxes would go up to more than \$70,000.

COUNCILMAN COHEN: What, in your opinion, would be the impact on development in areas in the residential areas that are kind of very cold as compared to Center City being a very hot place that people want to live? Take North Philadelphia or other residential area where there's very little on the way of development where developers historically have not seen much in the way of future returns and, therefore, have chosen not to build or have claimed that the building costs are too high, that kind of thing?

MR. MANDEL: The land value tax shifts would not be a panacea. It could not create a marketplace where a marketplace doesn't exist. But where there is market interest, where there is speculation that could be capitalized upon, we are very confident that it would move the marketplace.

I would, again, encourage you to pose those same questions to representatives from other jurisdictions who actually have experience. In

1
2 Allentown and Harrisburg where we have studied,
3 after implementation of the land value taxation, the
4 number of building permits and the value of building
5 permits increased dramatically. Harrisburg credits
6 land value taxation to a large extent to helping
7 them reduce the number of vacant properties in our
8 capital city by, I believe the number is more like
9 75, 80 percent.

10 COUNCILMAN COHEN: Is there such a thing
11 as a geographic distribution where you use land
12 value taxation, say, in the Center City areas and
13 use other kinds of valuation in residential areas or
14 in areas difficult to develop?

15 MR. MANDEL: I'm not a Constitutional
16 scholar, but I believe that under our State
17 Uniformity Act that we must apply this across the
18 board the same way. But as an example of the
19 surface parking lot in Center City which right now
20 has a tax of about \$30,000, their tax would go up
21 more than a hundred percent. That's a dramatic
22 increase of more than \$30,000. If you own a vacant
23 lot in lower North Philadelphia that's right now
24 being taxed at \$100 and your taxes increase by more
25 than a hundred percent, your increase is \$100.

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2 Proportion-wise, that's quite a bite. Obviously, in
3 terms of actual cash outlay, not as much as the
4 surface parking lot owner in Center City. So while
5 you couldn't say we will charge a downtown parking
6 lot one tax rate but a lot in lower North
7 Philadelphia different rate, the effects, because of
8 the value of the properties, would be dramatically
9 different.

10 COUNCILMAN COHEN: Thank you very much.

11 MR. MANDEL: I was not kidding about the
12 Controller from the Allentown being a fellow
13 Northeast archive. It is the truth.

14 COUNCILMAN COHEN: Thank you, Madam
15 President.

16 MR. MCPHERSON: The next three witnesses
17 are the Honorable Frank Concannon, Dan Sullivan, the
18 Honorable Sal Udin.

19 MR. CONCANNON: Good morning, Madam
20 President. My name is Frank Concannon. I am the
21 Controller of the City of the Allentown. I have
22 some material to hand here if one of the --

23 COUNCILWOMAN BLACKWELL: Thank you.
24 Sergeant-at-Arms, material to be distributed. Thank
25 you.

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Welcome, we thank you for coming in today and thank you for your patience.

3

MR. CONCANNON: It's a pleasure.

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My name is Frank Concannon. I'm a certified public accountant. I am the Controller of the City of Allentown. My comments will be limited to three areas. First, I want to identify myself and the criteria I use for being here. I want to explain to you the history, very briefly, of the land value tax in Allentown. And thirdly, the benefits as I see them of the land value tax.

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I am a Philadelphian, born and bread from North Philadelphia from the 28th ward, 18th Street just below Lehigh Avenue between Shea Park and Baker Ball, if that means anything to anybody here.

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COUNCILWOMAN BLACKWELL: Absolutely.

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MR. CONCANNON: And Councilman Cohen, I understand you're a graduate of Northeast Public High School at 8th and Lehigh which was my alma mater in 1940. Probably before yourself.

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COUNCILMAN COHEN: 1931.

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MR. CONCANNON: '31? Oh, my. Very good.

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I am, as I say, a product of the City's public school system. And after several years in the United States Navy during World War II, I married a young lady from Port Richmond, east of K and A. We're still together. That was over 50 years ago. My education was at the University of Pennsylvania's Evening School of Accounts and Finance. I went to work then for what was the leading CPA firm in Philadelphia, now part of the Price Waterhouse system. In 1961, I relocated in Allentown to become involved with a business opportunity. After 30 years of public accounting, I left the firm for employment in the private sector. And in 1983, I was elected Controller of the County of Lehigh. Subsequently, I served one four-year term as a member of Allentown's City Council and I am presently the elected City Controller up for reelection this year, and I expect and intend to be reelected.

History of the land value tax in Allentown. It's properly known as the property development incentive taxation system. Came into existence in 1997 as part of our Home Rule Charter, which was adopted by the voters of Allentown in

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2 1996. We had to have a government study Commission
3 was approved in 1994 by a vote of the residents of
4 the City, 60 percent to 40 percent. The land value
5 tax was introduced as part of the Home Rule Charter
6 which was also adopted by the similar 60 percent to
7 40 percent. Now, that may sound like a very
8 decisive majority, but I hate to tell you that of
9 the total registration of the City of Philadelphia,
10 those two elections were only participated in by 12
11 percent of the voters. That tells me there is not
12 much interest or understanding at that time.

13 Now, in the packet which I had handed
14 out to you, there's a copy of Section 807 of our
15 Home Rule Charter, which represents the legal basis
16 for the tax. The method of taxation is based on the
17 assumption that the tax on vacant land at a higher
18 rate than developed land will stimulate commercial
19 and residential development. This has been the case
20 in Allentown. An important factor in our land value
21 tax is that it was intended to be revenue neutral.
22 You've heard that term before. And it has turned
23 out to be. A tax increase is anticipated in the
24 future as a result of additional new construction.
25 Haven't seen it yet.

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How does it work? Instead of all real property being taxed at one fixed millage rate, a change is made in the apportionment between the millage on the land and the millage on the improvements. That's expressed as a ratio. And in 1997, the first year, the millage was at a ratio of 1.4 to 1; 1.4 for the millage on the land to 1 as a millage on the building. A progression of approximately 30 percent each year in the ratio increases it to presently 4.7 percent to 1, almost 5 to 1. This means that approximately 82 percent of the total millage rate on the property is assigned to land and the remaining 18 percent millage rate is attributable to improvements on the building. I cannot at this time explain to you the mathematics of determining the computation of these ratios. I'll have to leave that for one the experts.

What is the impact or result of all this? In the packet there is a sheet headed "Construction and Property Values," which shows the number of building permits and the value of the anticipated construction. That is for the past 12 years, 6 years prior to the enactment of the land value tax and 6 years subsequent. I believe that

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2 clearly demonstrates an increase in the number of
3 permits lifted and the estimated cost for
4 construction after the six-year period. The average
5 number of commercial construction permits issued was
6 18 permits per average year as compared with 34 in
7 the average year subsequent to the land value tax.
8 A similar increase took place in the residential
9 construction.

10 Now, I understand that that does not of
11 and by itself mean that all of these increases are
12 attributable to the land value tax, but I think it
13 is a viable indication.

14 You have a sheet headed "Tax Revenues by
15 Source." Our real estate or general property
16 revenues have increased by approximately 600 or
17 \$700,000, and this represents an increase of over
18 3 percent since the inception of the land value tax.

19 Now, that increase is not in proportion
20 to the number of building permits issued. The
21 reason for this glitch is threefold. Some of the
22 new construction is in the KOZ, the Keystone
23 Opportunity Zones. Taxes deferred on these
24 properties for a number of years, but ultimately
25 will be added to the revenue stream. Second, the

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2 construction activity has been -- much of the
3 construction has been for hospitals, et cetera, not
4 subject to our real estate tax. And thirdly, there
5 have been numerous appeals for reassessments in
6 recent years which have effectively offset the
7 increase caused by the new construction.

8 We consider Allentown very fortunate in
9 that our tax revenue has had even a slight increase
10 during these difficult economic times. We have held
11 our own.

12 To summarize what has been said, the
13 land value tax has been beneficial in our City. We
14 have seen an increase in the development of
15 previously vacant or underutilized land. We have
16 been able to maintain or even minimally increase our
17 tax revenues in face of difficult economic times.
18 Enacting the legislation necessary to implement the
19 tax and tax change was not easy, but it seems to be
20 very well accepted now after seven years.

21 Finally, and it's been said before, this
22 is not a panacea or without some problems. The land
23 value tax was introduced to be revenue neutral and
24 has been. However, some have benefited and some
25 have had increases in their tax. The increases have

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2 been concentrated in some business ventures which
3 need substantial vacant land to carry on their
4 business, automobile agencies and restaurants stand
5 out. On the other hand, most of our inner City row
6 homeowners have seen a decrease in their real estate
7 tax. This latter fact, the decrease in real estate
8 tax in areas where it is probably most needed, is,
9 in my opinion, a very strong incentive for its
10 adoption; and that fact makes it politically viable.
11 Thank you.

12 COUNCILWOMAN BLACKWELL: Thank you very
13 much.

14 (Applause.)

15 COUNCILWOMAN BLACKWELL: Any questions?

16 (No response.)

17 COUNCILWOMAN BLACKWELL: Welcome.

18 Please identify yourself for the record and proceed
19 with your testimony.

20 MR. SULLIVAN: My name is Dan Sullivan.
21 I am currently the director of the Henry George
22 School on South 10th Street. For 25 years I've been
23 dealing with land value taxes in Pittsburgh for the
24 most part as Director of the Center for Local Tax
25 Research in Pittsburgh.

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2 I knew everybody was going to talk about
3 the merits of this. I was going to talk about ways
4 that you could screw it up, because I think Council
5 is worried about the possibility of something going
6 wrong. And so we have done this in 17 cities and a
7 couple boroughs in Pennsylvania and so I'd like to
8 talk about what worked and what didn't work.

9 The first thing is, make small shifts at
10 first and then you can make larger shifts as people
11 get used to it. One thing is that taxpayers should
12 be able to predict changes in their tax bills. So
13 you don't want to have abrupt shifts unless there's
14 a crisis. And I'll mention that in a minute.

15 And also, as soon as you start taxing
16 the land and buildings separately, it gives chance
17 for the assessors to start adjusting to changes in
18 the market, and also it gives the chance for people
19 to appeal their land values independently. Right
20 now you can't appeal your land value. You can only
21 appeal the total. If you put a 1 mill shift, if you
22 raise land tax by 1 mill and lower something else by
23 the same revenue, then all of a sudden every
24 property owner has standing in court to say, "Well,
25 my land value is not right." So that gives the

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2 taxpayers a chance and the assessors a chance to
3 start adjusting. And if you make larger shifts
4 later on, then you have -- in order words, you don't
5 fix the assessments first and you don't introduce
6 the land tax first. You gradually do both of them.

7 The only two cities that rescinded the
8 land value tax did so because they got a big tax
9 shift all at once, and it antagonized people who
10 were over-assessed. And those people were at war
11 with it. One abandoned it right away and the other
12 abandoned it years later. But it created a very
13 angry group of taxpayers, mostly because they got
14 hit with it all at once, and also because the
15 emphasis was on who would pay more and who would pay
16 less and they felt that they were being targeted to
17 pay more.

18 On this outline, the third one is, avoid
19 class warfare. I'll skip down to that for a second.
20 The important thing -- and this is something
21 Philadelphia has going for it better than anybody
22 else -- is you have people who represent people who
23 will pay more. The Board of Realtors supports this,
24 there's some very powerful members of the Board of
25 Realtors who pay more, and pay a lot more. And so

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2 the approach that the Board of Realtors have used
3 with their own membership has been, if this has the
4 benefits that it's claimed for -- and as we look at
5 it, we think it does -- it's better to pay a high
6 tax in a City that's dynamic than to pay a low tax
7 in a City that's dying. And this attitude of the
8 Board of Realtors is probably your key --
9 cultivating this attitude is what helps keep this
10 from being a political hot potato.

11 There's no guarantee, even now, with the
12 current packages that you will be revenue neutral.
13 Anytime you change taxes, you can slide an increase
14 in there. But the political repercussions are such
15 that you should never do it. If you have to
16 increase taxes, you should say, Look should we
17 increase land or should we increase wages or should
18 we increase property or increase something else?"
19 If it's going to be an increase, you should bite the
20 bullet and say it's going to an increase and then
21 say which of these taxes is least burdensome. And I
22 think you'll find land tax to win on that.

23 If you're going to shift them, don't mix
24 a shift with an increase because the people who
25 think that this is supposed to save them money,

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2 don't know whether it was the increase that cost
3 them more or the shift that cost them more. So part
4 of this is never mix the two in a given year.

5 Never complicate it. Don't go from wage
6 tax to land tax and from property tax to land tax in
7 the same year. Do one, one year and one the other
8 so people can see how those shifts affect them.
9 Look for ways to maintain parity. In other words,
10 if you're doing this and you find that you're
11 putting the tax burden on the retailers because
12 you're taking it off the homeowners, think about in
13 one of the subsequent years going from the
14 mercantile tax to the land value tax, because the
15 idea is not to pit one group against another. And
16 even though the merchants will be better off if the
17 community develops -- a lot of merchants understand
18 this -- it just sends a message that you're not
19 neglecting one group or targeting one group in order
20 to help another.

21 Another thing you can do, you have
22 various redevelopment programs and loan programs and
23 things to help people renovate their property. You
24 can make this formally a qualifier; if you pay more
25 on your land value tax, if you pay on your property

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2 tax, that puts you on the list of people eligible
3 for these loans. And that way it's, again, saying,
4 "We're trying to get the City redeveloped. We're
5 not trying to punish you. Here you are. You're
6 getting a tax increase and you're qualified for the
7 loans."

8 The thing that undid Pittsburgh was that
9 there was a political coup and the Republican Party
10 took over and the -- I don't want to bad-mouth the
11 Republican Party because they have a much better
12 person in charge now. The first Republicans fired
13 85 assessors and went in there and did a very
14 political change of the assessment and hired an
15 outside company that totally botched the land
16 values.

17 I think, in a way, you're lucky that you
18 don't control the assessors. I think if you talked
19 to county commissioners in any county in
20 Pennsylvania, they will tell you that they wished to
21 God they did not have to be responsible for the
22 assessors. If you're going to mess with the
23 assessment system through a Home Rule Charter
24 amendment or something, probably the only thing that
25 will work is to have an elected assessor. And the

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2 only reason that's good is an elected assessor has
3 to talk about the assessments every four years and
4 so he can't run on something else and then mess with
5 the assessments.

6 I'd like to answer some questions that
7 came up that were very specific. I like the
8 specific questions are kind of what I most like.
9 One was about supermarkets, what will happen --
10 since there's very few Councilmembers here, I'm
11 hoping that I can get their attention. In fact
12 there's only two Councilmembers here, so half my
13 audience is gone -- there's three now.

