

ALASKA LEGISLATURE COMMITTEE FILES 1987-88 8672

4483 HCRA HB 475

55

For both the federal and local governments, conservation easements represent a cost-effective way to secure open space or to protect other conservation values. As the Land Trust Exchange found, the vast majority of conservation easements are held by federal, state and local governments. Had these governments been required to purchase these properties in fee simple to protect the desired values, the costs would be considerably greater than the foregone tax revenues.

APPLICATION TO ALASKA

Although Alaska does not have a conservation easement statute, Title 29 (Municipal Code) recognizes the possibility of such easements. Alaska Statute 29.45.050, which specifies the optional exemptions and exclusions that a local government may include in its property tax code, allows a local government to exempt from taxation a conservation easement that is granted to a governmental body in perpetuity [AS 29.45.050(e)]. Since Alaska statutes do not currently provide for conservation easements, this section of the Municipal Code presumably has not yet had any practical effect.

In Alaska, the majority of land is owned by federal, state and local governments, and some persons might question the need for a conservation easement statute. In this regard, it is important to remember that a conservation easement is an agreement entered into voluntarily by a property owner. For some persons, the federal and local tax benefits may be the primary reason that they wish to enter into such an agreement, although the Land Trust Exchange found that most landowners granting conservation easements were motivated by a desire to preserve unique characteristics of their land. A conservation easement statute merely provides private landowners with an option for protecting their land.

Representative Cotten
February 19, 1988
Page 9

A conservation easement statute may be of particular interest to native landowners concerned with protecting lands used for subsistence. Native corporations are major private landowners in Alaska. In theory, there is no reason that a native corporation could not grant a conservation easement to a governmental or nonprofit organization for the purposes of protecting its land.⁴ The conservation easement is a voluntary agreement made by a private landowner, and the agreement can include any variety of terms and conditions. Such an agreement would presumably preclude all future development (negative easement) but allow an affirmative easement allowing the landowners to enter the property to pursue subsistence activities. Conservation easement agreements commonly include such affirmative easements for the purposes of inspection and enforcement.

I hope you find this information useful. If we can provide any additional information, please let me know.

Attachments

Attachments are numerous, may be seen in this office.

⁴We have not attempted to research the Alaska Native Claims Settlement Act, the Alaska National Interest Lands Conservation Act, or the recent 1991 amendments to see whether these statutes contain any provisions that would preclude a native corporation from entering into a conservation easement agreement; nor have we attempted to ascertain whether any federal income tax benefits would accrue to a native corporation granting a conservation easement for subsistence. You may wish to have an attorney undertake these analyses.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 4, 1985

MEMORANDUM

TO: Representative Peter Goll
FROM: David Teal *Teal*
Director
RE: Approaches to Agricultural Land Preservation
Research Request 85-155

In preparation for hearings on HB 39, Bob Berry asked us to investigate approaches to agricultural land preservation. This memorandum briefly describes a variety of approaches used in other states to preserve agricultural land. The extent to which these different approaches have been effective is also discussed, as are some of the direct and indirect costs associated with their implementation.

Findings

In this memorandum, four techniques for preserving agricultural land are examined: agricultural zoning; tax incentives; purchase of development rights; and transfer of development rights. All of these approaches except zoning are voluntary programs which rely on the landowners' cooperation.

Of the four approaches, agricultural zoning and tax incentives have been used much more extensively than purchase or transfer of development rights to protect agricultural land. Studies of the effectiveness of the various techniques have revealed that tax incentives have been relatively ineffective in the long run in preserving agricultural land. Agricultural zoning has been effective in some situations, but has tended to be ineffective when minimum lot sizes have not been adequate and/or when residential development is allowed too liberally in farm zones. Both the purchase and transfer of development rights can potentially be very effective, but these techniques have been used only to a limited extent to date.

The studies that we have reviewed emphasize that any one approach to farmland preservation on its own is unlikely to insure the continuation of existing farming operations. In addition to protecting the farmland, studies point out the need to develop markets for agricultural products and to provide the infrastructure necessary for agricultural production.

Criticisms which are often made of agricultural land preservation programs in growing urban areas are that: 1) land which is needed for residential, commercial and industrial development is taken off the market; and 2) the price of other land increases, thus making residential and other nonagricultural uses more costly to develop. The extent to which these criticisms are valid depends upon a variety of factors; perhaps the most important variable is the amount of land available for development in a community. Some communities have found that the demand for residential/commercial/industrial development can be easily accommodated on land which is not suitable for farming. In other areas, there may be direct competition for scarce land between agricultural and nonagricultural uses.

Regulatory Approaches

Zoning is the primary regulatory approach to farmland preservation which has been used by local governments in many states. According to the 1982 National Agricultural Lands Study, "agricultural zoning is the most popular and common method used by local governments to prevent the use of agricultural land for nonagricultural purposes."¹

Agricultural zoning generally sets aside certain areas of a municipality in farm use zones, with large minimum lot sizes. Some zoning ordinances allow nonfarm dwellings in the agricultural zones, while others prohibit them altogether. Nonexclusive agricultural zones are probably the most common; in these zones, agriculture is the preferred use, but nonfarm dwellings and many institutional, utility and community uses are also permitted if they meet certain conditions.

During the 1970s, at least 270 jurisdictions (104 counties and 166 municipalities) adopted agricultural zoning to protect their farmlands.² Public attitudes toward agricultural zoning vary widely; in some communities, there is strong support while in others, a great deal of opposition has developed.

An example of agricultural zoning is found in the state of Oregon. State statute requires local governments to preserve farmlands through the adoption of exclusive farm use zones.³

¹Regional Science Research Institute, National Agricultural Lands Study, "The Protection of Farmland: A Reference Guidebook for State and Local Governments," U.S. Government Printing Office, 1982.

²National Agricultural Land Study.

³Oregon Revised Statutes, Chapter 215.

Some nonfarm uses are permitted in farm zones, including schools, churches, utility facilities and, with special approval, certain commercial activities, golf courses, parks, single-family dwellings, etc. A specific minimum lot size is not required; however, state guidelines note that any minimum lot size should be of an appropriate size to allow for the continuation of the existing commercial agricultural enterprise.

One of the criticisms of agricultural zoning is that it drives up the price of other land which is not agriculturally zoned. By limiting the supply of land for residential, commercial and industrial uses, agricultural zoning may indirectly cause the price of the remaining land to escalate. The National Agricultural Lands Study cites five case studies of agricultural zoning in which "the price of land within the designated development area had jumped appreciably after the agricultural zones and development areas were designated."

Tax Incentives

While regulatory approaches, such as zoning, prevent a land owner from converting his land to nonagricultural uses, other approaches are designed to discourage farmland conversion through the use of special incentives. These nonregulatory approaches to preserving agricultural land have been used by states and municipalities with varying degrees of success. Probably the most widely used incentive is some form of tax relief to the farmland owner; this tax relief can apply to property taxes, estate taxes or income taxes.

Property tax incentives include preferential assessment and deferred taxation. One problem often faced by farmers who own land near developing urban areas is that the land is assessed and taxed at its value for residential or commercial use, rather than its farm value.

Under preferential assessment, farmland is assessed at its agricultural use value, thus reducing a farmer's taxes. According to the National Agricultural Lands Study, 17 states authorize preferential assessment of farmland. Another 28 states, including Alaska, have deferred taxation programs. Under deferred taxation, farmland also is taxed at its use value; in addition, if the land is later converted to nonfarm uses, the owner must pay all or some portion of the back taxes that were deferred under the program.

The Alaska program (AS 29.53.035), for example, allows the land owner to defer property taxes that would otherwise be due if the land were assessed at market value. If the land is converted to nonfarm uses, the owner is then liable "to pay an amount equal to the additional tax at the current mill levy together with 8 percent interest for the

preceding 7 years, as though the land had not been assessed for farm use purposes." An important component of the program is that the State reimburses municipalities for the real property tax revenues lost.

