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Testimony to the Senate Finance & Revenue Committee

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Chair Hass and Committee Members:

Since Oregon voters passed Measures 5 and 50, widespread economic distortions and inconsistent property tax obligations have been documented. In meeting with most senators from both parties about this bill, virtually all of them reported that they've heard from constituents with legitimate property tax issues. Even I can attest to the pain of an inequitable tax compared to my neighbors' lower tax burden. Our study of Salem's early experience with property tax limitations and use of maximum assessed values showed that tax burdens have shifted off of rapidly-appreciating properties and onto properties with slower-growing or decreasing assessed values (1). Statewide, the effect has been to transfer tax burden onto residential properties.

Because Measure 5 tax limitations have caused local levies to go uncollected, the disparate provision of voter-supported services has created widespread frustration and calls for remedial action. Fixing compression alone leaves out the underlying unfairness of Measure 50. How can we permanently fix these problems while maintaining a check on unlimited growth in property taxes?

Considering the 80-plus years of success in some of the nearly 20 cities in Pennsylvania and Hawaii that use a lower rate on improvements and compensate with a higher rate on land values, several advantages can be expected if Oregon adopts this model (2) (see attached exhibit):

1. Similar to the Enterprise Zone, cutting the improvement rate removes the penalty for investing in capital improvements. This has been found to lead to increased building permit volumes, redevelopment in commercial and multi-family zones, an increase in housing supply, higher lending activity, increased employment, and an expanding tax base (3).
2. Adjusting the rate on land assessments upward has been shown to cause no deadweight loss, or drag on the economy, unlike income or sales taxes. In fact, studies have shown this drag effect costs about one-third of the revenue collected in these other taxes (4).
3. Economists explain that land taxation is capitalized into the price of land, not added to it; this has an inflation mitigating effect. The result is a more stable real estate market and reliable tax revenue stream.
4. When improvement assessments become less important, and because land is assessed on an area basis, property tax appeals have been found to decrease. This had led to fewer staff and greater productivity in assessment departments.

According to accepted economic theory, value created in property legitimately belongs to the source of that value. Improvement value stems from private investment on specific parcels. So owners have the legitimate right to retain most of the building value which they have created. Land value accrues from public investments and actions like up-zoning, as well as natural amenities, location advantage, and population growth. The community is justified in collecting its legitimately created value in land.

Land value taxation is a self-perpetuating way to fund urban infrastructure. When cities up-zone or expand urban growth boundaries, elevated land tax revenues from newly developing locations can be used to fund local infrastructure, which further boosts site values, which in turn raises added revenue to fund more infrastructure. At least eight Nobel economists verify LVT's record of providing incentives for urban revitalization, as well as its ability to raise sufficient, reliable, broad-based revenues.

Then what are the core issues we need to assess to provide a smooth transition from the woes of Measures 5 and 50 to a local option land value tax? A task force would study several questions, including:

1. How can relief measures best be designed for homeowners that experience large tax increases resulting from the return to real market values? Phasing-in the two-tiered tax rates over five to ten years will minimize precipitous increases; a tax deferral until sale would also afford relief. Another option is to consider a homestead exemption on land value up to a reasonable amount.
2. What would be the revenue-generating effects of land value taxation on overlapping taxing districts? Depending upon the overall assessment ratio of land to improvements, some districts might experience a decrease in revenues, and others an increase compared to an equal rate tax.
3. How would revenue growth limits instead of rate limits work most effectively? Similar to Washington's use of local revenue caps, might local entities adopt statutory limits based on the rate of inflation or some other index?

The longer we delay tackling such questions, the greater the opportunity costs to struggling communities that could unleash productivity gains clearly available if the two-rate incentive tax system were available. We ask you to support this bill as the means of bringing about proven prosperity for businesses, homeowners, and local government.

Thank you for your consideration.

1: "Tax Shift Sequential to a Land-Based Property Tax System in Salem, Oregon," Gihring, Tom, Ph.D., Nelson, Kris, MBA, The Geonomy Society, 1999.
2: http://www.urbantoolsconsult.org/upload/LVT%20Jurisdictions%202013.pdf
3: http://www.urbantoolsconsult.org/Tax-Reduction.html
4: "Testimony Submitted to the Assembly Standing Committee on Libraries and Educational Technology," Batt, William H., Ph.D, *GroundSwell*, November-December 2012, Beloit, WI; http://commonground-usa.net/gsrecent.htm

Sample Pennsylvania Cities Using Land Value Taxation

(1) The contiguous cities of Allentown and Bethlehem in eastern Pennsylvania are very comparable as to size and economy. In 1997, Allentown started taxing buildings less than land; Bethlehem did not. Allentown's new private construction & renovation thereupon grew by 32% in dollar value in the three years after the shift to land value taxation as compared to the prior three years. That was 1.8 times more than Bethlehem's increase in private construction & renovation during the same time period, even though Bethlehem (but not Allentown) received much federal grant money in the prior three years. These figures come from a study of building-permits on file in the Allentown and Bethlehem city halls by Benjamin Howells (science researcher and one-time Allentown Councilman), William Kells (science-oriented businessman) and Steven Cord (professor).

(2) Washington and nearby Monessen (both in southwestern Pennsylvania) are roughly comparable as to size and economy. After Washington started shifting some of its tax off buildings onto land in 1985, its new private construction & renovation increased by 33% in dollar value in the three years after its two-rate adoption as compared to the prior three years. But during the same time, nearby one-rate Monessen's new private construction & renovation actually decreased by 26%.

(3) Connellsville, Pa., saw its new private construction & renovation jump 3.46 times in the three years after it adopted a two-rate LVT property tax as compared to the prior three years. This jump over-shadowed the modest 1.07 increase in new private construction & renovation of nearby one-rate Uniontown during the same time period. The two cities are quite comparable, although Uniontown is the county seat and is somewhat larger (economic development plusses).

(4) Aliquippa, Pa., after the closing of its large steel mill, shifted some taxes off building onto land values in January 1988. Result: most residents paid less taxes and its new private construction & renovation jumped 97% in the three years after the two-rate switch as compared to the three-years-before. Nearby Ambridge, comparable except that it is closer to the Pittsburgh International Airport and enjoys brisk tourist traffic at its Old Economy Shaker Village (both economic plusses), experienced a 30% decline in private building-permits issued during the same period of time. Nearby Beaver Falls, also comparable except that it is less hilly than Aliquippa and is the county seat (again, economic plusses) experienced a 7.2% decline during the same time period. In July 1993, the Aliquippa School District adopted a two-rate building-to-land property tax. Its new private construction & renovation thereupon spurted: for 1994-95, it was 2.3 times greater.

(5) In 1989, Clairton, Pa., an industrial suburb of Pittsburgh, was under direct state fiscal control, officially labeled "financially distressed." It took the advice of the prestigious Pennsylvania Economy League and adopted two-rate LVT. Building assessments were taxed at 2.105% and land assessments at 10% (instead of both at 3.7%). During the three-year period after the switch, its taxable building permits were 8.5% more than in the three years before (based on building-permit records in Clairton City Hall). This is to be compared to the 5.8% decline in all U.S. building permits issued during the same time. (The Clairton School District made a major tax shift from buildings to land. Results so far: as predicted, higher building permits)