14 The thing with supermarkets that they do
15 have parking lots, but not of them have the same.
16 We looked at this in Pittsburgh. The supermarkets
17 that had the competitive disadvantage from land
18 value tax were the once in the prime neighborhoods
19 with the huge lots. The trend has been to kill the
20 neighborhood supermarkets and build these big magnet
21 supermarkets that depend on automobiles and have
22 large parking lots. And what we found is the
23 supermarket in the poor neighborhood that is a
24 neighborhood supermarket has a relatively small
25 parking lot and maybe half of his land is parking

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2 lot has a competitive advantage under land tax over
3 a supermarket on very expensive land where 80
4 percent of its land footprint is parking lot. So
5 you actually give a competitive advantage to
6 bringing back the neighborhood supermarkets,
7 especially in the poor neighborhoods where the land
8 value is lower.

9 Ikea was mentioned. Ikea, in fact, I'm
10 sure -- I haven't looked, but it's just the pattern.
11 Ikea, Home Depot, those big corporate stores with
12 the big parking lot are like the supermarkets I was
13 just describing. They would pay more under a land
14 value tax. So would the guy who's sitting on the
15 land that they're interested in. And if they're
16 going to do more with it than he will, then their
17 increased tax is largely off set by the fact that
18 he'll let go of the land cheaper and they can get
19 hold of the land cheaper. The only place where that
20 doesn't apply is where the City has the land or
21 something.

22 This ties into the Sunoco question.
23 Sunoco building, their tanks are mostly all exempt
24 because they've appealed and got them classified for
25 machinery. Sunoco pays no taxes on any of the

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2 structures -- on most of the structures you see.
3 There are some office buildings and things. And the
4 question is what would happen if Sunoco left? Well,
5 they don't get out of paying the tax by leaving.
6 That's the magic of land value tax. A corporation
7 can't say, I'm going to take my land and go
8 somewhere else. So Sunoco is in a position that if
9 they decided they wanted to reduce their land value
10 tax, the best thing they could do is sell some of
11 the land to somebody else. Well, who would buy it
12 but somebody who's going to use it more than Sunoco
13 is using it. It's harbor land. It's very valuable
14 land. So if Sunoco said, "To cut our land value
15 tax, we're going to pack our oil towers closer
16 together or do whatever we have to do and we're
17 going to make this land available," they don't
18 actually cut their tax until somebody buys it. And
19 under a land value tax, who is going to buy it
20 except somebody who says, "I have some good use for
21 harbor property." And there's also some super fund
22 questions. The minute Sunoco stepped away from that
23 land, they would be liable and the whole corporation
24 would be liable for any cleanup. And it's not
25 particularly Sunoco's fault, but oil is kind of

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2 nasty. So I don't see Sunoco leaving as a cause of
3 this. I do see them complaining.

4 Again, the winners and losers thing is
5 not really -- if there's something you can do for
6 Sunoco to mitigate that, then you should consider
7 it. Because it's not an antagonism with Sunoco.

8 In Pittsburgh, everybody said -- the US
9 Steel building saved a tremendous amount of money.
10 Everybody said, "Why are you trying to help the US
11 Steel building?" But in neighboring Clairton, the
12 US Steel plant held a lot of land and wasn't doing
13 much, got an increase, and everybody said, "What
14 have you got against US Steel? And my answer was
15 the more jobs you create in a given amount of land,
16 the better the taxes should be for you. And the
17 less jobs you create in a given amount of land, the
18 worse the tax system should be for you.

19 And Sunoco, I'm sure, has a significant
20 number of jobs, but it's a huge amount of land and
21 it's very valuable land. So without trying to be
22 for Sunoco or against Sunoco, the question that land
23 value tax kind of automatically poses is, if you're
24 doing a lot with this land, it will probably help
25 you; and if you're doing less with the land, it

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2 probably won't.

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4 You can't help Sunoco in going from
5 buildings to land because they've already got their
6 buildings exempted. You would probably help Sunoco
7 in going from wage tax to land because people don't
8 want to work in the City of Philadelphia because of
9 the wage tax. The more you reduce the wage tax, the
10 better.

11

12 And the other thing I'd like to say,
13 Philadelphia under Rendell has had the very sound
14 approach to this. People want to know what the wage
15 tax -- especially if they're going to buy a home.
16 They're looking at not just how high the wage tax
17 is, but whether it's going up or going down. The
18 fact that it's been going down, even by a little
19 bit, is very encouraging to somebody who's thinking
20 about buying a home. And so I don't think you have
21 to rush to get the wage tax down to 2 percent or
22 something. If you just keep shaving it off, it just
23 shows a commitment in the right direction. And that
24 commitment, that sense of commitment is what governs
25 perception, and that, I think, is the most important
thing you can do with it.

26

 As a final thing, I'd like to say I'm

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2 not particularly whetted to Saidel's plan. It's a
3 good plan. I think Councilman Cohen's proposal to
4 exempt people at the bottom of the wage tax ladder
5 would be slightly less useful in terms of
6 development, but more useful in terms of it would
7 help poor people more.

8 Both would help development, both would
9 help poor people. I think that those kinds of
10 amendments are very, very useful. And if we can get
11 state authority to do Councilman Cohen's variation
12 on the wage tax, I think that's a good amendment to
13 Saidel's proposal. Thank you.

14 (Applause.)

15 COUNCILWOMAN BLACKWELL: Thank you very
16 much. Your school's reputation is renown. And we
17 thank you for your efforts in this field over the
18 years.

19 Questions?

20 Councilman Cohen.

21 COUNCILMAN COHEN: Thank you, Madam
22 Chair.

23 It seems to me that most of the
24 complaints exist under both systems. Nobody likes
25 sudden increases in taxes. They always complain if

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2 that happens. People are always fearful that they
3 are being taxed unfairly compared to others. And
4 the players may change in that diagram. How much
5 change you think it really makes, in your experience
6 over the years?

7 MR. SULLIVAN: I'm amazed at how much
8 change has come. In some of these cities the tax
9 shift was fairly small.

10 I should also point out, all of these
11 cities were distressed. Nobody antagonizes the big
12 land owners unless their City's in trouble. So
13 we've had huge shifts. And I think it's -- I don't
14 think the decrease -- you know, politicians like to
15 talk about the decrease in the building tax or the
16 decrease in the wage tax. I think the big
17 difference is if you have a lot that was paying
18 \$30,000 a year and the tax change comes in and this
19 year it's paying 32 and the next time they change
20 it, it's going to be paying 35 and after that it's
21 going to be paying 40, you start -- you see that
22 this is going to eat into the idea that you're
23 depending on the land to be worth more in 10 years
24 and so you're waiting. And as soon as that tax
25 starts increasing, you say, "I want to develop it

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2 now." I think that's the root of the incentive.

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4 But the Henry George Foundation has a
5 lot of statistics on how much increased development
6 occurred in each of these cities.

6

7 I should say -- because I forgot
8 somebody brought this up,. It's not geographically
9 even. When Pittsburgh shifted to land value tax,
10 the big new developments were downtown, they were
11 next to the biggest park in the richest residential
12 wards, they were in the urban -- near the University
13 of Pittsburgh. So the biggest increase was where
14 the land was valuable. There was an increase in
15 building permits in the poor neighborhoods, but they
16 were primarily renovations. In other words, the
17 neighborhoods that are most analogous to North
18 Philadelphia or the blighted pockets in various
19 places in the City, in those neighborhoods, you
20 tended to just have an increase in the number of
21 people who were putting on a small addition or
22 replacing the roof or remodeling their bathrooms.
23 Those people didn't have a lot of money to invest.

23

24 One of the problems is investors are
25 trying to capture those land value increases. So
the speculative investors are ones that say, "I want

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2 to build in an area that's going up in value,
3 because not only will I get back the investment in
4 my building, but because that land's going up in
5 value, I'll get a double return." And the handicap
6 you have in low value areas or areas that are going
7 down is the investor says, "Well, even if I get a
8 return on my building, I'm going to lose money on my
9 land."

10 Land value tax tends to ameliorate that.
11 Not tremendously. You still get your biggest
12 increase in development in -- you know, the parking
13 lots in Center City are probably the first to start
14 saying, "Oh, boy, we should develop this now."

15 COUNCILMAN COHEN: Well, we're
16 complaining bitterly about the high parking rates
17 now in Center City. What would be the impact of the
18 land use value tax on that? Would that tend to
19 increase our parking.

20 MR. SULLIVAN: We did a seminar
21 specifically on that a couple weeks ago. The simple
22 answer is, if you go from building tax to land tax,
23 you give an advantage to the parking garage over the
24 parking lot. So you would tend to get more garages
25 and fewer lots. If you go from wage tax to land

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2 tax, you're giving the advantage to the office
3 buildings. And so the people who are willing to
4 come in here and use mass transit would be the big
5 beneficiaries. The people who insisted in coming in
6 with the cars would probably find that parking goes
7 up. So it its always a trade-off there.

8 The problem, Yogi Berra said, "Nobody
9 eats at that restaurant anymore; it's too crowded."
10 And if you have a restaurant, that's the kind of
11 problem you want to have. And if people say,
12 "Nobody goes into Philadelphia anymore; it's too
13 crowded," it's because so many people are going in.
14 But they won't be coming in their cars. If you make
15 that shift, they'll have to come in with mass
16 transit. If there was less of a wage tax, people
17 might be more willing to come in with mass transit.
18 So that's the trade off.

19 COUNCILMAN COHEN: Well, we haven't
20 found that shift to mass transit happen yet, but we
21 could live in hopes.

22 MR. SULLIVAN: Coming from Pittsburgh, I
23 just want to say our mass transit is terrible. I
24 love the mass transit in Philadelphia.

25 COUNCILMAN COHEN: What do you find

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2 about the Controller's proposal that you would
3 change?

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I noted you made a distinction, you
5 indicated that there's part of the City Controller's
6 proposal that you're not fully in accord with.

7

MR. SULLIVAN: I don't know that I would
8 change particulars, except if I were a
9 Councilmember, I would say let's take a little step,
10 look at it, and take it another little step. I
11 don't think you need to -- in fact, you can't commit
12 future Councils to follow through with this unless
13 you have a Home Rule Charter amendment. So you can
14 say, this is a guideline, but each step of the way
15 we would look at it. And if after two years you see
16 that you're bringing -- a wage tax cut is bringing
17 people in but retail businesses are having trouble,
18 then I wouldn't do that next wage tax cut, I'll do a
19 mercantile tax cut or do something that directly
20 benefits that segment that you're most worried
21 about.

22

COUNCILMAN COHEN: My thesis is, if we
23 have a wage tax cut in the neighborhoods, you're
24 going to strengthen retail business because retail
25 businesses have been unable to exist in many

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2 neighborhoods. There hasn't been enough buying
3 power in the neighborhoods to support, say, a shoe
4 repair shop, a cleaning establishment or dress or
5 simple clothes store.

6 But I guess, in other words, you think
7 the City Controller's plan may bite off too much at
8 one time before it could be fully digested?

9 MR. SULLIVAN: Well, you can resolve to
10 make a big shift. But the fact of the matter is,
11 the way the law --

12 COUNCILMAN COHEN: Philadelphians
13 usually don't do that, you know.

14 MR. SULLIVAN: The way the law is, the
15 people who are sitting Councilmembers in 2003 can
16 only pass the budget for 2004. And the City
17 Councilmembers in 2005 don't have to follow the
18 resolution. So if you resolve to do it a certain
19 way, whoever is on Council when step 3 or step 4
20 comes along, it's up to them whether to follow
21 through on that.

22 The other thing, something you brought
23 up earlier, the Uniformity Clause -- there's an
24 exception to this. The Uniformity Clause does not
25 let you levy a land tax in the City and not in the

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2 neighborhoods or whatever. The exception is there
3 are those business districts that -- you can create
4 a business district, and if the business district
5 wants to levy a land tax on itself to fund
6 additional services -- Pittsburgh did this, the land
7 tax is higher in the golden triangle of Pittsburgh
8 because the business district itself, the property
9 owners in the golden triangle came together and
10 agreed to have a small tax on land to fund their
11 operation.

12 COUNCILMAN COHEN: We have that in the
13 form of our special districts in the City where the
14 business owners tax themselves, say, to provide
15 additional cleaning costs, to keep the areas
16 cleaner, more repaired, that kind of thing.

17 MR. SULLIVAN: So you cannot do that,
18 but they can do it themselves.

19 COUNCILMAN COHEN: Mr. Mandel, how do
20 you respond to the questions raised about the City
21 Controller's plan?

22 MR. MANDEL: I think we're open to any
23 input. It's certainly something worth considering.
24 I think, as you've seen, the Controller's plan was
25 put forth -- some of the steps that we have taken

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2 pursuant to the plan have been baby steps. As long
3 as we get in the end to a place where we're making
4 Philadelphia a preferred place to live, work, and
5 visit, the Controller is thrilled. As the
6 Controller has often said to me, he doesn't need to
7 hit home runs, you can score as many runs with bunts
8 and singles. So we're happy to go slowly.

9 COUNCILMAN COHEN: Well, I have to
10 congratulate all of you in your patience because I
11 find for the first time, and that's probably due to
12 the fact that you've continually raised it over
13 time, that the idea is beginning to form a base of
14 support which it hasn't had in the past.

15 We're concerned about Philadelphia's
16 future. We worry about whether this might bring too
17 much change at any given time, whether it may bring
18 more problems than those that are cures. But I'm
19 sure as we continue to experiment, the new Tax
20 Reform Commission that will be operating beginning
21 next year will, I'm sure, give much more attention
22 to your proposals than they would have in the past.
23 So it may be that change will come to Philadelphia.
24 We find it difficult to accept because we tend to
25 blame change for everything. But I'm very grateful

1
2 to you for your presentation this morning. I think
3 I get a much clearer picture of it than before, but
4 I still worry about things like the parking rate and
5 the sudden change in feeling that everybody who
6 happened to get an increased tax bill may forget
7 their complaints in the past when they got increased
8 tax bills and just blame the change. So keep up
9 your educational work. I think it may well reap a
10 harvest in much shorter time than most of us
11 believed it would.

12 MR. MANDEL: Thank you, very much.

13 MR. SULLIVAN: Thank you, sir.

14 (Applause.)

15 COUNCILMAN COHEN: And to my young
16 relatively newly found co-alumni, I welcome you
17 despite the modest number of years you've been an
18 alumnus of Northeast High School.