This voluntary program had 115 participants statewide in FY 82, 63 percent of whom were from the Mat-Su Borough. A total of 19,197 acres were subject to farmland use value assessment in FY 82. (See Attachment A for a summary of program statistics.)

It is important to note that tax incentives will be effective in reducing the conversion of farmland to other uses only when rising taxes are the farmer's primary motivation for selling his land. According to a 1979 University of Alaska report, studies of the success of use-value assessment in preserving agricultural lands have shown discouraging results. Although use-value assessment tends to keep land temporarily in agriculture, it does not prevent the conversion of agricultural land to other uses in the long run.

The National Lands Study makes the following findings about differential assessment programs:

In short, differential assessment and circuit breaker tax credits are not, in themselves, effective techniques for reducing the rate of conversion of farmland to nonfarm uses. Most sales occur in the fringes of urban areas, where other considerations such as high offering prices, demographic factors, and the disruptions of suburban development overwhelm rising property taxes as causes for the sale of farmland. Even where tax reductions may enable a farmer to keep farming, they often only postpone the sale a few years until he retires or dies.⁴

Purchase or Transfer of Development Rights

Purchase of Development Rights. As of 1980, four states and five local governments had established purchase of development rights programs for the purpose of protecting farmland.⁵ A development right, in the context of farmland protection, generally refers to the right of the land

⁴National Agricultural Land Study, page 63.

⁵Maryland, Massachusetts, Connecticut and New Hampshire all have purchase of development rights programs: New Jersey also had a demonstration project, initiated in 1976, which was later discontinued. King County, Washington, is an example of local government involvement in the purchase of agricultural rights. That program was not operating until bonds were sold in the fall of 1982.

owner to develop the land for some nonagricultural use, such as a residential or commercial subdivision. When this right is purchased (by a state or local government), the land owner retains only the agricultural rights to the land and, thus, may use the land only for farm-related purposes. The acquisition of development rights is equivalent to the acquisition of an easement on the property.⁶

A voluntary program for the purchase of development rights will not be effective unless adequate public funds are available to purchase the rights and land owners are willing to sell their rights. In a 1979 study conducted by the University of Alaska's Agricultural Experiment Station, the researchers surveyed farmers in Alaska to determine their interest in a development rights purchase program. Farmers were mailed questionnaires in five regions of the state: Delta, Copper River Basin, Kenai-Kodiak, Fairbanks and Matanuska-Susitna. Most of the respondents in all regions except the Mat-Su area expressed little or no interest in selling development rights. In the Mat-Su area, one-half of the respondents indicated little or no interest, while one-half expressed moderate to high interest in such a program.⁷ (See Attachment B for a summary of the report's findings.)

Transfer of Development Rights. The purchase of development rights, described above, can be expensive for a state or local government to implement, especially if there is a lot of land owner interest in the program. The transfer of development rights (TDR) is an alternative approach which relies primarily on the private sector for its funding and implementation. Transfer of development rights shifts the responsibility for purchasing rights from the government to private developers.

The operation of a TDR system is described in the National Agricultural Lands Study as follows:

In the classic TDR system, a preservation district is identified, as is a development district. Development rights are assigned to owners of land in the preservation district in a systematic manner.

⁶A variation on the purchase of development rights is to purchase the property in fee simple and then to lease or sell it again with certain restrictions placed on its use. The Alaska program to sell agricultural rights to State-owned land is a related approach.

⁷William Workman, Edward Arobio, and Anthony Gasbarro, An Examination of a Development Rights Purchase Program for Alaska Agricultural Lands, Agricultural Experiment Station, University of Alaska, Fairbanks, January 1979. There were a total of 106 respondents statewide to the question regarding interest in development rights purchase.

Representative Goll
February 4, 1985
Page Six

However, owners of land in the preservation district are not allowed to develop, but instead may sell their development rights to owners of land in the development district, who may use these newly acquired development rights to build at higher densities than normally allowed by the zoning.⁸

At least 12 local governments in the United States have adopted TDR systems to preserve farmland and open space. Most of the ordinances allow only for the transfer of rights to build dwelling units in residential zones. According to the Lands Study cited above, very few transfers have actually occurred under the existing TDR ordinances.

* * *

A copy of an earlier memo on this subject is attached. Please let us know if you have any questions or would like further information on any of the approaches discussed in this memorandum.

DT

Attachments

⁸National Agricultural Lands Study, page 174.

ATTACHMENT A
FARM USE LAND ASSESSMENT

FY 82 PROGRAM SUMMARY BREAKDOWN MUNICIPALITY	<u>NUMBER OF APPLICANTS</u>	<u>NUMBER OF ACRES</u>	<u>FULL AND TRUE LAND VALUE</u>	<u>TOTAL DEFERRED VALUE</u>	<u>TOTAL DEFERRED TAX</u>
ANCHORAGE, MUNICIPALITY OF	5	124.31	\$ 2,607,800	\$ 1,802,088	\$ 13,364.58
FAIRBANKS NORTH STAR BOROUGH	17	2,839.48	2,965,125	2,517,950	\$ 14,144.82
HAINES BOROUGH	1	14.09	54,250	40,650	\$ 234.72
KENAI PENINSULA BOROUGH	18	3,790.24	5,415,250	3,239,350	\$ 13,072.78
KODIAK ISLAND BOROUGH	2	324.44	107,079	85,662	\$ 471.13
MATANUSKA-SUSITNA BOROUGH	<u>72</u>	<u>12,104.43</u>	<u>18,503,840</u>	<u>12,909,740</u>	<u>\$100,961.28</u>
STATEWIDE TOTAL	115	19,196.99	\$29,653,344	\$20,595,440	\$142,249.31
AVERAGE PER APPLICANT	1	167.0	\$ 257,855	\$ 170,091	\$ 1,236.95
AVERAGE PER ACRE			\$ 1,544	\$ 1,073	\$ 7.41
SEVEN-YEAR SUMMARY OF PROGRAM PERFORMANCE					
FISCAL YEAR 1976	91	18,759	9,279,400	6,140,300	77,805
FISCAL YEAR 1977	84	15,970	13,783,182	11,552,062	99,170
FISCAL YEAR 1978	86	15,467	13,807,490	11,373,877	118,616
FISCAL YEAR 1979	87	13,562	17,283,615	15,328,994	140,092
FISCAL YEAR 1980	108	16,412	19,705,705	18,338,680	145,129
FISCAL YEAR 1981	116	17,666	22,997,524	20,348,079	178,714
FISCAL YEAR 1982	115	19,197	29,653,344	20,595,440	142,249

Source: Alaska Taxable, Department of Community and Regional Affairs

ATTACHMENT B

AN EXAMINATION OF A DEVELOPMENT RIGHTS PURCHASE PROGRAM
FOR ALASKA AGRICULTURAL LANDS

William G. Workman
Edward L. Arobio
Anthony F. Gasbarro

Agricultural Experiment Station
University of Alaska
Fairbanks, Alaska

A report submitted to the Department of Natural Resources, State of
Alaska, in accordance with terms of research contract CC10 1142.

January, 1979

SUMMARY AND CONCLUSIONS

The conversion of farmland to nonagricultural uses is progressing at a fast pace in Alaska as in other parts of the country. The purpose of this study was to examine the feasibility of the use of public purchase of development rights from agricultural landowners in the state as a means of slowing this trend. The framework for analysis called for an assessment of the potential benefits and costs of such a public policy designed to stall the market forces that are leading to these shifts in rural land use patterns.

Initially, the inquiry dealt with the question of why the patterns of resource use generated by the land market might be socially undesirable. The principal determination here was that some of the benefits that flow from the existence of agricultural land use are not captured by the farm or ranch operators. Rather they are external benefits which accrue to persons outside the agricultural sector and as such are not considered by the landowner in his decisions regarding land use. Since some of these benefits, such as open space and other environmental amenities, are also collective goods, a voluntary exchange market system provides no adequate mechanism by which those desiring these goods may register their preferences with the landowners. Thus, there may be a justification for social action to correct this market failure.