19 MR. CONCANNON: I don't know what the
20 proper response to that is, but it's certainly a
21 pleasure meeting you, sir.

22 COUNCILMAN COHEN: Well, there's a young
23 man sitting in the audience, when I mentioned my
24 graduating class was '31, he had a look on his face
25 which indicated to me he thought that was deep down

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in the middle ages. And I suspect, to him, it really was.

(Laughter.)

COUNCILMAN COHEN: Thank you very much.

COUNCILWOMAN BLACKWELL: Thank you very much.

Is the honorable Sala Udin here?

MR. MANDEL: Councilman Udin could not be with us, but his office led us to a statement that I would like to present for the record. I make the statement available to the Sergeant-at-Arms for distribution.

COUNCILWOMAN BLACKWELL: Thank you.

MR. MANDEL: This is actually an article that appeared in the Pittsburgh Post Gazette right after the change moving away from land value taxation back to a traditional property tax system. I will just give you the highlights of the article.

Essentially, what happened was Councilman Udin's district, which includes the downtown district -- in fact, I would probably liken Councilman Udin's district to our 5th district here in Philadelphia where it has the very wealthy downtown neighborhoods as well as some of the very

1
2 working class and lower class neighborhoods in the
3 City. The downtown and Pittsburgh was
4 disproportionately increased in taxes after the
5 shift away from land value taxation. Here's a few
6 lines from the article.

7 "Caught between a May 15 mayoral primary
8 and a recent county-wide reassessment that sent land
9 values and tax bills skyrocketing in City
10 neighborhoods such as Shadyside and Squirrel Hill"
11 -- that's the equivalent of Chestnut Hill in
12 Pittsburgh -- "downtown building owners are bracing
13 for a tight year. Making their situation tighter is
14 the recent decision by Mayor Tom Murphy and City
15 Council to undo the way City collected property
16 taxes for the last 88 years."

17 Some of the quotes from some of the
18 people that are paying higher:

19 "If they keep it, it's a recipe for
20 disaster. The threshold for development has just
21 gone up," said Allen Wampler, owner of downtown real
22 estate consultants Synergy Real Estate Corporation
23 and former Development Director for Allegheny
24 County. The new system and resulting downtown tax
25 increases may make you think twice about being in

1
2 the City. If you look at some of the buildings that
3 paid more, the USX Tower, perhaps Pittsburgh's
4 Liberty Place, saw an increase in taxes of \$1.24
5 million. Their Mellon Center, \$1.19 million.
6 Another Mellon property is \$1.8 million.

7 This, I hope illustrates what happens
8 when you move from land value taxation back to the
9 traditional property tax system. If you reverse the
10 situation, the people who this article talks about
11 losing would be winners. The large downtown
12 buildings would save money and the same problems
13 that this article points out about the shift would
14 be reversed, these would become opportunities. I
15 submit that for your consideration.

16 COUNCILWOMAN BLACKWELL: Thank you very
17 much.

18 MR. MCPHERSON: The next three witnesses
19 are Napoleon Saunders, the Honorable Stephen Reed,
20 and Carter Murdoch.

21 MR. MANDEL: This is Brett Mandel again
22 from the Controller's Office.

23 COUNCILWOMAN BLACKWELL: One moment
24 please. We will have a five-minute break for the
25 stenographer. Thank you.

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(Brief recess.)

COUNCILWOMAN VERNA: Mr. Mandel.

MR. MANDEL: The Controller's Office will submit into the record a statement from Mayor Stephen Reed.

COUNCILWOMAN VERNA: Do you have copies of the statement?

MR. MANDEL: They are here for you.

MR. MCPHERSON: Is Mr. Carter Murdoch here?

COUNCILWOMAN VERNA: The Clerk will please make certain that the stenographer gets a copy, please.

MR. MURDOCH: Madam President, I do not have a written statement. I just came up from Washington, D.C., and felt that I could give some further insight into the land value taxation project at hand.

My name is Carter Murdoch, Ph.D. in economics, specializing in real estate economics. I'm Managing Director of Research for the National Association of Realtors and principal economist. We run one of the largest real estate research institutes in the United States. We collaborate on

1
2 many group efforts with the Federal Reserve, and
3 private institutions around the country. We are
4 also collaborating on the project with the
5 Controller's Office, Drexel University, and the
6 University of Pennsylvania.

7 This project in particular has really
8 kind of raised some eyebrows and some interest among
9 our research staff. In particular, among our chief
10 economist David Loray (ph), who in particular really
11 likes the project in that it really -- it appears
12 and the research is indicating that it is a win/win
13 policy decision of which we see very few win/win
14 decisions or policy research opportunities.

15 We've been very active through the years
16 in helping support the mortgage interest deduction
17 and bringing into law the \$500,000 capital gain
18 which has no tax implications for homeowners.

19 We are in support of homeownership.
20 Homeownership has now ground from about 60 percent
21 to about 68.4 percent nationally. The purpose of
22 this project really is to encourage economic
23 stimulus and development. In addition to that, it
24 really does encourage homeownership.

25 I think the history really bears that

1
2 out in particular. If you look at Allentown and
3 Harrisburg and the reduction in the number of vacant
4 lots and the number and the percentage of residents
5 who have had their actual real estate taxes reduced,
6 I think that really does speak to the win/win of it.

7 Currently, the situation in most cities
8 with a taxation policy that is borne primarily by
9 dwelling or improvement actually encourages
10 homeowners to do improvements but not necessarily
11 bring it to get a permit. Ultimately, you get a
12 building permit. Ultimately, if we were to switch
13 the onus more to the land, the incentive to deceive
14 in that respect certainly is decreased. At the same
15 time, if we look at the appreciation rates across
16 the country, the US has received or has had about a
17 6.7 percent home appreciation rate per year over the
18 last 10 years. The City of Philadelphia has done,
19 actually, very well over the last three years. The
20 research division has measured that the average home
21 in the City of Philadelphia now transacts for
22 \$157,400; while in 1999, it transacted for \$124,800.
23 Many of us are aware of that. I've been a long-term
24 Philadelphia resident, as my family has, for three
25 generations.

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This appreciation really does benefit everyone. In particular, obviously, homeowners. At the same time and the reason it is a win/win is it also benefits the City because the City receives a portion through transfer taxes of all sales prices. And that is split, obviously, in most cases, by the buyer and the seller. And that is the case in the City of Philadelphia. So as homes appreciation, the City is able to recoup some additional revenues from the appreciation of those homes via the transfer tax.

At the same time, with the encouragement of homeownership and the reduction in the number of vacant lots, the number of transactions that occur within a community tend to increase. The increased number of transaction also contributes to a higher tax dollar amount coming through from real estate transactions.

Homeownership offers something that nothing else in our economy does. In particular, it offers the ability to build wealth. The Federal Reserve Bank as of 2001 equates the average homeowner to have built \$174,800 of equity. That's in their home, that's in investments, that's in

1
2 total equity, total wealth. At the same time,
3 renters have accumulated on average only \$6,800 in
4 total wealth or total equity.

5 This transacts into a community that is
6 more caring, wants to grow.

7 We've collaborated with some research
8 projects with the joint center from Harvard and a
9 particular homeownership actually lends itself to
10 more than just a building up of equity. Homeowners
11 tend to have children with higher test scores. It
12 results in, obviously, higher quality neighborhoods.
13 A caring that doesn't exist in some cases in more of
14 a rental or transient community.

15 So ultimately, what I wanted to come
16 here and basically say is, the Research Division of
17 the National Association of Realtors has
18 collaborated with this research project and we
19 believe collectively that it is in the best interest
20 not only the City of Philadelphia but homeowners and
21 the real estate community as a whole.

22 (Applause.)

23 COUNCILWOMAN VERNA: Thank you very
24 much.

25 MR. MCPHERSON: The next witness is

1

2 Marilou Buffum.

3

4 MR. MANDEL: Marilou Buffum had to
5 leave. She has left a statement with us. I offer
6 it to you.

6

MR. MCPHERSON: Thank you.

7

8 COUNCILWOMAN VERNA: I would ask the
9 Clerk to make certain that the stenographer also has
10 a copy of whatever testimony is being presented to
11 the Councilmembers.

11

MR. MCPHERSON: Steve Markowitz.

12

13 MR. MANDEL: Steve Markowitz has left
14 his testimony as well. I offer it for the record.

14

MR. MCPHERSON: Nancy Hurt.

15

16 MR. MANDEL: Nancy Hurt has also
17 provided us with testimony that I offer for the
18 record.

18

MR. MCPHERSON: Reverend Bruce Edwards.

19

20 COUNCILWOMAN VERNA: Nice to see you,
21 Reverend.

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22 REV. EDWARDS: Nice to see you, Madam
23 President.

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Good afternoon.

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COUNCILWOMAN VERNA: Good afternoon.

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REV. EDWARDS: I can begin?

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COUNCILWOMAN VERNA: Please do.

Identify yourself for the record and proceed with your testimony.

REV. EDWARDS: I'm Reverend Bruce

Edwards, President of the Urban Leadership Council, and it is a privilege and an honor to be before the legislative leaders of our City today in support of what we think is an innovating and very exciting initiative.

Since the formation of the tax reform coalition that was spearheaded by the greater Philadelphia Chamber of Commerce, the City Controller's Office, several members of this honorable body and joined by a host of business, civic and grass root organizations, much has transpired on the tax reform front. This coalition that I speak of to date has played a dynamic role as it relates to the passage of legislation that provides for continued reductions in the City's burdensome wage tax, business privilege tax, the passage of legislation that supported the creation of the Tax Reform Commission, and recently our support of City Council bill 030073 that ties property tax increases to reductions in the City's

1

2 wage tax.

3

4 It is interesting to note that in the
5 span of one year, the citizens of our City have
6 benefited from this tax reform activity. On this
7 front, you, the members of City Council, our City
8 Controller and his staff, and members of the
9 coalition have shown what I'd like to call great
10 leadership and if I were campaigning, and I know you
11 are, I would not fail to point out these significant
12 accomplishments to the voters of Philadelphia.

12

13 As we all know, however, these positive
14 strides are only the beginning of the tremendous
15 task that is before us all as it relates to
16 returning our City to a position of growth and
17 economic vitality. Regrettably, as has been said
18 more than once here today, our City continues to
19 lose population at an alarming rate, robbing us of
20 the benefits of a vibrant middle class and our
21 competitive position relative to job creation and
22 retention remains negative. In a real sense, we
23 continue to manage decline as opposed to spurring
24 growth and positive economic activity.

24

25

I am here today on behalf of our member
organizations to lend our unqualified support to

1
2 what we believe will be a real catalyst for positive
3 change as it relates to taxation in Philadelphia
4 land value taxation.

5 The City Controller's Office through its
6 release of the Tax Structure Analysis Report, the
7 recently released study done by Drexel University
8 for the Controller's Office relative to the shift to
9 land value taxation and the work done by the Center
10 for the Study of Economics are all to be applauded
11 and now serve as a guide for further positive
12 movement towards reforming the way in which our City
13 collects taxes in general and assesses real estate
14 in particular.

15 Currently, the City derives
16 approximately 75 percent of its property tax revenue
17 from buildings and houses. The underlying result is
18 that we offer no real incentive for property owners
19 to build new structures, renovate existing
20 buildings, or for homeowners to maintain their
21 dwellings. To a great degree our current system
22 allows for slumlords and their propensity to allow
23 properties to deteriorate and to remain in a state
24 of disrepair year after year with no penalty or
25 incentive to be good citizens of our City. Land

1
2 value taxation challenges the prudence relative to
3 taxing buildings at all.

4 When I was a young seminarian, one of my
5 professor's favorite sayings to prospective young
6 pastors when it came to church administration was,
7 "Preachers, the money is in the land." That is the
8 basic truth and lends credence to shifting the
9 burden of tax ratables from what is on the land to
10 the land itself. Land value taxation, in my view,
11 will serve as a foundation for real neighborhood
12 transformation. Not only will we see vast acres of
13 land cleared for potential development, we will see
14 developers and land owners building homes and
15 business sites because it will pay them to do so.
16 Homeowners will not only have the impetus but the
17 resources to rehab and maintain their homes because
18 improvements won't ensure higher taxes, but will in
19 fact lower them, freeing monies that can then be
20 used for improvements and maintenance. New home
21 construction will increase because potential buyers
22 and homeowners will see the City as a good place to
23 make the single most expensive investment that
24 people make in a lifetime, the purchase of a new
25 home.

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There are some who might find fault with this plan. But clearly the majority of our current citizens and future residents will benefit from this innovative approach to meeting the needs of the City and its people. In excess of 75 percent of our residents who are property owners will see immediate tax reductions, and the City would see no reduction in tax collections. Before you and the citizens of our City, as has been said by the Ph.D. man, now the preacher response, it is a win/win proposition.

The question is, does this Body, the Mayor of our City, and other relevant entities have the leadership capacity to make this happen?

Others may say that this is too bold a plan, too ambitious. Yet bold action is exactly what is called for if we are to reverse the continuing loss of population and increase our ability to maintain and grow jobs.

Finally, let me say that this City that we all live and care so much about is too great and commands too noble a place in the history of this nation to be treated in a manner that merely recognizes the status quo. Freeing our citizens from regressive taxes will empower us as a City and

1
2 begin a new era of growth and opportunity for all
3 Philadelphians. The land value tax presents such an
4 opportunity and will further send a message to City
5 dwellers and suburbanites that Philadelphia is
6 serious about tax reform and tax reduction. It will
7 send a message across the nation that this City is
8 open for growth and opportunity. The charge before
9 all of us is to make this happen.

10 Most of us from time to time wonder what
11 we will leave behind that will benefit our children
12 and future generations. Putting into place a system
13 of land value taxation will be a lasting legacy and
14 attribute to those who serve in City government now
15 and a testament to the determination of an involved
16 citizenry as it relates to bettering the City that
17 we all love and care so much about. Remember, the
18 money is in the land. Thank you very much.

19 (Applause.)

20 COUNCILWOMAN VERNA: Thank you very
21 much, Reverend.

22 Our next witness.

23 MR. MCPHERSON: Naomi Zaslou, Susan
24 Sierra, Sandy Sorlien.

25 COUNCILWOMAN VERNA: Good afternoon.

1

2 Please identify yourself for the record and proceed
3 with are testimony.

4 MS. ZASLOW: I'm Naomi Zaslow, Public
5 Relations Director for the Homeowners Association of
6 Philadelphia.

7 President Verna and Members of City
8 Council, thank you for today's exploration of the
9 land value tax and the opportunity to speak on
10 behalf of HAPCO, the Homeowners Association of
11 Philadelphia.

12 Our organization's 3,000 members are
13 owners and managers of low and moderate income
14 housing throughout the City. HAPCO was started in
15 1954 and continues its dogged determination to
16 maintain and preserve and upgrade the City's housing
17 stock. It hasn't been easy, as owners struggle
18 under the burden of burgeoning tax increases and the
19 rise in the cost of water, insurance, and repairs.
20 Housing, especially low and moderate income housing,
21 is a crucial commodity.

22 The land, the taxes, the value, and the
23 assessment of property are essential to the
24 stability, recovery and growth of the City as well
25 as the housing industry. Our board and our members

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are studying the land value tax proposal because we feel it is worth evaluating.

We ask that City Council and the Controller's Office provide more detailed information and examples of the ramifications of the land value tax. Property owners, real estate professionals and tax experts would benefit from more information on the land value tax, and information and understanding would engender reaction and possible support.

We understand that there have been positive results in Harrisburg and Allentown. We would certainly welcome positive results for Philadelphia. A new look at our City, our problems and our possibilities is welcomed by HAPCO.

Charts, graphs, and numbers may not be exciting, but they are essential if City Council is to take a new path to a new way of assessing property and collecting taxes. We hope that those things can be provided.

The members of the HAPCO Board appreciate City Controller Saidel's ongoing efforts to affect change for the better. As the Homeowners Association of Philadelphia reflects on the time

1
2 that we were the City of Homes, we look to the
3 possibility of new ways of assessing taxes in the
4 future that will encourage private property owners
5 to do business in the City, homeowners to live in a
6 City with a more hospitable tax structure and a tax
7 plan that adds to the financial strength and
8 stability of Philadelphia in the 21st Century.
9 Thank you.

10 (Applause.)

11 COUNCILWOMAN VERNA: Our next witness.

12 MR. MCPHERSON: Kevin Mazzucola.

13 COUNCILWOMAN VERNA: Good afternoon.

14 MR. MAZZUCOLA: Good afternoon,
15 President Verna and members of City Council. My
16 name is Kevin Mazzucola and I'm Executive Director
17 of the Automobile Dealers Association of Greater
18 Philadelphia. I'm here today on behalf of our
19 Philadelphia members who sell and service new
20 vehicles in 28 stores within the City limits who are
21 opposed to the institution of a land value tax.

22 Even though my members disagree with the
23 City Controller proposal for a land value tax, I
24 want to compliment him for stimulating the
25 discussion of a bolder approach to reducing

1
2 Philadelphia's taxes. In the past, most of his
3 other proposals have benefited automobile dealers
4 and other businesses in the City. It's hard to
5 argue with targets set for reduced rates on the wage
6 tax and business taxes.

7 The Controller's land tax is a concept
8 that has never been implemented by the City. The
9 basic premise of his proposal is that it will be
10 revenue neutral, rates on land and buildings would
11 be set in such away as to guarantee the City the
12 same amount of revenue it now collects. We,
13 therefore, must look at it as a stand-alone measure
14 that could be implemented by the City independently
15 of other tax changes and with no risks to revenue
16 loss.

17 We also believe that if the City were to
18 experience substantial revenue losses given the
19 current economic climate, it would potentially raise
20 the taxes and the rates of the business privilege
21 tax and the wage taxes to recover the lost revenue.
22 However, if the City were to institute a land value
23 tax which would require a massive citywide
24 reassessment of properties, it seems unlikely that
25 it would abandon the scheme. Motor vehicle dealers

1
2 would have to live with a system of taxing real
3 estate that we believe is fundamental unfair and
4 damaging to our businesses.

5 Prior to this hearing, we were able to
6 analyze the impact of this proposal on 20 of the 28
7 new car dealers in our City. Our analysis found
8 that 2 of the 20 dealers would experience a
9 relatively small tax reduction. And that the other
10 18 would experience tax increases, many of them very
11 steep increases. The breakdown are as follows:
12 Three would face increases of less than five
13 percent. Three would face increases between 5 and
14 10. Four would face increases between 10 on 20.
15 Two would have increases between 20 and 30. And
16 three would face increases of more than 50 percent.
17 And indeed one dealer's taxes would go up 100
18 percent.

19 The average change for the 20 dealers
20 was a 24 percent increase in real estate taxes.

21 Our analysis used a current assessment
22 on land and improvements as determined by the Board
23 of Revision of Taxes, and we recognize that these
24 breakdowns between land and buildings might change
25 under the more careful reassessment that would be

1
2 carried out prior to the institution of a land value
3 tax. The final impact on various dealers may be
4 somewhat less harsh or it may be worse. It seems to
5 us unlikely that it would leave new car dealers
6 better off.

7 The major problem with the land value
8 tax, from our point of view, is that it fails to
9 recognize that the lots on which we store our
10 inventory are in effect our warehouses, and also at
11 times extensions of our showroom floors. The lots
12 are paved, lighted, and often landscaped around the
13 perimeters but they do not support buildings. But
14 neither are they blighted properties that detract
15 from the property values of their neighbors and from
16 overall property values in the City. Rather, they
17 are integral assets of our business, and as such,
18 they are helping to sustain an industry that
19 produces 2700 jobs and close to a billion dollars in
20 gross sales and \$10 million a year in taxes.

21 I want to emphasize that this data is
22 for the Philadelphia dealers alone. It doesn't
23 include the economic activity generated by our
24 suburban dealers, some of which also benefits City
25 workers and businesses. Nor does it include the

1
2 three-quarters of the of a million dollars a year
3 our Annual Auto Show produces for the Pennsylvania
4 Convention Center, totaling over \$5 million since
5 the building opened.

6 Operating a new car dealership in the
7 City of Philadelphia is a challenging proposition,
8 given the lower business taxes and more affluent
9 customer base in the suburbs. Twenty years ago
10 there were more than 40 new car dealers in the City.
11 Before the 1984 Business Tax Reform Act gave the
12 City more flexibility in levying taxes, business
13 taxes here were a crushing burden to our industry.
14 As you know, the automobile industry is highly
15 cyclical. Despite the high cost of our products,
16 car dealers operate on narrow margins. A City gross
17 receipts tax forced dealers to pay very high taxes
18 even in years when they lost money.

19 Along with population loss, the City
20 business taxes were responsible for dealers leaving
21 the City. But over the course of the last 15 years,
22 City Council has done a lot to make the tax burden
23 more bearable. Over last decade, you rejected
24 proposed increases of the City wage tax and, in
25 fact, began steadily reducing that tax. You reduced

1
2 City business taxes on retailers who operate on thin
3 margins as car dealers do. You support an exemption
4 from City sales tax of automobiles purchased by
5 suburban customers. While Philadelphia dealers
6 still face higher taxes overall than dealers in the
7 suburb, the difference has been significantly
8 narrowed.

9 Mayor Street's proposal to accelerate
10 business tax reductions in the years beyond Fiscal
11 Year 2003 is another positive sign for our industry
12 as we look forward to the reductions. The proposed
13 land value tax would reverse that trend.

14 On behalf of our dealers operating
15 within the City and employing those workers in the
16 City of Philadelphia, I ask you to continue the good
17 work you've been doing in recent years to reduce
18 Philadelphia's tax burden but also to oppose the
19 institution of a land value tax. Thank you.

20 COUNCILWOMAN VERNA: Thank you very
21 much. I don't think there are any questions.

22 Our next witnesses.

23 MR. MCPHERSON: Christine Schwarz,
24 Melani Lamond and Jeff Hacket.

25 MR. MANDEL: Excuse me, Madam President.

1

2 Sandy Sorlien is with us now.

3

4 MS. SORLIEN: Thank you, Madam
5 President. My name is Sandy Sorlien, S-O-R-L-I-E-N.
6 I'm listed as representing Ridge Park Civic
7 Association, but I am here testifying just as a
8 private citizen.

8

9 I'm in favor of the land value tax for
10 Philadelphia even though my own taxes would go up
11 under such a system because I have a big yard. I'm
12 a photographer who lives on the Roxborough-Manayunk
13 line and I have lived in that area for 12 years. I
14 also lived in Northern Liberties 10 years; Queen
15 Village, 3 years. I was born in Philadelphia and
16 lived here all my adult life in the Philadelphia
17 City limits by choice.

17

18 I published two calendars in the early
19 1990s of photographs I took of Philadelphia's
20 historic buildings, the houses of Fairmount Park and
21 landmarks of architecture. I recently completed
22 shooting my own neighborhood for a book on Manayunk.

22

23 For my first full length book of
24 photographs, I traveled through all 50 states
25 photographing architecture. Over eight years of
shooting starting in 1988, I saw suburban sprawl

1
2 beginning to suck the life out of down towns and
3 spread ugliness and sameness all over the open
4 country around these towns. It got worse with every
5 trip.

6 In my beloved Philadelphia, I see older
7 buildings going down for parking garages. I see
8 blighted houses sitting that way for decades. I see
9 empty lots and surface parking lots everywhere like
10 big holes in the urban fabric.

11 When I started photographing
12 architecture, I didn't really understand the forces
13 behind the rapid changes in the countryside and the
14 inertia in cities. I just knew I was seeing
15 something bad. It looked bad. For a visual person,
16 that's a painful thing. It also felt bad. I didn't
17 want to be in places like that. And truly I don't
18 think anyone does.

19 Most Philadelphians agree that the
20 current system of taxation in Philadelphia is broken
21 and has been chasing our residents away for decades.
22 We have to try something serious and we have to try
23 it now. A two tiered gradual shift toward a land
24 tax makes sense to me the way it was done in
25 Harrisburg and other Pennsylvania towns and cities.

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As the New York Times recently

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proclaimed in its Sophisticated Traveller Magazine,

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Philadelphia is one of America's last great walking

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cities. The reason Philadelphia is so pleasurable

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to walk through is because of the way it looks and

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feels. The streets are human-scaled and exact and

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the City is full of wonderful historic architecture

9

and charming neighborhoods. People come here for

10

those things. They do not come here because of all

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of our lovely surface parking lots and suburban-type

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drive-in drug stores and car dealerships and big box

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stores and trash-strewn lots and decrepid inner-city

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houses.

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Rewarding the owners of those kinds of

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properties by keeping their taxes low is killing the

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essential character of Philadelphia. It is killing

18

Philadelphia as we know it.

19

Thank you.

20

(Applause.)

21

COUNCILWOMAN VERNA: Thank you very

22

much.

23

Please identify yourself for the record

24

and proceed with your testimony.

25

MS. SCHWARZ: My name is Christine

1
2 Schwarz. I am a resident of Manayunk. I'm listed as
3 representing the Manayunk neighborhood Council, and
4 yet I am here as a private citizen.

5 My first encounter with land value
6 taxation came at a meeting that I attended in Olney
7 in the month of December. I'm not quite sure how I
8 got there, but it sounded like an intriguing
9 possibility of bringing about overall reform in the
10 City of Philadelphia in the area of taxation that
11 would touch on many other aspects that are
12 problematic here. I came back from that meeting
13 tremendously excited and hopeful that this really
14 could bring about definitive change in our City.

15 I have material here. I'll be brief
16 about the points that I want to make that are not
17 quite the same that have been made earlier.

18 First of all, I want to say that I
19 believe that land value tax will help transform
20 Philadelphia and help it to become one of America's
21 great cities because it acknowledges issues related
22 to complexity. When our tax system was put into
23 effect in the last century, people believed that the
24 world operated like a gigantic machine. If there's
25 a problem with the machine, a breakdown, you

1
2 identify its cause and you remedy it. However, in
3 the past half century another view of
4 problem-solving has emerged, a model that resembles
5 an ecological system. In this approach, communities
6 can be looked at as a set of inter-dependent parts
7 which together make a whole that is inter-dependent
8 with a larger environment.

9 The present system of real estate
10 taxation presupposes a simple cause and effect
11 process. When you need more money, you raise taxes.
12 If taxes become too burdensome, then fix that part
13 that affects the people being hurt. Unfortunately,
14 these straightforward remedies only create more
15 problems of a different kind and they still don't
16 generate enough money to pay for the services our
17 citizens require.

18 Controller Saidel's tax reform
19 proposals, cutting business taxes, wage taxes and
20 changing the way property is taxed simultaneously,
21 address the problems our City faces holistically.

22 You have before you sufficient material
23 that you can read for yourselves, so I will not
24 burden you by rehashing the information. Only let
25 me make this point: These are not stopgap measures

1

2 like other reforms that are being proposed. They
3 are systemic. They are interest-related. They will
4 work here as they have in other Pennsylvania cities
5 like Harrisburg and Allentown and in countries like
6 Australia and Denmark.

7

I have presented the ideas of land value
8 tax to the members of two civic associations of
9 which I am a member, Wissahickon Neighbors Civic
10 Association and Manayunk Neighborhood Council, and
11 the membership there received these ideas favorably.

12

Finally, I am concerned on a personal
13 level about the large number of vacant lots that
14 blight our City. They are eyesores. They are
15 discouraging.

16

When my family moved here four years
17 ago, we thought that certain parts of Philadelphia
18 looked like World War III had already taken place.
19 Who would want to move into a place like this? In
20 addition, properties like this bring in a pittance
21 in revenue.

22

In my section of Manayunk, I pay \$1200 a
23 year in taxes. If you were to tear down my house,
24 that same piece of property would bring in \$100 a
25 year in taxes.

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Why should we continue to encourage blight of this sort? We ought to find a means to bring more money into our coffers and make our City look better.

Finally, in a related matter, why can't the City find more effective ways of collecting taxes from slum lords or owners of abandoned properties? Why can't the City devise a better way of recycling repossessed properties more quickly?

I urge you to adopt land value taxation as proposed by Controller Saidel. Thank you for this opportunity.

(Applause.)

COUNCILWOMAN VERNA: Thank you very much.

Our next witnesses.

MR. MCPHERSON: Melani Lamond, Jeff Hackett, Fred Murphy.

COUNCILWOMAN VERNA: Good afternoon, sir.

MR. MURPHY: I'm Fred Murphy. I'm a resident of the Fiddler Square area of Philadelphia. And I'm a professor in Fox School of Business and Management at Temple University.

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2

The Center City Residents Association

3

did a study of taxes in the City of Philadelphia and

4

I have one copy of the report which I can make

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available, also just released on our CCRA website.

6

And what I'm going to speak about today is drawn in

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part from that report and also from conversations

8

with other residents in Center City.

9

As residents of Center City, we choose

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to share our prosperity with others by paying for

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schools and social services we do not use. We make

12

this choice because of the pleasure we derive from

13

City living, yet we are not entirely happy.