While conversion of agricultural land to residential and industrial uses is widespread in Alaska, the greatest shifts in land use patterns are taking place within commuting distance of the more densely populated areas around Fairbanks and Anchorage. This pattern is particularly

noticeable in the Matanuska Valley near the communities of Palmer and Wasilla. Understandably then, the greatest support for a public program to preserve these agricultural lands exists in this region. This support is reflected in a resolution, under consideration by the Matanuska-Susitna Borough Assembly, to compensate current farmers with land grants to forego the development of their lands.

Our examination of present and potential agricultural development in the state revealed that the economic contribution of the agricultural industry to the Alaska economy is currently quite small. In the local area of the Matanuska Valley, however, agriculture continues to represent a more significant portion of the economic base. Further, it was determined that a significant amount of potentially productive agricultural land exists in this area. Much of this land is held by the state and borough governments. The public sector, then, is in a position to determine future use of these lands through its land disposal programs. Recent sales in which only the agricultural rights were conveyed to the private sector illustrate the influence that government may have on land use patterns. These findings also suggest that the future of agriculture in the Matanuska Valley (as well as other parts of the state), and, hence, the availability of the other amenity values associated with this industry, may not depend on the lands currently in production. At issue, of course, is whether the least cost method of achieving the social benefits produced by an agricultural industry is to maintain the land currently in production or to use state and local government land disposal policy to achieve this end.

A review of development rights purchase programs in other parts of the country was instructive, although experiences with this public policy tool are too few and relatively untested for one to adequately evaluate their success. The one fact that stands out, however, is that the purchase of development rights on agricultural lands is a very expensive undertaking. Unlike the Alaska situation, the acquisition programs initiated elsewhere are aimed at preserving agricultural economies that are currently quite viable. Another important characteristic of these programs is that they are being used in areas where there are few opportunities for expansion of the existing agricultural activity.

A condition necessary for the success of a development rights purchase program is that it be acceptable to agricultural landholders. Our survey of farmers and ranchers in the state showed only a small amount of interest among these individuals on a state-wide level. Most of the interest expressed was concentrated among those landholders in the Matanuska and Susitna Valleys. The survey results also provided information regarding the potential purchase price of development rights. This information again showed a development rights purchase program to be a costly proposition.

Information regarding the size of agricultural firms in Alaska shows that in many cases the scale of operation is inadequate to take advantage of size economies. One thing that a development rights buy-back program might accomplish would be to allow the expansion of individual operations through the availability of lower priced agricultural land. Related to this, the buy-back method might be useful for acquiring

the development rights to existing non-agricultural "inholdings" within areas of agricultural activity in the state. The acquisition of development rights to these isolated inholdings could reduce the risk of having a land use develop which was incompatible with agriculture. At the same time, the use of the program in this context could facilitate the application of large-scale agricultural operations in farming areas.

Public acquisition of development rights is only one of a number of tools available for use in attempting to preserve agricultural lands. The main advantages of such a program have to do with the equitable treatment of farmland owners and the opportunity provided for long term maintenance of agricultural activities. These advantages must be balanced, of course, against the high relative cost of this approach.

As stated before, the primary benefit attributable to the preservation of private agricultural land in the state appears to be the open space and related environmental amenity values associated with this land. This is particularly the case when applied to maintaining certain scenic areas around communities or along highways. These benefits, by themselves, may justify some extra-market control of the conversion of agricultural lands to other uses in some critical areas. In Alaska these concerns are naturally most important in the urbanized areas, particularly in locations within commuting distance of Anchorage. The critical questions here, of course, are how much are Alaskans willing to compensate landowners, through the purchase of development rights, to forego the option of converting their land, and how are these costs to be distributed among the state's residents.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-1991

February 21, 1983

MEMORANDUM

TO: Representative Barbara Lacher
FROM: Susan Brody, Director *SB*
RE: Preservation of Agricultural Lands (HB 148)
Research Request 33-58

HB 148 would allow the State to purchase preservation easements on privately-owned farmland for the purpose of protecting this land from conversion to urban uses. In selling the easement to the State, the land owner would relinquish the right to develop the land for any purpose other than farm use. Bob Harris of your staff asked us to summarize the bill and to estimate the amount and cost of land eligible for State purchase of easements. He also asked us to provide any available data concerning the amount of farmland converted to other uses.

Summary of HB 148

Section 1 of the bill finds that farmland located close to urban centers in Alaska is threatened because its market value for future development exceeds its market value for farm use. The bill further finds that the acquisition by the State of preservation easements on agricultural land will help to protect this land from conversion to urban uses.

Section 2 of the bill adds a new chapter to AS 03 entitled "Preservation of Agricultural Land." The way in which the preservation easement program would operate is described briefly below.

AS 03.07.010 would authorize the State to purchase agricultural preservation easements on privately-owned farm land. It also would allow the State to exchange State land for privately-owned agricultural land or for preservation easements on that land. Any sale, exchange or donation of an easement would be voluntary on the part of the land owner. Furthermore, the owner would not be required to farm the land as long as (s)he does not use or subdivide the land for residential, commercial or industrial purposes.

Under Section .020 of the new Chapter, land would be eligible for protection if it is privately owned and the soil under at least 40 percent of the surface of the parcel is classified as classes II-IV by the U.S. Soil Conservation Service. In addition, the parcel would have to contain at least 40 acres in cultivation or farm use or, if it is adjacent to an established farm(s), would have to have no less than 20

Representative Lacher
February 21, 1983
Page 2

acres in farm use or cultivation. In this latter case, the adjacent farm(s) would have to be at least 40 acres in size and have been in operation for 10 years or more.

The bill establishes a procedure for setting priorities when funds are insufficient to purchase easements on all eligible land. Section .030 would allow the Director of the State Division of Agriculture to identify farmland preservation "priority districts" and to allocate funds for purchase of easements according the following priorities:

1. farmland threatened by early conversion to subdivisions, commercial or industrial uses;
2. farmland of recognized value for tourism;
3. farmland with a history of high productivity;
4. farmland close to market; and
5. farmland within established agricultural areas.

The bill also establishes criteria to be used in acquiring easements within priority districts. Section .040 would require the State to favor those valid offers where the land is threatened, the land was used for farming in the preceding 12 months, the land will form a contiguous farming area with other acquired land, acquisition of the easement will achieve both urban separation and agricultural production, and where the offer is below appraisal.

Section .050 would require the Division Director to consider any adopted municipal plans, ordinances or recommendations relating to farmland preservation prior to allocating easement purchase funds to priority districts within municipalities.

Section .060 would specify the information which must be included by the land owner as part of an offer to sell or exchange a preservation easement. The information to be required includes a legal description of the land and a price, and may include an appraisal in support of the asking price. Within 30 days, the State would have to notify the owner of the sufficiency of the offer. If a corrected, sufficient offer is made within 30 days of the notification, the land is determined to qualify.

The Division Director also would have to notify the appropriate municipality within 30 days if any part of the qualifying land is within a municipality. In turn, the municipal government would have an additional 30 days to request that the State reconsider the determination. If there is a reconsideration request, the State would be required to hold a public hearing in the municipality.

Section .070 would establish time limits within which the State could accept offers or make counter offers.

Under the proposed program, the State could purchase an agricultural preservation easement for either the asking price or the difference between the fair market value of the land and the agricultural value of the land, whichever was less (Section .080). The value determination would be based on one or more qualified appraisals.

Section .090 of the new Chapter would define the uses permitted on land subject to an agricultural preservation easement. These permitted uses would include:

1. agricultural use of the land by the owner;
2. removal of minerals or materials from the subsurface if the land were immediately returned to a condition as favorable to agriculture as existed prior to the extraction;
3. operation of machinery used in agricultural production;
4. sale of agricultural products produced on the land;
5. construction of buildings for farming operations; however, land used for farm residences would not be allowed to exceed one acre per 40 acres of land.

Residential subdivision would not be permitted on land subject to a preservation easement. Furthermore, the acquisition of a preservation easement by the State would not grant the public a right of access or use, nor would it affect any existing easements, rights of way, or rights of access.