14

Philadelphia continues to shrink while other cities

15

are growing, in good part because the tax system

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drives business and people from the City. Taxes in

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the City are exorbitant. We can document families

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where City taxes are 20 percent of take-home pay.

19

The City system fails because it's inefficient,

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encourages cheating, is unfair in its application,

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even among residents of the same neighborhood, and

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has distorted the regional economy to the detriment

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of the City.

24

When real estate assessments soar, the

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City should immediately cut the rates to cushion the

1
2 impact of the jumping assessments and to avoid
3 shocking the real estate market or should use the
4 increased revenue to cut the wage tax. Furthermore,
5 the City should look seriously at a tax on the value
6 of the land rather than the improvements. CCRA
7 endorses the principles of the land value tax
8 because the current assessment rules encourage a
9 lack of maintenance and discourages the upgrading of
10 properties in Center City and adjacent neighborhoods
11 and are unfair.

12 Let me draw from the experiences our
13 members have had.

14 "I'm a new home owner and resident of
15 Philadelphia. And after receiving my real estate
16 tax increase, I started looking at comparable
17 neighborhood property tax rates. I was appalled and
18 incensed that the BRT is valuing for tax purposes
19 rental real estate properties at substantially lower
20 market rates than the owner-occupied properties.
21 Why should an owner of real estate investment
22 property and in many cases the absentee owner living
23 outside the City be subsidized by owner occupied
24 residents? Subsidizing rental real estate
25 properties artificially encourages and supports

1
2 rental real estate ownership and exacerbates the
3 City's revenue problems and inconveniences
4 neighborhoods."

5 That was from one resident. Here's
6 another.

7 "A rental apartment property may be
8 valued based on its income rather than full market
9 value as single family homes are. Of course, this
10 can be highly inaccurate too. I gave the BRT an
11 example of a proposed apartment project and asked
12 for an estimate of what the taxes would be. The
13 number given was so high that I questioned whether
14 it was comparable to other apartment projects such
15 as Dranoff's Locust on the Park might pay. At that
16 point, the truth came out. I was told that the true
17 number would be considerably less than the formula I
18 had been given would indicate."

19 Seems to be a lot of flexibility in what
20 the assessments are.

21 Lastly, one of our members who went to
22 the hearings to appeal his assessment said that what
23 first happened was that the attorney brought into
24 help residents told them to enumerate everything
25 that was wrong with their properties. Then after

1
2 hearing the cases, it was clear that exaggerating
3 about the problems are demonstrably failing to
4 maintain the property lowered people's taxes. This
5 person said the members of the panel were like old
6 pols handing out favors to constituents.
7 Essentially, they are giving back a piece of what
8 the City has taken expecting the people to be
9 thankful. He also says that when an owner-occupied
10 house had rental units, the property value was based
11 on the income stream without including the rental
12 value of the unit in which the owner lived.

13 What we have in Philadelphia is a tax
14 system that is broken. The assessments vary from
15 quixotic to destructive to the fabric of the City.
16 The process encourages lying, exaggerated claims,
17 bad maintenance and destruction of property values.
18 Most important, the current system leads to even
19 more cynicism about City governments and its
20 political leaders. If you don't fix the tax system,
21 you will seal the faith of the City. Thank you.

22 (Applause.)

23 MR. MCPHERSON: The next witnesses are
24 Jim Tayoun, Edmund Goppelt, Kathy Harris.

25 MR. MANDEL: I have the statement for

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Kathy Harris to be submitted for the record.

MR. MCPHERSON: Betsy Masters, Richard Biddle, Steve Conn.

COUNCILWOMAN VERNA: Please identify yourself for the record.

MR. BIDDLE: I'm Richard Biddle, I'm a Chestnut Hill resident, 140 Bethlehem Pike.

COUNCILWOMAN VERNA: Welcome.

MR. BIDDLE: Most of my comments are going to be related to the Northwest, but I would like to make a couple comments about the assessment issues, and I'll address them also in the text of my presentation.

The assessments are a mess, as Fred just mentioned. And it's very clear that if you look at residential properties, they're getting constantly reassessed. Commercial, industrial, and vacant land are not reassessed. And I'll get back to that in a minute.

But for the car dealers to come in here and claim that they're being potentially overtaxed if we go to a land tax is just outrageous because they're simply not reassessed now. Their assessments are all over the place. The man gave

1
2 the same speech last year. I called him on the
3 phone. And also I asked Council to look into it.
4 I'm not sure that that's happened either.

5 The land tax is a win/win proposition
6 for Philadelphia. Philadelphia's City Council needs
7 to take a leadership role in enacting it.

8 With a land tax residential homeowners
9 pay less and get more value for their up-front
10 investments for their residences. They pay much
11 less for the land value component, which is the
12 current speculative bubble drives up the hot
13 neighborhoods, and that is when they're purchasing
14 the residences. They pay much less in terms of the
15 current low land value taxes are capitalized into
16 higher prices for the land. Paying a higher land
17 value tax also means more affordable housing across
18 the board for Philadelphians. You can call it a
19 partial universal tax abatement because all building
20 taxes are lowered year after year.

21 The land tax is a win/win for
22 straightening out the BRT assessment mess. Once
23 differential rates, i.e., land and buildings having
24 different millage rates, are introduced, however
25 slight, then all parcels have legal standing to

1
2 challenge their land value and building assessment
3 allocations.

4 The land tax is a win/win for honest
5 politicians. It's easily explained to constituents
6 in a language most of them understand very clearly,
7 lower taxes on their homes.

8 The land tax is a win/win for eclipsing
9 decline like the downward spiral Philadelphia has
10 been locked in for decades. Of course, there are
11 rumblings of protest about the land tax from some.
12 There are those who don't understand it, and there
13 are those who understand it all too well. There are
14 those few who can only calculate the advantages
15 which City government has already conferred on them
16 and who complain very loudly when asked to annually
17 pay back part of the value which, by the way, was
18 often created in these very same City Council
19 Chambers, including the results from zoning changes,
20 those impacting the quality of the public schools,
21 those affecting the productivity of the City's
22 workforce, those affecting the public investment and
23 the quality and affordability of public transit and
24 other improvements to the City's infrastructure, not
25 to mention the myriad others positively affecting

1

2 the quality of life in our fair City.

3

4 The land tax is even a win/win for
5 Councilman Rizzo's Chestnut Hill neighborhood as
6 detailed in the April 24, 2003 Chestnut Hill Local
7 editorial which asks the question: "Could Chestnut
8 Hill support and land tax?"

8

9 This is where we chose to live when we
10 moved back to Philadelphia from the boring gridlock
11 and sprawl of our nearby suburbs three years ago.
12 Chestnut Hill is almost a model community torn from
13 a template for new urbanism. It's walkable. It has
14 an incredible well-preserved residential
15 architectural heritage. Ditto for its business
16 district. We can catch a train to Center City, New
17 York, or Washington within a two minute walk from
18 our house. In short, it is a great community with
19 awesome public and private amenities and even an
20 increasing diverse population like its renowned
21 neighbors of Mount Airy and Germantown.

21

22 So what's different in Northwest
23 Philadelphia in regard to the acceptance of a land
24 value tax? There are virtually no available lots
25 for new construction in Chestnut Hill and very few,
if any, in Mount Airy. There are more homeowners

1
2 with large lots with unique single family detached
3 housing, sometimes with acreage sufficient to meet
4 subdivision requirements. There is a culture of
5 conservation of open space and protection of the
6 Wissahickon Watershed. There's a guaranteed
7 antipathy toward residents who might try to
8 subdivide. There are assessment variations in part
9 which are related to higher percentage of unique
10 single family detached housing. And there's an
11 active reassessment of residential properties while
12 vibrant commercial properties and valuable vacant
13 land assessments are virtually frozen in time with
14 very low antique valuations. While in other
15 neighborhoods that's true with industrial
16 properties.

17 So what are the answers to these
18 problems? And again, the focus is in the Northwest.
19 But it speaks somewhat to the whole City. Enact a
20 comprehensive tax reform as called for in the
21 Chestnut Hill Local editorial by taking down the
22 ridiculous wage tax and the most onerous business
23 killer taxes like the gross receipts tax. The City
24 Controller's tax structure analysis thoughtfully put
25 forth one model to do just that. It just happens to

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put the land tax shift in center stage.

As the Chestnut Hill Local points out, recognize the long-term consequences that while the few stable and growing neighborhoods in Philadelphia like Chestnut Hill may pay more now that they will be saddled more and more burdensome taxes in the near future if values in other parts of the City continue to erode.

Assessment reform. Reassess all Philadelphia real estate to collect an additional one-quarter billion dollars per year forever and ever. If you choose, you can rebate all or some of that to residential property owners who have been faced with unrelenting reassessments while owners of commercial and industrial and vacant and grossly underutilized land have had a virtual free ride.

Specifically, in terms of Chestnut Hill, there needs to be a system for gifting land development rights and vacant land to our parks, non-profit land trusts, or other appropriate entities where residential homeowners or others see in advance and, of course, transparently on hallwatch.org how these transactions will be treated by the Board of Revision of Taxes. Such a process

1
2 will provide a fair and open way to help mitigate
3 unanticipated increases resulting from a shift to
4 heavier land tax. Those choosing not to participate
5 are free to develop their properties and pay the
6 higher land tax just as they are now.

7 I have a note that I've attached with
8 the presentation about the Chestnut Hill Local. I
9 also have the April 24, 2003 Chestnut Hill Local
10 article, "Could Chestnut Hill support a land tax"
11 attached. It's by James Sturdivant. Thank you.

12 (Applause.)

13 COUNCILWOMAN VERNA: Thank you very
14 much.

15 MR. MCPHERSON: Steve Conn, Chris
16 Patusky, Andrew Hohns.

17 COUNCILWOMAN VERNA: Good afternoon.
18 Thank you very much for your patience. Please
19 identify yourself for the record and proceed with
20 your testimony.

21 MR. PATUSKY: Thank you. Christopher
22 Patusky. I'm the Deputy Director of the Fels
23 Institute of Government where I teach Government Law
24 and responsible for operations. But I'm not here on
25 that basis. John Kromer was here earlier today and

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2 spoke on behalf of Fels. I'm here as President of
3 the Fairmount Community Development Corporation. I
4 was elected to represent the neighborhood to that
5 Board by the neighborhood and also elected by the
6 Board to be President of that organization. I have
7 a map here I'd like to put in the record to
8 accompany my spoken statement. And my comments are
9 very specific to Fairmount and to abandonment and
10 redevelopment in Fairmount.

11 If you look at the map of vacancy in
12 Fairmount, you'll see that we have a strip of
13 property between Poplar street and West Girard
14 Avenue that has some significant blocks of
15 abandonment.

16 We support the land value tax because
17 we're convinced that it will force the owners of
18 these abandoned properties to either give up the
19 properties to the City through tax sale or sell
20 them. We would like to get control over these
21 properties and turn them into used parcels through
22 private development. We've already taken steps to
23 have this whole area declared a blighted area. And
24 with that and assistance from the City, we'll take
25 these properties and you will see this entire strip

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2 become a very prosperous area.

3

4 Right now, houses in Fairmount go
5 anywhere from 200 to almost \$500,000 and there's no
6 reason why this strip of property couldn't be the
7 same, giving a windfall of wage tax and real estate
8 property taxes to the City.

8

9 The same goes for the scattered
10 abandonment, the few sites in the neighborhood.
11 There's no reason that these properties should be
12 abandoned.

12

13 Fairmount is a healthy neighborhood and
14 we even have this problem. I think that other
15 neighborhoods, particularly north of Girard Avenue,
16 the land value tax would even have a more powerful
17 influence. They're already speculators buying up
18 properties on Stiles Avenue, Flora and that entire
19 area. Land value tax will make it much more
20 difficult to hold those properties. They'll have to
21 be turned over to the people who will make use of
22 them. Thank you very much.

22

COUNCILWOMAN VERNA: Thank you.

23

(Applause.)

24

COUNCILWOMAN VERNA: Our next witnesses.

25

MR. MCPHERSON: Joanne Beach, Greg

1

2 Pastore, Patricia Lowe.

3

4 MR. MANDEL: I have a statement of Greg
Pastore to submit for the record.

5

6 One of the previously called witnesses
has arrived. If you'd like Ed Goppelt to step up,
7 he is here.

8

9 COUNCILWOMAN VERNA: Good afternoon.
Please identify yourself for the record and proceed
10 with your testimony.

11

12 MS. BEACH: Good afternoon. My name is
Joanne Beach, B-E-A-C-H. I live in Burholme. I
13 have a very short statement. I represent no one but
14 myself.

15

16 My home is Council District 10 and it's
one of the 17.2 percent of homes in Councilman
17 O'Neill's district that would have to pay more under
18 the land tax, about \$500. My little block of Aldine
19 Street is very mixed. Most of the properties on our
20 block would pay less with the land tax. And if it
21 means that me who lived in -- that I who have lived
22 in Burholme for 25 years and have had the privilege
23 of enjoying a neighborhood where people work hard to
24 maintain and improve their properties and their
25 homes, making it safe and enjoyable for all of us,

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2 and I'm lucky to live where the original owners were
3 lucky themselves to have the planning, to have space
4 where we could have yards for the children and lots
5 of garden space and trees.

6 I think that the land tax would give
7 more Philadelphians a chance. And after all, the
8 land tax is only an opportunity for all
9 Philadelphians to enjoy in the prosperity of the
10 City. It would give more of them a chance to enjoy
11 some of what I've been able to enjoy in the two-plus
12 decades I've lived in Northeast Philadelphia, where
13 hard work pays and does not penalize.

14 Please consider instituting the land tax
15 in Philadelphia. Thank you very much.

16 (Applause.)

17 COUNCILWOMAN VERNA: Good afternoon.
18 Please identify for the record and proceed with your
19 testimony.

20 MR. GOPPELT: Good afternoon, Madam
21 Council President and Councilwoman Tasco. Thank you
22 for holding these hearings and to the advantages of
23 land value taxation for our City. My name is Ed
24 Goppelt.

25 Having looked at the statistics compiled

1
2 by the Controller's Office, my understanding is that
3 if you pass the land value tax, about 75 percent of
4 your constituents will receive a tax cut. It seems
5 to me you have a rare opportunity to do something
6 which is in our City's best interest, won't cost the
7 City a dime, and in addition to those advantages is
8 also smart politics. All that is needed is for you
9 to enact the land value tax here in Philadelphia.

10 The problem, as I see it, is our current
11 property tax system punishes people who fix up their
12 property and rewards those who don't care of their
13 property. The solution is simple. Tax land and
14 building equally by shifting some of the tax burden
15 from buildings to land.

16 The land tax, in my opinion, would help
17 turn around neighborhoods in decline, such as those
18 in Olney and Fairmount, by encouraging homeowners to
19 fix up their houses and also encouraging businesses
20 to invest in their properties. It would also
21 discourage Sam Rappaport-type speculation by
22 penalizing those who buy valuable downtown property
23 and then keep it vacant for decades as the property
24 deteriorates.

25 It would also -- and I suppose this is a

1
2 pet peeve of mine. But it seems to me, with our
3 downtown area, we have better things to do with real
4 estate than turn it into surface parking lots. And
5 it seems like every time I turn around, another
6 piece of valuable downtown property has been turned
7 into a parking lot. So now instead of the Disney
8 Hall, we have the Disney parking lot. We can do
9 better than that. And I think the land tax would
10 help us achieve a better use of this valuable
11 downtown real estate.

12 I've talked about who I think would be
13 the winners, would benefit from the land tax. I
14 think the majority of your constituents would get
15 this tax break out of it, a badly needed tax break,
16 I would add. The City would win because of less
17 blight and more development. But I'm not going to
18 say that everyone comes out ahead with the land tax.
19 There are going to be losers as well as winners, as
20 you would expect anytime you change tax policy. And
21 in my opinion, the losers in this case are likely to
22 be those who live in affluent neighborhoods such as
23 Chestnut Hill and Mount Airy; parking lot owners,
24 such as Parkway Corporation; land speculators, like
25 Sam Rappaport; car dealers and bill board companies.

1

2 Now, I know that you in City Council are
3 all up for reelection this year and that each of
4 these losers under land value tax represents a
5 potentially significant source of campaign
6 contributions. As members of City Council, I hope
7 in the case of the land tax you will put the
8 interest of your constituents first and those of
9 your campaign contributors second.

10 Thank you for this opportunity to share
11 some of my thoughts about the land tax for City
12 Council. I am ready to take your are questions.

13 COUNCILWOMAN TASC0: You mentioned that
14 some of the losers would be affluent people in
15 Chestnut Hill. They are our constituents also. I
16 would say to you that in my district I may not have
17 constituents who are as affluent but do have houses
18 that have a lot of land around them. And certainly
19 some of these people are not -- I would be very
20 concerned about their increase in their taxes. It
21 seems to me they would be penalized if you're taxing
22 them more because they happen to have some ground.
23 Everybody does not live in a row house. We're
24 concerned about everybody, the row houses as well as
25 people with maybe some land. And I have a lot of

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2 those people in East Mount Airy and some of those in
3 East Oak Lane and some of those people in Olney.
4 They purchased their homes at a time when the
5 purchase price was fairly low, and if they're going
6 to be increased on their taxes because they own some
7 land, that's a disincentive to buy a house with
8 property around it.

9 So I think we have to look at how we
10 make those adjustments, you know, how we look at
11 this. I would be concerned about that.

12 MR. GOPPELT: Like I said before, I
13 think there are going to be losers under the land
14 value tax. I think the key consideration that I
15 would like you and other members of City Council to
16 keep in mind is, is it better for the City to have
17 the land value tax or to continue with the current
18 system?

19 And certainly, my opinion is that we've
20 got many neighborhoods with serious blight problems
21 and let's give this thing a try.

22 COUNCILWOMAN TASCO: And I agree with
23 you, but some of the blight problems results from
24 other restrictions we have on how we deal with
25 properties. And I think we have to look at

1
2 everything we can do to stop blight. I mean, the
3 ability for a person to own a property and just let
4 it sit forever, I mean, that is a problem. And some
5 of them are still not going to pay their taxes.

6 MR. GOPPELT: That's true.

7 COUNCILWOMAN TASCO: So there are other
8 issues that have been raised during the course of
9 the NTI discussion about how we get relief from
10 Harrisburg to take property and to dispose of
11 property day in and day out. In my district, we
12 deal with properties that are owned by people who
13 pay their taxes but still allow the property to
14 deteriorate. So we need to find the solution to how
15 we prevent people from doing that. So it's just not
16 any one answer to this whole issue of blight. But I
17 think the discussion is very important. So that's
18 why we're having it. Thank you.

19 Would you identify yourself for the
20 record, please?

21 MS. LOWE: I'm Patricia Lowe, a resident
22 of Rhawnhurst and a school activist. I used to live
23 in Olney.

24 I know from looking over hall watch, the
25 properties in Olney by and large would pay less

1
2 under land value tax. Most of the residential
3 properties in Philadelphia, especially the row
4 houses. By the same token, people who own row
5 houses for the most part are less affluent than
6 people who own houses with more land around them.
7 So in that respect, the land value tax is more
8 progressive than a regular property tax, real estate
9 tax.

10 Now, as far as how well a tax works and
11 arguments for it, I trust that's all been covered
12 this morning very well. I have something I'm going
13 to give you. I just have one copy of it, but I do
14 have multiple copies of one of the pages from it.
15 It's called the Ethical Land Tenure Interest
16 Religious Resource Directory.

17 My speech itself is not written up. But
18 the title of my speech is -- many bumper stickers
19 that say -- Think Globally, Act Locally. And I
20 think the land value tax is a good example of that.
21 You can think globally if you want to increase some
22 global thinking here, it's a very good book that
23 came out, second edition in 1998. It's called "Land
24 Value Taxation around the World," and it gives
25 instances of where countries have adopted land value

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2 taxation and how they made out with it. There might
3 have been testimony earlier, I don't know, about
4 Johannesburg in South Africa being a notable example
5 of raising school revenues from land value tax
6 exclusively. There are countries in Europe that
7 experimented with it. The US, according to the book
8 is a good example because until relatively recent
9 years a property tax which was first primarily a tax
10 on land values was virtually the sole source of
11 revenue for a state and local governments. It also
12 shows that the wide variety of jurisdictions within
13 the United States is permitted much fruit full
14 experimentation to capture land values. I'm sure
15 there is testimony about other cities in
16 Pennsylvania that have a graded tax like Harrisburg.

17 And also South Korea is working on a
18 land value tax now, seriously considering it.
19 Australia and New Zealand, parts of those country
20 use the land value tax for raising local revenues.
21 So it's not an unheard of thing.

22 Now, as far the religious -- this is
23 part of the "think globally," beside looking at
24 other countries of the world, a sort of a biblical
25 perspective because I know some people in city

1
2 government, many of them are Christian, Jewish,
3 religious and use the Bible for guidance. Like from
4 Nehemiah there's a quote, "Restore, I pray you, to
5 them even this day, their lands, their vineyards,
6 their olive yards and their houses."

7 Secondly, "The land is given us for
8 inheritance." Ezekiel.

9 "The profit of the earth is for all."
10 Ecclesiastes 5:9.

11 "Woe unto them that join house to
12 house, that lay field to field, till there been no
13 place."

14 That sounds like a condemnation of land
15 speculation. And that's in Isaiah, Chapter 5, Verse
16 8.

17 Henry George, of course, I guess
18 compared the land value tax with a Golden Rule,
19 treat others as we would have them treat us.

20 Land value tax is a good start from the
21 point of view of economic justice.

22 So I say, again, like many bumper
23 stickers say, "Think globally but act locally."

24 Thank you.

25 COUNCILWOMAN TASCO: Thank you very

1
2 much.

3 MR. MCPHERSON: The next witnesses are
4 Kathy Harris, Andrew Hohns and Edwin Easton.

5 COUNCILMAN COHEN: Madam Chair.

6 COUNCILWOMAN TASCO: The Chair
7 recognizes Councilman Cohen.

8 COUNCILMAN COHEN: I'd like to address
9 Mr. Mandel to see if there is anything that an
10 exists on the issue that Councilwoman Tasco, our
11 Chair, raised before, which to me seems to be
12 extremely important. And that is to what extent
13 does the fear of increasing the taxation of the home
14 if you improve it, to what extent does that play a
15 role in people's thinking about improving their
16 homes? Has there ever been a study made of that?

17 MR. MANDEL: I think that's a fairly
18 widespread phenomenon, and certainly the Controller
19 likes to joke that every house in the Northeast has
20 a porch or has a deck, but if you go and look at
21 pulled permits for those decks, you'll find very
22 few. That was certainly our experience anecdotally
23 and looking around creating our tax structure
24 analysis report. I think it's borne out in the
25 experience of building permits in Philadelphia what

1
2 is declared, what is not declared. I know
3 personally myself, I just had someone in to look and
4 see if my basement could be refinished. And there
5 was a question of, well, it would cost X if we
6 pulled all the permits and it would cost a little
7 less if we didn't pull all the permits. So I think
8 that's a fairly well established phenomenon.

9 Under land value taxation, the
10 improvements to your home would not be taxed as
11 much. In theory, that should mean that people would
12 be more open about improving their properties.
13 Certainly, our experience in studying what happened
14 in Harrisburg and Allentown was very clear. After
15 implementing land value taxation, the number of
16 building permits increased, the value of building
17 permits increased. The theory met reality. When
18 the tax on buildings was lowered, people built.

19 COUNCILMAN COHEN: And the amount of
20 honesty increased. It didn't cost you any money to
21 be honest about your building improvements. It
22 meant that you used a certified electrician other
23 than a handy man because you were afraid the
24 certified electrician might have to report and get a
25 permit, that kind of thing, which I understand

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2 happens very frequently. And also it means if you
3 didn't count the value of the improvement then
4 neighbors would not have to say in front of each
5 other, "Oh, my house has leaks in it or I notice the
6 corner tumbling, resettling," get afraid it's going
7 to sink in. They're kind of preparing so that when
8 they give that testimony on an appeal against the
9 higher assessment, no neighbor can come in and say,
10 "Oh, I heard him bragging about how good his house
11 is."

12 MR. MANDEL: That's right. I would
13 certainly --

14 COUNCILMAN COHEN: So there are all
15 these little characteristics that add to why perhaps
16 the value of the home and traditional sense that
17 we've grown to believe in in Philadelphia also
18 induces bad habits for homeowners because it puts a
19 premium, not on telling the truth or wanting to
20 improve your property, but just on the reverse
21 characteristics. I think that ought to be a very
22 strong point that you make.

23 I think Councilwoman Tasco is right.
24 People want to really proud of their home, but they
25 have to be careful because some neighbor might

1
2 report to the Board of Revision of Taxes who might
3 send out an inspector who might find that the
4 improvements were not done fully legally with
5 respect to the permits and in any event the home is
6 now improved in value because it has an extra powder
7 room or an extra extension.

8 I think that might be a very telling
9 point because many of us in City Council don't know
10 how it will play out in the business field, but we
11 do have a lot of experience on a daily basis because
12 we go to so many community meetings and meet so
13 often with community people, we learn how they're
14 thinking and we're part of the community.

15 Sometimes it represents part of our own
16 thinking before we got elected, of course. Once we
17 got elected, all of us became very principled and
18 honest and always report everything appropriately.
19 But we may have not been quite that good citizens
20 before we got elected.

21 So I think honesty is that kind of issue
22 that might plays a very important role in being
23 decisive with homeowners and people who live in
24 residential areas.

25 Thank you very much Mr. Mandel.

1

2 MR. MANDEL: Thank you.

3 COUNCILMAN COHEN: Thank you, Madam
4 Chair.

5 COUNCILWOMAN TASCO: Thank you.

6 The Chair recognizes the next panel.

7 Who's going first?

8 MS. HARRIS: I'm Kathy Harris. I
9 represent myself, but I'm also here for the Olney
10 community.11 Who will be the last man left standing
12 in the rubble, or will community justice prevail.13 Over one year ago, I testified on behalf
14 of Jonathan Saidel's 2001 tax structure analysis
15 report, specifically the part related to land value
16 taxation.17 Like many others, I pray we can all come
18 to the agreement that progressive change has to
19 occur for Philadelphia, "The City That Loves You
20 Back," to survive the continued loss of the many
21 residents and businesses.22 Dear Honorable City Council President
23 Anna Verna, Honorable City Council Representatives,
24 City Controller Jonathan Saidel and guests, thank
25 you for this opportunity to express my thoughts

1
2 about Mr. Saidel's proposal; and thank you,
3 Councilwoman Jannie Blackwell, for the resolution
4 introduced by you for land value taxation in 2002.

5 Let's face it, many residents are not as
6 eager to come out, roll up their sleeves and dig in
7 on a team project anymore. Many do not even know
8 their neighbors' names. Many are transient
9 residents who do not consider planting roots in our
10 community. Businesses no longer can afford to have
11 the customer first in mind with peace of mind that
12 the customer will be a regular visiting patron. The
13 ever-growing number of rental properties has turned
14 into a money-making venture for suburban and
15 out-of-state investors and negligent Realtors. Even
16 prospectors were allowed to get wealthier and
17 wealthier while we paid little attention. The news
18 has turned into a nightly thrill show filled with
19 scandal, controversy and diaster in Philadelphia.
20 We cannot even talk about the new Convention Center
21 that's to be a positive addition without someone
22 muddying the thought with talk about disagreements
23 over board member qualifications.

24 We all have our personal ideas in the
25 fight to survive that we have succumbed to user

1
2 defined reasoning. We have been poisoned in dealing
3 with our future in an idealistic way. We have this
4 ongoing romance with the past with no solid
5 relationship with today and the future. We are
6 playing catch up after the past has already caught
7 up with us. Now here we are just getting over the
8 promised wage tax cuts that were almost rescinded
9 and changes in business taxes and we get with the
10 BRT real estate reassessments.

11 Property taxes are out of control and
12 disproportionate. The City has spent more time
13 catching up with 10 years ago. We are letting today
14 go by and it's chasing more and more people away and
15 making people angry. We are paying for assessments
16 that may have been justifiable when the value of
17 many of the properties were on the rise. But, for
18 many, such is not the case any longer. Somehow the
19 BRT hats missed this.

20 I've included a copy of my testimony
21 before City Council in February 2002 with my written
22 testimony for today along with information I
23 gathered when appealing my recent real estate
24 reassessment before the Board of Revision of Taxes.
25 Living here and riding through my neighborhood its

1
2 like a roller coaster ride that has a very dark and
3 scary side to it. This is how I view my
4 neighborhood and City at any given time just as I
5 turn from one street on to another. Just the
6 introduction of Operation Safe Streets and the
7 creation of Abandoned Car Unit the size of our City,
8 speaks volumes about the quality of life in our once
9 great City that touted itself as loving you back.