Farmland Converted to Other Uses

We were able to obtain data on farmland conversion for the Matanuska-Susitna Borough only. Our attempts to obtain similar data from other areas of the state, such as the Fairbanks North Star Borough, met with no success.

The table on page 4 shows the amount of farm land subject to subdivision activity in the Matanuska-Susitna Borough from 1976 to 1982. Only approved subdivisions and waivers are included. According to Borough Manager Gary Thurlow, all land was located within farms prior to subdivision, but it was not necessarily cleared land or active crop land.

Table 1
Subdivision Activity on Agricultural Lands, Mat-Su Borough
1976 - 1982

Year	Regular Subdivisions	Waivers*
1976	846 acres**	628 acres
1977	1,759 acres	357 acres
1978	483 acres	1,054 acres
1979	1,731 acres	1,717 acres
1980	978 acres	1,254 acres
1981	383 acres	417 acres
1982	679 acres	1,254 acres
Total	6,859 acres	6,681 acres

*Waivers are subdivisions where the parcels created are 5 acres or larger in size. Some of this land could continue to be farmed.
**All figures are rounded to the nearest acre.

Source: Gary Thurlow, Borough Manager, Mat-Su Borough

Amount and Cost of Land Eligible for Preservation Easements

It is difficult to estimate with any accuracy the amount of land that would be eligible for the proposed preservation easement program and the possible cost to the State of such a program. However, we have identified two sources of information upon which a very rough estimate might be based. These sources are:

- a report completed in 1979 by the University of Alaska for the Department of Natural Resources (DNR) concerning a possible development rights purchase program for agricultural land in the state; and
- data compiled by the Department of Community and Regional Affairs on participation in the farm use land assessment program established under AS 29.53.035.

University of Alaska Study. A study conducted in 1978 by the U. of A.'s Agricultural Experiment Station for DNR¹ examined the feasibility of a development rights purchase program to protect Alaska's agricultural land. As described, this program has some similarities to the preservation easements programs as proposed in HB 148. I have attached a copy of relevant sections of the report for your information (see Attachment A). A brief summary of the authors' findings follows.

The report notes that the Soil Conservation Service identified approximately 15.2 million acres of potential agricultural land throughout the state. However, much of this land is away from population centers without surface transportation access, and is in either State or federal ownership. The report also contains data on actual utilization of land for crop production (commercial vegetables, feed crops and harvested grassland) in various regions of the state.

For the period 1971-76, there was an average of about 19,270 acres being utilized for crops in the state as a whole; 29 percent of this acreage was in the Tanana Valley, 59 percent in the Matanuska-Susitna Valley, and 11 percent on the Kenai Peninsula. In 1981, according to the U.S. Department of Agriculture, the amount of land in crops had increased to about 38,000 acres. Of this, 65 percent was in the Tanana Valley, 26 percent in the Matanuska-Susitna Valley, and 5 percent on the Kenai Peninsula (see Table 2).

Table 2
Alaska Cropland Utilization

	<u>1971-76 (avg.)</u>	<u>1981</u>
Tanana Valley	5,670 acres	24,700 acres
Mat-Su Valley	11,290 acres	10,000 acres
Kenai Peninsula	2,170 acres	2,000 acres
Other	140 acres	1,300 acres
Total	<u>19,270 acres</u>	<u>38,000 acres</u>

Source: Alaska Crop and Livestock Reporting Service

¹ William Workman, Edward Arobio, Anthony Gasbarro, An Examination of a Development Rights Purchase Program for Alaska Agricultural Lands, (Agricultural Experiment Station, University of Alaska, January, 1979)

To determine how a development rights purchase program might be applied in Alaska, the researchers for the U. of A. study mailed questionnaires to 263 agricultural landowners in various regions of the state. A total of 112 of the questionnaires were returned and used as the basis for their report. Respondents were asked to indicate their interest in selling development rights to their cleared and uncleared agricultural land. On a statewide basis, 35 percent of the respondents expressed moderate to high interest in the sale of development rights while 65 percent expressed little or no interest. Over half of the landowners moderately or highly interested in selling development rights were from the Matanuska-Susitna region.

The questionnaire also asked the respondents to place a value on the development rights for their agricultural land. First, average market values for cleared and uncleared land, as perceived by the respondents, were calculated. Average values for cleared and uncleared land ranged from \$1,500 per acre in Delta to \$3,900 per acre in the Fairbanks region. The weighted average cleared land value for the five regions was \$3,300 per acre. Table 3 summarizes the land value information obtained from the survey. It should be remembered that these values were based on the subjective judgment of the landowner and that the data is over four years old.

Table 3
 Average Perceived Land Values By Region
 (Dollars per Acre)

Region	Cleared Land Value	Number of Respondents	Uncleared Land Value	Number of Respondents
Fairbanks	\$3,900	13	\$2,900	11
Delta	1,500	9	1,300	8
Copper River	1,900	6	900	6
Matanuska-Susitna	3,800	28	3,600	24
Kenai-Kodiak	3,700	13	3,100	13
TOTALS		69		62
Weighted Average	\$3,300		\$2,800	

Source: Agricultural Experiment Station, U. of A., 1979

Land owners were also asked to place a value on the development rights to their land. However, the authors of the report indicate that many of the respondents apparently did not understand how to value a development right. This, in conjunction with the small number of respondents answering this question, may mean that the values obtained are unreliable. With this cautionary note in mind, the authors' reported average development rights values in the Fairbanks, Mat-Su and Kenai-Kodiak areas ranging between \$3,100 and \$3,600 per acre.

Farmland Use Value Assessment Program. Data from the State's farmland use value assessment program also might be used to determine the amount of interest in, and cost of, an agricultural preservation easements program. AS 29.53.035 allows farm use land to be assessed on the basis of its value for farm use and not as if it were subdivided or used for some nonfarm purpose. The program allows the land owner to defer taxes that would otherwise be due if the land were valued at market value. If the land is converted to nonfarm uses, the owner is then liable for all the back taxes (including interest) which were deferred through the program (see Attachment B).

As with the proposed program in HB 148, participation in the use value assessment program is voluntary on the part of the land owner. Data from the Department of Community and Regional Affairs on the use value program for fiscal years 1976 through 1982 is presented in Table 4. It shows that there were 115 participants in the program statewide in FY 82, 63 percent of whom were from the Mat-Su Borough. A total of 19,197 acres were subject to farmland use value assessment in FY 82.

The column on the table entitled "total deferred value" represents the development rights value of the land; that is, the difference between the full and true value of the land and the farm use value of the land. Dividing the total statewide deferred value by the number of acres in the program yields an average development rights value of \$1,073 per acre, while the statewide average full and true value is \$1,545/acre. The deferred (or development rights) value equals \$1,067 per acre in the Mat-Su Borough and \$887 per acre in the Fairbanks North Star Borough.

These values are considerably lower than those reported in the U. of A. study discussed earlier. According to Assistant State Assessor Mike Worley, the values may not reflect current market conditions as land in some boroughs has not been revalued for several years. Steve Van Sant, the Mat-Su Borough assessor, reports that they are currently in the process of reviewing farmland values as part of their revaluation process. He reported the most current range of values to Mike Worley for typical farms in the borough.

Representative Barbara Lacher
February 21, 1983
Page 3

According to Mr. Van Sant, the full market value of a typical 80 acre farm in an outlying area of the borough would be about \$3,000 an acre, while a larger 300 acre farm would be valued closer to \$1,000/acre. However, it is important to remember that there are many variables involved in determining the market value of any particular piece of property--water availability, topography, distance to urban areas, etc. Mr. Van Sant also reported to Mike Worley that the farm use value of a typical farm currently tends to be from 20 to 50 percent of its full market value.

Possible Costs of a Preservation Easements Program. Given the quality of available data, it is not possible to estimate accurately the cost to the State of a preservation easements program. However, we have computed two very rough estimates for you which may assist you in evaluating the cost of the proposed program.

If all those farmland owners currently participating in the State's use value assessment program were to participate in the preservation easement program, the cost to the State would be roughly \$21 million. In FY 82, the use value assessment program included 19,197 acres of farmland. Multiplying this acreage by the total deferred value (see Table 4) of this land yields a cost of approximately \$20.6 million.

Farmland in the Mat-Su Borough is being converted to subdivisions at a rate of roughly 1,000 acres per year (see Table 1). It would cost the State roughly \$1.1 million at a minimum to purchase preservation easements on 1,000 acres of Mat-Su Valley farmland. This is based on an average deferred (or development rights) value in the Mat-Su Borough of \$1,067 per acre.

Neither of these methods provides an accurate estimate of possible program participation and costs. Unfortunately, no data is currently available on the amount of existing and potential farmland in private ownership. In addition, a more thorough research effort would be required to develop good data on the average market and farm use value of farmland in various areas of the state.

We hope the information provided here is useful to your committee's deliberations on HB 148. Please let us know if we can be of further assistance.

TABLE 4
FARM USE LAND ASSESSMENT

FY 82 PROGRAM SUMMARY BREAKDOWN MUNICIPALITY	<u>NUMBER OF APPLICANTS</u>	<u>NUMBER OF ACRES</u>	<u>FULL AND TRUE LAND VALUE</u>	<u>TOTAL DEFERRED VALUE</u>	<u>TOTAL DEFERRED TAX</u>
ANCHORAGE, MUNICIPALITY OF	5	124.31	\$ 2,607,800	\$ 1,802,088	\$ 13,364.58
FAIRBANKS NORTH STAR BOROUGH	17	2,839.48	2,965,125	2,517,950	\$ 14,144.82
HAINES BOROUGH	1	14.09	54,250	40,650	\$ 234.72
KENAI PENINSULA BOROUGH	18	3,790.24	5,415,250	3,239,350	\$ 13,072.78
KODIAK ISLAND BOROUGH	2	324.44	107,079	85,662	\$ 471.13
MATANUSKA-SUSITNA BOROUGH	<u>72</u>	<u>12,104.43</u>	<u>18,503,840</u>	<u>12,909,740</u>	<u>\$100,961.28</u>
STATEWIDE TOTAL	115	19,196.99	\$29,653,344	\$20,595,440	\$142,249.31
AVERAGE PER APPLICANT	1	167.0	\$ 257,855	\$ 170,091	\$ 1,236.95
AVERAGE PER ACRE			\$ 1,544	\$ 1,073	\$ 7.41
SEVEN-YEAR SUMMARY OF PROGRAM PERFORMANCE					
FISCAL YEAR 1976	91	18,759	9,279,400	6,140,300	77,805
FISCAL YEAR 1977	84	15,970	13,783,182	11,552,062	99,170
FISCAL YEAR 1978	86	15,467	13,807,490	11,373,877	118,616
FISCAL YEAR 1979	87	13,562	17,283,615	15,328,994	140,092
FISCAL YEAR 1980	108	16,412	19,705,705	18,338,680	145,129
FISCAL YEAR 1981	116	17,666	22,997,524	20,348,079	178,714
FISCAL YEAR 1982	115	19,197	29,653,344	20,595,440	142,249

Source: Alaska Taxable, Department of Community and Regional Affairs



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P. O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

January 13, 1987

MEMORANDUM

TO: Representative Niilo Koponen

FROM: Mary Jennings *MJ*
Legislative Analyst

RE: Means of Assessing Property Value
Research Request 88.067

As you requested, this memorandum discusses commonly accepted methods of real property valuation, property tax exemptions in Alaska and the applicability of the site valuation method of property taxation to Alaska.

Property Valuation Methods

The comparative sales approach to value is frequently called the market data or sales approach. The approach rests on the principle of substitution, which assumes that no commodity has a value greater than that for which a similar commodity--offering similar uses, similar utility, and similar function--can be purchased with the reasonable time limits that the buyers' market demands. Both subject and comparable properties must have the potential of a similar, if not identical, highest and best use in order to obtain valid estimate of value. In other words, all the properties compared must possess the capacity of satisfying the needs and desires of the same buyer. The basic steps in the comparative sales approach are: 1) collecting and analyzing the data; 2) selecting appropriate units of comparison; 3) making reasonable adjustments based on the market; and 4) applying the data to the subject of appraisal.

The fundamental strength of the comparative sales approach is that it reflects what buyers and sellers are actually doing and paying. This approach places less reliance on subjective judgements and the opinions of the appraiser because the data are taken directly from the market and related directly to the subject. The comparison of actual sales is generally recognized as a good appraisal practice by courts and other review authorities.

The cost approach to value, also known as the summation approach, provides a value indication that is the summation of the estimated land value and the depreciated cost of the building and other improvements. The primary use of the cost approach is to obtain a value estimate that can be compared with value estimates from other methods of appraisal. Additionally, the cost approach is utilized for properties for which comparable sales data are not available, such as schools, hospitals and churches. The steps in the cost approach are as follows: 1) estimate the site value, as if vacant; 2) estimate replacement costs or reproduction costs of improvements; 3) estimate the amount of accrued depreciation; 4) subtract the estimate of accrued depreciation from the estimated cost new; and 5) add estimated site value to estimate of depreciated replacement or reproduction cost. The cost approach is considered valuable by professionals because it is applicable to most classes of property and serves as a good foundation for uniformity and equality in assessments.

The income approach, frequently referred to as capitalization of net income estimates market value by converting the future benefits of property ownership into an expression of present worth. As for cost and comparative sales approaches, the principle of substitution applies; a property has a market value equal to the amount upon which it is capable of producing a return consistent with that anticipated from investments with similar risk. The basic steps in the income approach are as follows: 1) estimate potential gross income; 2) deduct for vacancy and collection loss; 3) add miscellaneous income; 4) determine operating expenses; 5) deduct operating expenses to determine net income before discount, recapture, and taxes; 6) select the proper capitalization rate; 7) determine the appropriate capitalization procedure to be used; and 8) capitalize the flow of net income into an estimated property value. The income approach is valuable for the following reasons:

when no reliable sales data are available and the cost approach is inconclusive or inconveniencing, the income approach is the best value indicator;

investors, the typical owners of income-producing properties, place chief emphasis on the income approach in making decisions to buy or sell; and

the income approach is a valid check on the value indications in the cost and comparative sales approaches to value.

Property Valuation Methods in Alaska. Municipalities in Alaska have discretion to appraise property by whatever recognized method of valuation they choose, so long as there is not fraud or clear adoption of a fundamentally wrong principle of valuation.¹ According to State Assessor Mike Worley, municipalities in Alaska utilize combinations of all three methods of valuation under a mass appraisal process (i.e., the process of valuing a universe of properties as of a given date, utilizing standard methodology, employing a common reference for data, and allowing for statistical testing). Mr. Worley added that this is the universally accepted procedure for determining property value.

We contacted assessors in the Municipality of Anchorage, the Fairbanks North Star Borough, the Haines Borough and the City and Borough of Juneau to obtain an overview of the application of property valuation methods in their particular municipalities. Assessors from the City Borough of Juneau, the Fairbanks North Star Borough, and the Haines Borough stated that, for residential properties, the cost approach tempered with market sales data is the primary means of determining value. The Municipality of Anchorage utilizes the the direct sales approach supplemented with cost data for valuing residential properties.

All four municipalities use the cost approach, tempered with market sales data, to estimate the value of commercial properties. Bill Olsen, of the Municipality of Anchorage, stated that national manuals listing cost information are adjusted for a particular market in order to utilize the cost approach. In cases of assessment appeal by commercial property owners, all the municipalities utilize income capitalization data to verify assessments.

Property Tax Exemptions

Alaska Statutes 29.45.030 discusses the types of property that are exempt from general taxation. Included in these exemptions are the following: municipal-, State- or federal-owned property; household furniture; property used exclusively for nonprofit religious, charitable, cemetery, hospital or educational purposes; property of a nonbusiness organization composed entirely of persons with 90 days or more of active service in the armed forces; money on deposit; and the first \$150,000 of the assessed value of the real property of senior citizens and disabled veterans. Additionally, two percent of the assessed value of a structure is exempt from taxation if the structure contains a fire protection system approved under State law.