10 I've lived in Philadelphia all my life.
11 I was born and raised in East Oak Lane. I've been
12 at my current residence in Olney since 1975. I look
13 at the remains of a community I once thought was
14 like Mayberry. I am heartsick to know that I am to
15 pay for those who chose not to contribute to their
16 community. When I received my real estate tax
17 reassessment for 2002, I was appalled to learn that
18 my taxes were raised 12.5 percent. There had been
19 several recent foreclosures in my near vicinity with
20 boards still on some of the vacant properties at
21 reassessment time. There was a drop in market
22 values and the closing of Kmart, Jerusalem
23 Furniture, Super Fresh Market, Kim's Karate and
24 several other businesses in my local area. I
25 thought that surely this would be noteworthy and my

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2 assessment would go down. This is unconscionable
3 that the BRT could be so blind.

4 I went to my real estate tax appeal
5 armed with a market analysis report, a full
6 description of my property, and a Summary Data
7 Report from the University of Pennsylvania that
8 included everything from fires to L&I violations to
9 census numbers. I won my appeal and my rate will
10 not be raised for 2003. What comes next time is yet
11 to be seen. I am so angry about this that I have no
12 room to be grateful.

13 I have been paying a lot of attention to
14 run-down properties and checking on what their
15 assessments are and will continue to do so in the
16 future. It is not fair that during this era of
17 anti-blight initiatives that ones who choose to do
18 routine maintenance and improve on their properties
19 are the ones penalized. It is not fair that
20 derelict landlords and owner occupants get tax
21 breaks for the eyesores that plague our communities.

22 Now I look at properties that undergo
23 major renovations with zoning permits and new
24 construction. They are exempt from the increase in
25 real estate taxes on the structure for 10 years.

1
2 Now there's incentive. PHA owns properties. As we
3 build more and more PHA properties, we are not
4 getting the real estate tax revenue as we would from
5 privately owned properties. All this adds to the
6 deficit and the insult we bear.

7 As far as I know, there is no criminal
8 prosecution for those that have not paid back real
9 estate taxes. There are only liens against their
10 credit, which we all know there are loopholes for
11 getting around. Yet, this is a crime committed
12 against our City and its residents that choose to
13 stay for the roller coaster ride. Where is the
14 incentive to stay and where is the justice?

15 It was a little over 14 months ago that
16 I testified on behalf of the Controller's tax
17 package. I poured my heart and sidewalk knowledge
18 into that grass roots testimony. Now looking back
19 on all the time spent on debating and arguing and
20 hearing that some still have to look into this, I
21 think. I think that in 14 months I could have given
22 birth to a child who would now be five months ago
23 and with proper attention would still be on the
24 grow. I look at my oldest child now ready to turn
25 30 years old and my youngest now ready to turn 18.

1
2 What if I continued to debate the logistics and
3 wasn't willing for change in a way of life? Where
4 would that family have come from? There would be no
5 family at all because I would still be gathering
6 facts and statistics.

7 Can we afford LVT? We cannot afford not
8 to. We are losing people hand over fist because
9 they are tired of waiting for something to happen
10 that will make residency and business more
11 appealing. Land speculation has cost us thousands
12 of dollars, and we have been left to balance that
13 deficit. The more we improve, the more we are
14 penalized. The ones keeping the land from being
15 improved should pay the debt they owe.

16 After the fiasco with the public school
17 system which affected my two youngest children and
18 the threatened end to cuts in City wage taxes along
19 with the increased real estate taxes for my eldest.
20 I fear that my children will be among those who
21 choose not to stay and I will not be able to argue
22 that point.

23 If we give the professional vision Mr.
24 Saidel's tax package offers a chance, you will see
25 how it not only identifies and addresses economic

1
2 vertigo, but clearly provides a blueprint for
3 putting an end to the never-ending disarray and
4 catch up we've come to call progress.

5 As the changes in wage tax, business tax
6 and land value tax all play their part in community
7 and economic resuscitation, I believe we will
8 experience positive change so Philadelphia can love
9 us back.

10 Honorable elected leaders, I urge you to
11 support Jonathan Saidel's vision and well-written
12 proposal for LVT. If we do not think as
13 progressively as our City Controller, Philadelphia's
14 financial hardships will continue to increase as
15 more and more flee. This is Philadelphia's future
16 Mr. Saidel is talking about and we're at the mercy
17 of the vote you cast for community justice to
18 prevail.

19 Land value taxation is fair and does not
20 discriminate. Thank you.

21 COUNCILWOMAN TASCO: Thank you very much
22 for your testimony.

23 (Applause.)

24 COUNCILWOMAN TASCO: This is a
25 discussion today. This is not bill, so it's part of

1
2 a discussion I'm sure we will continue to have it.
3 I appreciate your input.

4 MS. HARRIS: Thank you, Councilwoman.

5 MR. HOHNS: Councilman Cohen,
6 Councilwoman Tasco, thank you very much for having
7 me. My name is Andrew Hohns. I testify on behalf of
8 myself as a citizen of Philadelphia.

9 I too, like Ms. Harris before me, was
10 here for the previous testimony 14 months ago and
11 remember in that testimony that I began with a story
12 and I think that I'll recount it again. From time
13 to time I find myself turning my thoughts to the
14 classical era in hope of divining from that period
15 lessons which might otherwise be hidden to us. And
16 I was thinking of a time in anxious Athens before
17 the democratic reforms when -- you see the region
18 that Athens is in is called Attica, as I'm sure you
19 well know. And the soil of Attica is very thin soil
20 and very barren soil and difficult to produce many
21 cash crops. Olives and grapes are in abundance, but
22 from year to year, the harvest that they throw off
23 is so variable that it's rather difficult for a
24 farmer to be able to rely on any kind of consistent
25 harvest for his family. So the large land owners

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2 got together -- Plutocrats, if you will, got to
3 together and they offered the small farmers a deal.
4 They said, "Listen, every year the amount of fruit
5 that your land produces changes. One year it's a
6 lot of fruit. The next year it's just a little bit
7 of fruit. And so how about this? How about instead
8 of rolling the dice from year to year, how about I
9 guarantee you a set amount of fruit every year and
10 whatever it is, you just give me what it is. If
11 it's a little bit, I'll give you the said amount.
12 If it's a lot, I'll give you the said amount. And
13 over time the profits will average and you'll be
14 able to feed your family."

15 Well, this was satisfactory for a while,
16 but inflation crept into their economy, as it creeps
17 into any economy and, it got to the point where the
18 small farmers were really unsatisfied with the
19 slavery that they felt that they were into these
20 large land owners, these large capital providers.
21 And so here we had a situation where the small
22 farmers were thinking that they themselves would
23 revolt, throw off the debt stones on the front of
24 their properties. Whereas the large land capital
25 providers thought to themselves too that they were

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2 in a difficult situation because they didn't want to
3 have to deal with a revolution. That would be a
4 rather unappealing situation.

5 And so they consulted the counsel of one
6 who was equally amenable to both the farmers as well
7 as the capital providers, Solon who later became
8 known as the law-giver of Athens. And Solon had --
9 he offered the Athenians a deal, which you in
10 Council are probably unlikely to be able to offer,
11 which is a shame because it would make it
12 politically more easy for you to adopt a land value
13 tax. What he said to the Athenians was, he said,
14 "Listen, I will think about your problem and I'll
15 offer you a solution. But the only way I'll agree
16 to do this is if for 10 years I can just go away
17 after I give you my laws and I won't be here to lord
18 over you and watch over the implementation of my
19 laws; but at the same time, you must agree not to
20 meddle with them."

21 Now, as much as many Members of Council
22 would desire a 10-year vacation during which time
23 their laws would not be altered. I imagine that the
24 voters of the City of Philadelphia would probably
25 chide against that. But that was the deal that

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2 Solon offered the Athenians.

3

4 And they accepted the deal and he
5 created what he called the seisachthea (ph) the Greek
6 which is a shaking off of all burdens. And he
7 removed all of the debt stones from in front of
8 people's properties and he started again and he
9 returned the land back to the small land owners and
10 he created a new set of classes of taxable
11 categories. And in the end, it produced one of the
12 most wonderful societies that man has ever known a
13 hundred or so years later.

14

15 The world is very different now and
16 modern day Philadelphia is certainly anything but
17 ancient Athens and we're not a democracy, we're not
18 a gregarianian society. We don't rely on maritime
19 commerce. We don't have slavery. There are a wide
20 number of reasons why we don't resemble them. But
21 at the same time, we can still look back to this
22 people and take a look at the courageous actions
23 that from time to time some of their leaders were
24 able to display in order to remedy problems that had
25 become structural. And I think that that's what we
26 have here in our current mechanism of taxing
27 property in the City of Philadelphia. We have a

1
2 system whose problems have become structural. The
3 Board of Revision of Taxes was the recipient of a
4 great deal of public anguish over the course of the
5 last 12 months, and I think the primary reason for
6 that was the shadowy realm that so many citizens
7 feel that its rules and regulations operate under.

8 Earlier today, I wasn't here to have the
9 privilege to hear Ed Goppelt's testimony, but I
10 suspect that Mr. Goppelt detailed some of the fights
11 that he's been having in order to obtain information
12 from that body which is basic public information and
13 some of his latest victories I hope also that he
14 detailed. And to sit here next to Ms. Harris and
15 hear someone who has grown up here in the City of
16 Philadelphia for her entire life, like I have;
17 someone who has raised her family, as I have not yet
18 had the privilege of doing here in the City of
19 Philadelphia; someone who feels like the current tax
20 system -- feels like your penalized unfairly for
21 repairing your house or improving it or taking the
22 steps that are required to ensure that your
23 neighborhood will grow and will be stable; it seems
24 to me that we are urging those citizens whom we most
25 need to remain here in Philadelphia, urging those

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2 citizens to leave the City by our inability to act
3 with decisiveness and vigor when it comes to
4 creating solutions to long-term structural problems.

5 I believe --

6 COUNCILMAN COHEN: Aren't people
7 concerned by issues of crime, the level of schools,
8 graffiti, trash, City services generally?

9 Your thesis, I think, would be sounder
10 if that were the one reason people left, the unfair
11 tax structure. But I wouldn't like to see a new tax
12 structure come in expecting everybody to accept it.
13 I suspect that if this new tax structure comes, we
14 still have various problems of lack of public
15 confidence in it because nobody told people in
16 advance about changes that were going to take place.
17 That was one of the main reason for the unhappiness.

18 Many people thought the Mayor was
19 involved in asking for an increase and he had not
20 discussed it to City Council. Nobody knew about it.
21 And if that may not have been true because we never
22 had evidence anyway we suddenly found hundreds of
23 people, thousands of people complaining about huge
24 increases in their tax bills. And I would submit
25 that if that happened under a new system, there

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2 would be the same outcry. So I think it's wrong to
3 assume that people are just leaving the City because
4 of the tax structure. That clearly needs some kind
5 of changes. You may comment with respect to that.

6 MR. HOHNS: Thank you, Councilman. If I
7 made it seem that the tax structure was the only
8 reason that residents have left the City for the
9 last 50 years, then I would wish to clarify right
10 away. I think that the tax structure is one of the
11 reasons that residents have left the City. I think
12 a lack of leadership on the part of Philadelphia's
13 governance is another reason. I think an inability
14 to act with decisiveness, a lack of desire to
15 attract the industries of what were the future, what
16 are now yesterday and even still tomorrow in terms
17 of bringing professional jobs here to the City. A
18 general movement away from the Northeast Corridor
19 toward the Sun Belt. I mean, there are myriad
20 reasons why the City of Philadelphia has lost over
21 25 percent of its population in the last 50 years.
22 And furthermore, I don't think that the average
23 citizen who decides to leave the City actually does
24 so because they determine that the method in which
25 they have to pay property taxes is too complicated.

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2 I don't even think that the actual methodology
3 enters into their calculus. I think, however, that
4 their decision is essentially the emotional outcry
5 of years of having to deal with a system that is so
6 obtuse, so difficult to get one's hands around and
7 so fraught with complication that have been built
8 into it over so many years. I mean, one of the
9 greatest outcries about the raises that occurred
10 last year was that there was no accountability at
11 the BRT because they weren't elected officials
12 appointed by the court, that it was very difficult
13 to exercise your voice through your vote. And
14 essentially there was a disenfranchisement on the
15 part of the citizenship in terms of their officials.
16 And so I think that that was a strong source of
17 frustration.

18 I feel sorry for the Mayor. I feel
19 sorry for the Mayor having to bear the brunt of so
20 many of the criticism, but again, I think it's the
21 complication of the system that put us in this
22 place. And what the land value tax offers, despite
23 from its potential for practical improvement,
24 despite sort of leaving aside the hope that it will
25 encourage people to make the necessary improvements

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2 required on their properties, the hope that it will
3 encourage speculators to turn over their land to
4 people that are willing to develop it or turn over
5 their decaying buildings to people that are willing
6 to develop it, you know, when you see a new parking
7 lot go up at 15th and Chestnut, at 9th and Chestnut
8 in any of these places in Center City amidst all of
9 the strides that Center City has made in the last
10 decade, one must wonder if there are some
11 fundamental obstacles or some fundamental
12 inducements that are enabling developers to make the
13 decision that indeed it will be better to take this
14 piece of land and leave it as a spot for cars than
15 it would to put a productive property, an
16 improvement upon that land.

17 So if I in my testimony gave you the
18 impression that the property tax is the only reason
19 that people have left Philadelphia, I hope that I've
20 clarified that. And thank you for your question.

21 COUNCILMAN COHEN: Thank you.

22 MR. HOHNS: I know that there are many
23 people left who would like to testify. I just
24 wanted to come out here to offer that brief story
25 and hopefully to encourage you to act with a lot of

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2 confidence and a lot of decisiveness in this moment
3 because this is a crisis in City of Philadelphia.
4 And by "crisis," I don't so much mean a situation
5 where everything is going wrong, but I mean sort of
6 the original sense of the word of judgement. It's a
7 time of judgement in th City. And we have the
8 opportunity to make some serious strides right now
9 that can change the way that we develop for the next
10 three, four, five decades. That's really my focus.

11 I'll leave with one brief anecdote.
12 This will be much briefer than my first anecdote. I
13 appreciate your indulgence.