¹Hobit v. Greater Anchorage Area Borough, Supreme Court Opinion No. 636, (File No. 1214), 473 p. 2d 630 (1970).

Alaska Statute 29.45.050 discusses optional exemptions. The section states that a municipality may exclude or partially exempt certain types of residential property from taxation by ordinance. The following types of residential property may be exempt from taxation: boats and vessels; property of nonprofit organizations used exclusively for community purposes; historic sites, buildings and monuments; land of a nonprofit organization used for agricultural purposes--if rights to subdivide the land are conveyed to the State; personal property; business inventories; and any or all types of motor vehicles. Attachment A, from Alaska Taxable, 1986 identifies the various types of property that are exempt from taxation in municipalities in the state.

In addition to the above mentioned optional exemptions, AS 29.45.050 states that a municipality may, by ordinance, classify and exempt or partially exempt the following types of property:

privately owned land, wetlands and water areas for which a scenic, conservation, or public recreation use easement is granted to a governmental body;

all or part of the increase in assessed value of improvements to real property if an increase in assessed value is directly attributable to aesthetic improvements in natural features or aesthetic improvement of an existing structure (this exemption may continue for up to four years from the date the improvement is completed);

all or part of the increase in assessed value of improvements to a single-family dwelling if the principal purpose of the improvements is to increase the amount of space for occupancy (this exemption may continue for up to two years from the date the improvement is completed);

land for fire protection service and fire protection facilities;

the assessed value that exceeds \$150,000 of real property owned by senior citizens and disabled veterans;

real or personal property used in processing timber from up to 75 percent of the rate of taxes levied on other property; and

pollution control facilities (this exemption may not exceed five years in duration).

The State Assessor does not compile data concerning municipalities that have passed ordinances allowing the above exemptions. According to Chris Follis, assistant to the State Assessor, these exemptions are used by relatively few municipalities. Mr. Follis added that he was not aware of any municipalities that have passed ordinances in order to exempt scenic lands, land for fire protection services or pollution control facilities from taxation.

Of the municipalities we contacted, the assessors of both the Fairbanks North Star Borough and the City and Borough of Juneau stated that the municipalities have passed ordinance which allow exemptions for residential improvements. The Fairbanks North Star Borough and the Haines Borough have passed ordinances that allow the assessed value of aesthetic improvements to be eligible for exemption. According to the Haines Borough Assessor, Haines has passed ordinances that allow for the partial exemption of timber production facilities and exemption of the property with assessed value in excess of \$150,000 of senior citizens and disabled veterans.

Site Value Taxation

Site value taxation--also known as graded taxation, land taxation, two tier taxation and incentive taxation--allows a differentially heavy taxation of land, or complete exemption of improvements from general taxation. This type of tax is practiced in Pennsylvania. In 1913, Pennsylvania authorized the cities of Pittsburgh and Scranton to shift, over a period of twelve years, to a "graded tax" under which land is taxed at twice the rate of improvements; since 1925 this has been the practice of both cities.² However, the "graded tax" applied only to city levies, not to county and school levies, which are large for both of these cities. Consequently, improvements are taxed at approximated 70 percent of the rate on land, not 50 percent.³ Legislation passed in 1951 and 1959 extended authorization for differential taxation of land to 48 other Pennsylvania cities. According to the Pennsylvania Local Government Commission, seven cities in the state currently utilize site value taxation.

Mr. Steven B. Cord of the Center for the Study of Economics, has analyzed site value taxation for many years. Mr. Cord has compiled data from cities in Pennsylvania that have have adopted site value taxation. Mr. Cord

²Netzer, Dick, "Economics of the Property Tax, The Brookings Institute, Washington, D.C., 1966.

³City of Scranton and the City of Pittsburgh assessors' offices, telephone conversation, January 1988.

stated that his research has shown that the taxation method encourages development. Mr. Cord explained that when localities are allowed to shift taxes off buildings onto land, buildings are cheaper to operate and construct, and it becomes more expensive to keep valuable land sites out of use or in underuse. I have attached legislation from Pennsylvania and a report by Mr. Cord concerning site value taxation.

Site Value Taxation In Alaska. According to the State Assessor Mike Worley, implementation of site value taxation in Alaska would require statutory changes. He explained that legislation would be needed to allow municipalities to exempt improvements or to tax land at a higher rate than improvements. Mr. Worley said his office is aware of site value taxation and has spoken with officials from Australia, where the method of taxation is also practiced. According to Mr. Worley, Australia has not witnessed significant economic benefit from the tax. Mr. Worley stated that the limited adoption of site value taxation, especially in the United States, prevents him from determining its economic effects.

I hope you find this information useful. Due to the complex nature of the subjects presented in this memorandum, we have provided a broad overview. If you would like us to research a specific area, please contact this office.

Attachments

ATTACHMENT A
Local Assessment Policy

TABLE II
LOCAL ASSESSMENT POLICY

BOROUGHES	RESIDENTIAL	GENERAL PERSONAL PROPERTY	BOATS & MOTOR VEHICLES	VESSELS	BUSINESS INVENTORY	AIRCRAFT
ANCHORAGE	FV	FV	ST COL	FV	FV	FV
BRISTOL BAY	OP EX	FV	FV	FV	FV	FV
FAIRBANKS NORTH STAR	OP EX	EX	EX	EX	EX	EX
HAINES BOROUGH	FV	FV	FV	5/15	FV	FV
JUNEAU	FV	FV	EX	EX	FV	FV
KENAI PENINSULA	OP EX	FV	FV	FV	EX	FV
KETCHIKAN GATEWAY	FV	FV	ST COL	5/15	FV	FV
KODIAK ISLAND	FV	FV	ST COL	EX	FV	FV
MATANUSKA-SUSITNA	FV	FV	ST COL	FV	FV	FV
NORTH SLOPE	OP EX	FV	FV	FV	FV	FV
SITKA	FV	FV	FV	5/15	FV	FV
<u>CITIES</u>						
CORDOVA	FV	EX	EX	EX	EX	EX
CRAIG	FV	EX	EX	EX	EX	EX
DILLINGHAM	FV	FV	FV	FV	FV	FV
EAGLE	FV	FV	EX	EX	EX	EX
GALENA	NA	NA	NA	NA	NA	NA
HOONAH	NA	NA	NA	NA	NA	NA
HYDABURG	NA	NA	NA	NA	NA	NA
KAKE	NA	NA	NA	NA	NA	NA
KING COVE	NA	NA	NA	NA	NA	NA
KLAWOCK	NA	NA	NA	NA	NA	NA
NENANA	FV	FV	FV	FV	FV	FV
NOME	FV	FV	FV	FV	FV	NA
PELICAN	FV	FV	EX	5/15	FV	FV
PETERSBURG	FV	FV	ST COL	EX	FV	FV
ST. MARY'S	NA	NA	NA	NA	NA	NA
SKAGWAY	FV	EX	EX	EX	EX	EX
TANANA	NA	NA	NA	NA	NA	NA
UNALASKA	FV	FV	EX	EX	FV	FV
VALDEZ	OP EX	EX	EX	EX	EX	EX
WRANGELL	FV	FV	EX	EX	FV	FV
YAKUTAT	FV	EX	EX	EX	EX	EX

ATTACHMENT B
Pennsylvania Legislation

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

TABLE II

LOCAL ASSESSMENT POLICY

BOROUGHES	RESIDENTIAL	GENERAL PERSONAL PROPERTY	BOATS & MOTOR VEHICLES	VESSELS	BUSINESS INVENTORY	AIRCRAFT
ANCHORAGE	LV	FV	ST COL	FV	FV	FV
BRISTOL BAY	OP EX	FV	FV	FV	FV	FV
FAIRBANKS NORTH STAR	OP EX	EX	EX	EX	EX	EX
HAINES BOROUGH	FV	FV	FV	5/15	FV	FV
JUNEAU	FV	FV	EX	EX	FV	FV
KENAI PENINSULA	OP EX	FV	FV	FV	EX	FV
KETCHIKAN GATEWAY	FV	FV	ST COL	5/15	FV	FV
KODIAK ISLAND	FV	FV	ST COL	EX	FV	FV
MATANUSKA-SUSITNA	FV	FV	ST COL	FV	FV	FV
NORTH SLOPE	OP EX	FV	FV	FV	FV	FV
SITKA	FV	FV	FV	5/15	FV	FV
<u>CITIES</u>						
CORDOVA	FV	EX	EX	EX	EX	EX
CRAIG	FV	EX	EX	EX	EX	EX
DILLINGHAM	FV	FV	FV	FV	FV	FV
EAGLE	FV	FV	EX	EX	EX	EX
GALENA	NA	NA	NA	NA	NA	NA
HOONAH	NA	NA	NA	NA	NA	NA
HYDABURG	NA	NA	NA	NA	NA	NA
KAKE	NA	NA	NA	NA	NA	NA
KING COVE	NA	NA	NA	NA	NA	NA
KLAWOCK	NA	NA	NA	NA	NA	NA
NENANA	FV	FV	FV	FV	FV	FV
NOME	FV	FV	FV	FV	FV	NA
PELICAN	FV	FV	EX	5/15	FV	FV
PETERSBURG	FV	FV	ST COL	EX	FV	FV
ST. MARY'S	NA	NA	NA	NA	NA	NA
SKAGWAY	FV	EX	EX	EX	EX	EX
TANANA	NA	NA	NA	NA	NA	NA
UNALASKA	FV	FV	EX	EX	FV	FV
VALDEZ	OP EX	EX	EX	EX	EX	EX
WRANGELL	FV	FV	EX	EX	FV	FV
YAKUTAT	FV	EX	EX	EX	EX	EX

ATTACHMENT B
Pennsylvania Legislation

THE GENERAL ASSEMBLY OF PENNSYLVANIA

Act No. 534 - Session of 1959

Signed by Governor David L. Lawrence

- - - - -

A N A C T

Amending the act of June 23, 1931 (P. L. 932) entitled "An Act relating to cities of the third class and amending, revising and consolidating the law relating thereto" changing tax levy provisions when land and buildings are taxed separately.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 2531, act of June 23, 1931 (P. L. 932) known as the "Third Class City Code" reenacted and amended June 28, 1951 (P. L. 662) and amended March 15, 1956 (P. L. 1283) is amended to read:

4. The council of any city may by ordinance in any year levy separate and different rates of taxation for city purposes on all real estate classified as land exclusive of the buildings thereon and on all real estate classified as buildings on land.

When real estate tax rates are so levied, rates shall be determined by the requirements of the city budget as approved by council. Higher rates may be levied on land if the respective rates on lands and buildings are so fixed so as not to constitute a greater levy in the aggregate than a rate of fifteen mills on both land and buildings, and they shall be uniform as to all real estate within each such classification.

5. Where the city council by a majority action shall upon due cause petition the court of quarter sessions for the right to levy additional millage, the court after such public notice as it may direct and after hearing may order a greater rate than fifteen mills but not exceeding five additional mills to be levied.

(This Act was passed by the State Senate of Pennsylvania by a unanimous vote and by the House of Representatives by a vote of 138 to 45).

Sec Pardon 53.3715.31

ATTACHMENT C
"The Evidence: For Land Value Taxation"

The Evidence

For Land Value Taxation

by Steven B. Cord

A Compilation of Studies Presenting Hard Objective Evidence on Whether a Building-to-Land Shift in Property Tax Rates Produces an Increase in New Constuction

**CENTER FOR THE STUDY OF ECONOMICS
2000 Century Plaza (238)
Columbia MD 21044**

Preface

What would happen in your town if the property tax were gradually shifted, over the years, off buildings onto land? For example, McKeesport, Pa. has done this so that now it is levying a 10% tax rate on land only 2 1/2% on buildings, instead of raising the same revenue by taxing both land and buildings at about 5%. If constructing and operating buildings attracted less property tax (eventually none), wouldn't it be more profitable to build and construct them? Wouldn't this encourage new construction and re-employment in your town?

The current property tax on buildings is a powerful deterrent to new construction and re-employment. Consider: a typical 2% annual tax rate on a new improvement of, say, \$100,000 will cost \$2,000 a year, which is equivalent to a one-time cost of \$20,000 (assuming a 10% interest rate), which in turn is equivalent to a 20% excise tax on the \$100,000 improvement. 20%! If someone proposed a 20% excise tax on a necessity of life - on a residence, office or factory - his proposal would be rejected immediately, and rightly so. But the property tax on buildings does exactly that.

If the property tax falls on land values instead, then the city re-coups the revenue it lost by taxing buildings less, and very important - landowners will be encouraged to put their sites to efficient use. For who would keep a site out of use, or in inefficient use, if the annual rental value had to be paid out, at least in large part, in local taxes? If you rented a site (which is equivalent to paying a tax on its value), wouldn't you be impelled to put it immediately to the most profitable use you could think of?

This is the theory. It is logically airtight. It should work in reality. But does it in fact?

The articles reprinted in this pamphlet appear to provide substantial evidence that the theory is working in the real world. In fact, the results seem almost too good to believe. In all of these studies, the building-to-land tax shift was rather mild, yet noticeable construction spurts were obtained.

Could other factors have caused these construction spurts? What, in literally hundreds of cities without exception? Well, let the reader judge for himself (he should know there is even more evidence available than has been printed here; for example, Harrisburg, one of the seven Pennsylvania two-rate cities, is prospering mightily since it adopted the two-rate approach; ditto for Washington, Pa. which went two-rate as recently as 1985).

Readers wanting additional evidence could write us for a copy of the book entitled *Catalyst!* (\$5/copy).

Of course, it is also true that there are many non-land-value-tax cities throughout the world with prosperous economies. Doesn't this weaken the case for LVT? Shouldn't they be suffering?

No, the existence of prosperous non-LVT cities does not undermine the LVT case. Given the evidence in this pamphlet, it's reasonable to think that they would be even more prosperous if they had LVT. Also, their prosperity could be due to the hard work of their citizens, their enterprising and risk-taking ability, a surge in demand for the products they produce - all strong factors which we could assume would be even stronger with LVT. After all, many of yesteryear's prosperous non-LVT cities are today's depressed areas.

These studies don't show that cities must suffer if they don't employ LVT. They only show that cities do better if they have it.

These studies can make one think, "if such a mild building-to-land tax switch has produced such remarkable results, what would happen in these cities if they shifted all their taxes onto land values, not just some? And then what would happen if the whole economy did it and not just a few cities? Wouldn't it be as if the economy were to jump out of the water and fly into the sky?"

Here are three final thoughts:

- It was Allan Hutchinson, a city councilman in the state of Victoria, Australia, who conceived the method of comparing building permits issued both before and after a building-to-land switch, as well as comparing the switching localities to neighboring and comparable localities. We have changed his methodology only slightly. Our hats off to him and his colleagues.

- The studies in this pamphlet have all been reprinted from the eight-times yearly bulletin *Incentive Taxation*. One result has been that certain statements of a general nature are repeated in these articles. The reader will be pardoned if he skips over the repetitions to get at the central facts of each study.

- The idea of taxing land more than buildings has received the endorsement of literally hundreds of urban land tax experts, from Ralph Nader and *The New Republic* on the left to William Buckley and the *Wall Street Journal* on the right. For example, Urban Land Institute Research Monograph No. 4 (p. 28) says of the land value tax that it is "a golden key to urban renewal, to the automatic regeneration of the city - and not at public expense."

So, dear reader, first read the evidence, then judge for yourself. And then act accordingly.

TABLE OF CONTENTS

I - Pennsylvania Evidence

II - Australian Evidence

III - Miscellaneous Evidence

I

Pennsylvania

Evidence

Study in Pittsburgh Shows Spurt in New Construction Follows Two-Rate Property Tax Expansion

The theory is simple enough : decrease the property tax rate on buildings and we make new construction and rehabilitation more profitable. And if we increase the land tax rate, we encourage landholders to put their sites to an efficient use in order to get enough income to pay at least the increased land tax plus a profit on the improvement as well. This slight change in the property tax can provide a carrot-and-stick incentive to urban redevelopment, and quoting an Urban Land Institute report, "at no extra tax cost" to local government.