14 There was a time, I'm told, when
15 Napoleon was talking to one of his lieutenants and
16 Napoleon said to this lieutenant that it seemed to
17 him -- and I don't know if you've ever been to
18 Napoleon's grave in Paris, because it's really
19 amazing. His barrier area is a large circular room
20 and there are plaques, a half dozen very large
21 plaques, stone plaques, into which are etched all of
22 Napoleon's achievements. For instance, he built
23 this canal, he built this port, he reversed the
24 direction of this river, he codified the laws. I
25 mean, in a short span of time, this one man, despite

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2 all of his obvious misgivings and shortcomings was
3 able to act with decisiveness and said at one point
4 in his history to one of his lieutenants, "It seems
5 to me that the soldiers of France should be able to
6 march into Paris upon victory under the shade of
7 great elm trees." And the lieutenant said to him,
8 "Well, Napoleon, that's a very nice thought, but how
9 can you say such a thing? You know these trees that
10 you describe will obviously take 30 years to grow."
11 At which point Napoleon urged him to plant the seeds
12 right away.

13 And I think that that's the same
14 decision that we're faced with here in Philadelphia,
15 and I hope that we too will have the same courage in
16 terms of choosing the course that will eventually be
17 ours.

18 Thank you for your time.

19 COUNCILWOMAN TASCIO: Thank you very
20 much.

21 (Applause.)

22 MR. MCPHERSON: The next witnesses are
23 Albert Hartheimer, Alanna Hartzok, Andy Toy.

24 COUNCILWOMAN TASCIO: Good afternoon.
25 Please state your name for the record and proceed

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with your testimony.

MR. HARTHEIMER: My name is Albert Hartheimer. I'm Vice President of the Center for the Study of Economics, 1422 Chestnut Street in Philadelphia.

I congratulate you people for lasting to the last person to give testimony. I remember as a kid the saying, "First the worst, second the same, last the best of any game." So I take it as a signal honor that I'm winding this thing up.

I speak in favor of the Council adopting legislation implementing the use of the two rate tax on real property in Philadelphia. The two rate tax is also known as land value taxation, wherein there is a lower tax rate on improvements, a higher tax rate on land, while maintaining a constant yield.

I would like to digress for a minute and comment on that. As I've listened to all of the other people today, there seems to be a sense that shifting taxes off buildings onto land is a monolithic thing, that it sort of happens overnight and some people are winners and some people are losers. The fact of the matter is, it's a very subtle mechanism which produces varying change in

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2 who pays the tax, how much they pay, and how much
3 the benefit of lose. So I think you should keep
4 that in mind when you're considering this idea.

5 We use taxation to encourage or
6 discourage people's behavior. We tax tobacco
7 heavily to discourage its use; we tax alcohol
8 heavily to discourage its use. The present real
9 property tax in Philadelphia taxes improvements
10 heavily which discourages building, and taxes land
11 lightly which encourages speculation.

12 I understand that in Philadelphia 75 to
13 80 percent of the real property tax is on
14 improvements and 20 to 25 percent is on land. Do
15 you really want to discourage from building? Is
16 that what you want to do? Because that's what
17 you're doing.

18 If you improve the City by adding to
19 your house or erecting a new building, your first
20 visitor will be the assessor who will assess your
21 new building or addition. The resulting tax is your
22 penalty for improving the City.

23 I have talked to many Mayors who tell me
24 that people will do anything to avoid this tax
25 penalty. They build without a permit, hoping the

1
2 assessor will not find their project. They remodel
3 the inside of a building, but leave the outside
4 unchanged, hoping to avoid an increase in their
5 assessment. And that speaks directly to what you
6 spoke of, Councilman Cohen, one of the questions you
7 raised before. It is a fact that people don't like
8 to spend their money -- people hate to be penalized
9 with a tax increase when they spend their own good
10 money to improve their property; and they are right.

11 Tax policy should encourage improvement,
12 not discourage it. You can reverse this situation
13 with a lower tax on buildings, and perhaps some day
14 no tax on buildings. People will be able to build
15 new buildings with a lower or no tax penalty, a
16 lower or no increase in their real property tax.

17 If land is taxed heavily, owners of
18 vacant land will encouraged to improve their
19 property to get a return on their investment or
20 they'll sell it to someone who will. We know from
21 experience in 20 Pennsylvania taxing jurisdictions
22 that whenever the tax rate on buildings is lowered,
23 builds; and whenever the tax rate on land is
24 increased, somebody builds. It's a win/win
25 situation.

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We recommend local gradualism in which the rates are shifted gradually over a period of years. The result is that the positive effects of land value taxation are evidenced gradually and no one is hurt in the process.

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I've heard a lot of discussion today about winners and losers. The implication is that if you pay less tax, you are a winner; and if you pay more tax, you are a loser. That is not correct. Because with land value taxation, everyone, whether you pay less or you pay more in a shift of taxes off buildings onto land, is a winner. Land value taxation encourages building and related activities. As a result, the demand for buildings and land increases and often there is demand for property for which previously there was no demand.

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Mayor Reed of Harrisburg has stated many times that before instituting land value taxation in 1982, Harrisburg had over 4200 vacant buildings. And today there are less than 400 vacant buildings.

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You know, we had Mr. Concannon here earlier from Allentown. And in the struggle to institute land value taxation in Allentown, one of the chief objectors were the owners of the

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2 fairgrounds. Now, the fairgrounds were privately
3 owned and they were large, essentially vacant land.
4 And they protested mightily, as I heard the
5 Automobile Dealers Association protest here earlier.
6 They said, "If this goes through, we're going to be
7 put out of business." But six years later, the
8 fairgrounds which were not making a profit under the
9 previous situation have made more money each year
10 since land value taxation was improvised.

11 And I would recommend to the automobile
12 dealers, if any of them ever read this testimony,
13 that they understand that when you have land value
14 taxation, you have more economic activity. And with
15 more economic activity, they will make more money
16 even though they pay more land tax.

17 You know, it's a given that with urban
18 sprawl the City loses population. Somebody here
19 said that Philadelphia lost a lot of people over the
20 last 50 years. And it's a given that as you lose
21 population, you lose tax base. But the reverse is
22 also true. When you lower the taxes on buildings,
23 people may not understand all of the machinations of
24 computing taxes and so forth. But they do
25 understand their pocketbooks. And when people

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2 understand that they can live in a house in
3 Philadelphia with less tax than living in the
4 suburbs, they will move back to Philadelphia. And
5 when they move back to Philadelphia, the tax base
6 will increase. Land value taxation will encourage
7 people to stay in the City and move to the City.

8 In Amsterdam, New York in 1993, land
9 value taxation was adopted. The majority of
10 homeowners paid less. A study showed that the
11 properties that saved the most in a shift of tax off
12 buildings onto land were the employers of Amsterdam,
13 companies that owned factories with high building
14 value on land that had low value. They saved the
15 most in a shift of taxes off buildings onto land.
16 That means that those companies, those who employ
17 people will be encouraged to stay in the City and
18 other employers will be encouraged to move into the
19 City.

20 You have rightfully voted to continue
21 the reduction of the wage tax. You can recover this
22 lost revenue by taxing land additionally. It will
23 benefit the community.

24 The land tax has a very unique property,
25 unique solely to the land tax. And that is that it

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2 increases its own tax base. The more you reduce the
3 tax on buildings and the more you increase the tax
4 on land, the more building and remodeling will
5 occur. And as this happens, the demand for land
6 will increase and the value of the land will
7 increase, thus increasing the tax base. That is a
8 unique property only in the land tax.

9 An interesting aspect of this is that
10 the place -- now, here's again, I said earlier,
11 people think it's a black-and-white situation; that
12 is, it's a situation where you shift off buildings
13 onto land and everything happens the same
14 everywhere. It isn't that way. A interesting
15 aspect of this is that the place where the tax base
16 increases most rapidly is in the hot commercial
17 areas. These areas provide increased tax revenue,
18 not residential areas where the tax base does not
19 increase as rapidly. So you're not only going to
20 reduce taxes for homeowners; but over the long run,
21 the homeowners are going to be the real
22 beneficiaries because their land will not appreciate
23 in value as quickly as commercial land in areas
24 where a lot of building is going on.

25 The City Council has a unique and

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important opportunity to improve Philadelphia, and I urge that you adopt land value taxation.

And I've listed here all day and made a few notes of things that people have said. There was a big discussion earlier about property where the taxes are now uncollectible and they're going to continue to be uncollectible even with land value taxation. In questions like this, rather than jump to conclusions or make hypothetical assumptions, I think you have a great well of experience in the State of Pennsylvania. To my knowledge, in those 20 taxing jurisdictions that have used land value taxation, they have not experienced any great degree of uncollectibility after as compared to before.

I would like to say something about progressivity and taxation. We as a society believe that the rich should pay more in taxes than the poor. Consider that the poor use very little land and will pay a very low land tax. Middle class homeowners by definition will pay only the tax for the land under their houses. By definition, there are no of middle class land speculators. All large and valuable pieces of land are owned by wealthy individuals or large corporations, and they will pay

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2 the most land tax. Consider that with the land tax,
3 you cannot burn it, you cannot put it in a Swiss
4 bank account, it's there for everyone to see. And
5 the art of assessing, which has nothing to do with
6 tax policy, is such today that assessments can be
7 very accurate. So you can't hide the land tax.

8 I would like to say that the state of
9 Pennsylvania, New York, and Massachusetts, where
10 they depend on the sales tax and the income tax, are
11 all going through real problems in trying to balance
12 their budgets because those taxes have diminished
13 radically. The land tax is a very steady base. It
14 permits government to plan, and it permits
15 government to carry on without the increases and
16 decreased that are associated with the sales tax and
17 with the income tax.

18 Thank you very much.

19 (Applause.)

20 COUNCILWOMAN TASCOS: Are there any
21 questions? Thank you very much.

22 MR. MCPHERSON: The next witness is
23 Steven Corley.

24 MR. CORLEY: Good afternoon to the
25 Councilpeople here and all of the various

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2 representatives. My name is Steven Corley. I'm
3 resident of the City, a relatively new homeowner
4 with my wife and three children.

5 The issue of taxation is rather complex
6 and nebulous to me, generally speaking. And I don't
7 have any prepared statements. However, I have taken
8 a little bit of time over the last couple of months
9 to try to piece together a limited understanding of
10 what proposed change in the taxation system would
11 mean, taken some classes and tried to tune into some
12 of your sessions that are over the radio on
13 Thursdays.

14 To me, it appears that have a shift from
15 taxation on property to taxation on land would help
16 out our various communities in terms of increasing
17 improvements and getting rid of blight and
18 abandonment. I'm concerned as I walk through the
19 streets of Philadelphia with my young children about
20 the so many, many abandoned houses and blight that
21 you have to navigate or pass by in the course of
22 going to and from various destinations. And I'm
23 disturbed about the message that this sends to,
24 particularly young people, as we're going through
25 the streets. Is this the kind of message that we

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2 want to send the young people, that it's okay for
3 many houses many buildings all around them to be
4 dilapidated abandoned as they go to school, as they
5 come from school and as they do the things that they
6 have to do with seeing very little will changes. If
7 land value taxation is going to improve the visual
8 appearance of the property that we see all around
9 us -- and that from what I understand Philadelphia
10 has a high degree of abandoned homes -- than I'm for
11 it. Thank you.

12 COUNCILWOMAN TASCO: Thank you very
13 much. Thank you for coming down.

14 (Applause.)

15 COUNCILWOMAN TASCO: Anyone else?

16 MR. CHECK: My name is William Check and
17 I'd like know what are we doing about addressing the
18 issue of the abandoned lots and moving them out in a
19 orderly fashion on a year-to-year basis, taking 2500
20 lots out each year, basically, and putting
21 properties back on them basically so that you are
22 bringing property tax revenues into the City as well
23 as taking the abandoned buildings and fixing them up
24 so that they are productive in bringing in income,
25 basically, and fixing the business stock that you

1
2 already have? As far as abandoned houses, each year
3 and take them out of the loss category, put them in
4 the win category, what are we doing about that with
5 the NTI basically?

6 COUNCILWOMAN TASCOS: It will be very
7 nice for you come back when we have the hearing for
8 the NTI.

9 MS. SAGE: I am Joan Sage. I live in
10 Bella Vista. When my husband and I first came here,
11 we felt it was a modest and very neighborly area
12 with all income levels where many artists could live
13 and bring up families.

14 In the last few years, we have seen some
15 people put their homes on the market because they
16 thought they could make a killing. And yet some of
17 our young artist friends who rented could not to
18 afford to buy and stay in this area. For others,
19 they're being displaced because they can't afford
20 the higher taxes.

21 As former social worker in South
22 Philadelphia, I worry when I hear of South
23 Philadelphians who have lived in their homes for
24 many years being displaced by developers who knock
25 down livable homes indiscriminately and give those

1
2 displaced a pittance for the value those new
3 marketed homes will bring in profits to the
4 developers.

5 You can turn this around. And I wish
6 there were more of you were here. As a citizen, I
7 find it very depressing to come to these meetings
8 and find one or two you here. But especially thank
9 you, Councilman Cohen. And this morning when I saw
10 all these citizens here, and I was thinking how
11 depressing it must for them to see empty seats for
12 people who are supposedly wanting to talk to their
13 Councilmen. And I'm not just talking about just
14 calling your office. That's why they come here, to
15 talk to you.

16 At any rate, you can turn this around by
17 making those non-productive land speculators,
18 polluters and absentee owners pay up or shape up
19 with an incentive tax as the land tax is called.
20 You can stop the present decline by being innovative
21 and willing to make changes. You can bring this
22 City to the point of being the next most affordable
23 City in the country to live, work, and do business
24 in. Your constituents are watching you and will
25 thank you for meeting this challenge.

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2 Thank you for listening and for your
3 consideration.

4 COUNCILWOMAN TASCO: Thank you very
5 much.

6 (Applause.)

7 COUNCILWOMAN TASCO: In response to your
8 concern that Councilmembers are here, a number of
9 them are in their offices. This is a discussion,
10 this is a day-long discussion. The Chair, President
11 of City Council, in an effort to accommodate the
12 Councilmember who introduced this resolution, had
13 this hearing. It might have been better had it be
14 held later in the spring when Councilmembers are not
15 distracted by reelection. And so schedules get
16 planned and Councilmembers have pre-planned
17 activities and things that they have to do. And
18 it's unfortunately. We do like to be here when
19 you're testifying. We ask you to come to testify
20 and encourage people to come to speak to their
21 government, but the sponsors of these resolutions
22 have to be much more sensitive to the need all
23 Councilmembers.

24 Anybody else testifying?

25 (No response.)

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COUNCILWOMAN TASCO: There being none,
this committee is recessed to the call of the Chair.

(Council adjourned at 3:15 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing
proceedings of the Council of the City of
Philadelphia of April 29, 2003, were reported fully
and accurately by me, and that this is a correct
transcript of the same.

RE: COMMITTEE OF THE WHOLE

Lisa C. Bradley, RPR
and Notary Public