Fine theory, but does it work in practice? There is ample evidence that it does:

- Spurts in new construction have followed tax shifts from building to land in all 24 municipalities in Victoria, Australia which have made such a shift since 1954, and these cities have far out-constructed comparable neighboring municipalities which did not undertake such a shift (Incentive Taxation, 1/78, 10/77, Spring 1980, 6/84 -- issues sent on request).

- Similar results emerge from a study of 325 cities in the Republic of South Africa: those cities taxing land the most, experienced the biggest construction spurt (Incentive Taxation, 9/83 issue).

- All five cities which have had a two-rate property tax for longer than three years have experienced construction spurts larger than their comparable neighbors (Incentive Taxation, 10-11/82, 10/83, 11/83).

Now comes a new detailed study of Pittsburgh's experience with the two-rate tax, conducted by the Center for the Study of Economics (publisher of this bulletin). It finds the same sequence of events: a building-to-land tax shift followed by a construction spurt. The logic of the matter clearly points to cause-and-effect.

CSE Study

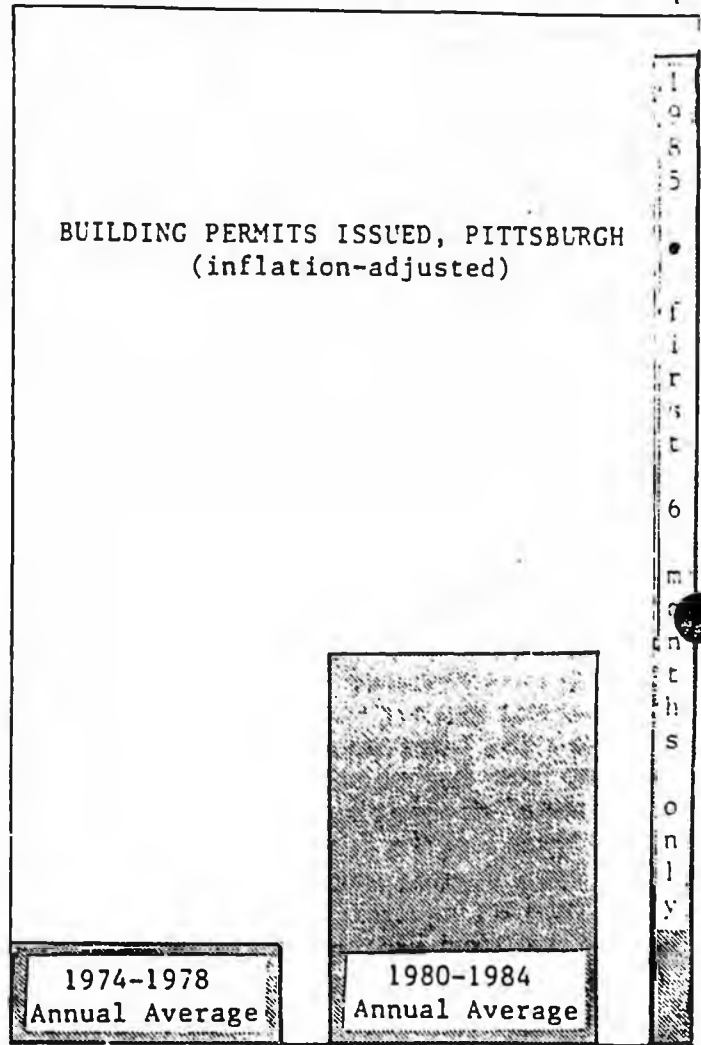
Pittsburgh has been taxing land more than buildings since 1913. From 1925 to 1979, its land tax rate was always double its building tax rate. In 1979, as the result of having obtained a Home Rule Charter from the state legislature, it almost doubled its rate on land without changing the building tax rate at all; in that year its property tax rates were 9.75% on land and 2.45% on buildings. They have been changed repeatedly since then so that now the rates stand at 15.15% on land and 2.7% on buildings.

Now let us see what CSE's study of Pittsburgh's two-rate experience has uncovered:

(1) In the years 1980-84, when Pittsburgh was expanding the difference between its land tax rate and building tax rate, its new construction, as measured by its building permits issued, was 5.9 times higher than in the pre-change years of 1974-78 (city figures, Pittsburgh Bureau of Building Inspection). For the entire United States, 1980-84 building permits were only 1.6 times greater than for 1974-78 ("Construction Review," 11-12/84, tables C-1, C-4, C-6). Pittsburgh

did better than the nation, much better--almost four times better!

(2) CSE also attempted to rule out the inflation factor by adjusting the annual figures for building permit issuance by changes in the cost of living. When this was done, CSE found that the adjusted 1980-84 figures exceeded those of 1974-78 by 3.92 times (see p.



16. PA Economy League study).

(3) Since 1979, Pittsburgh's building boom has been spearheaded by several big, new downtown office buildings whose profitability was significantly increased by the building-to-land tax shift. For instance:

- the Pittsburgh Plate Glass complex save \$615,335 a year in property taxes because of the two-rate approach as compared to a one-rate property tax raising the same revenue for the city.

- One Mellon Square Building save \$1,291,266 a year.

The Oxford Plaza complex saves \$361,369 a year.

In addition, these savings are enhanced by smaller yet still significant three-year tax abatements on the improvements only (not the land), which is similar to the two-rate tax. One must assume that these tax

incentives figured in the final decision to build these job-producing mammoths (the Oxford Plaza Building, with thousands of jobs, replaced a parking lot which provided maybe 3-4 jobs).

Final empirical verification that a building-to-land tax shift will spur new construction and re-employment must always remain elusive. We can never be sure that we will have accounted for all the other relevant factors, but there surely is a logical reason to connect the two-rate tax to the construction spurt, and it has actually occurred in so many places throughout the world that it is hard to doubt a cause-and-effect connection.

Contemplate this: if you are looking to buy a home in a community which levies a tax on the full rent on land, then the price of land would be zero (or near zero). You could invest in common stock what you save on land cost, and then use your dividends to pay the annual land-rent tax.

You'd pay nothing for the land and you'd have extra income to cover your land-rent tax. In addition, your buildings, wages, retail purchases, etc. would all be tax-free!

Wouldn't you prefer to locate in a land value tax community as compared to a tax-labor-and-capital community?

% CHANGE IN BLDG PERMITS ISSUED

PITTSBURGH

+293%

NEW OFFICE BLDG
CONSTRUCTION -
NATIONWIDE

+54%

In 1979, Pittsburgh, Pa. increased its tax rate on land by 18 mills and another 18 mills in 1980. The above chart compares building permits issued in 1976-78 to 1979-81 for Pittsburgh and for new office building construction nationwide.

Poorer Homeowners in Pittsburgh *Save Money with the Two-Rate Property Tax*

Pittsburgh's homeowners in those wards with less-than-median income save AT LEAST \$728,741 a year with the city's two-rate property tax, and the annual savings are actually much more than that. So concludes a research study conducted by the Center for the Study of Economics (C.S.E.).

C.S.E. is a non-profit research organization which publishes Incentive Taxation and prepares objective studies on the two-rate property tax. It was first organized in 1980. Incentive Taxation printed the first half of this study in last month's issue when it presented evidence to show that Pittsburgh's two-rate property tax seems to have helped bring about a spurt in new construction in the city.

Before examining how the two-rate approach duntaxes poorer homeowners, we should point out that Pittsburgh has been taxing land assessments at a higher property tax rate than buildings since 1913. From 1925-1979 the city's land tax rate was always double the city's building tax rate; since 1979, the land tax rate has been greatly increased while the building tax rate has been raised only slightly; as of 1985, the land tax rate is 15.15% and the building tax rate is 2.7% (assessments are officially at 25% of market value).

The C.S.E. Study

Now let us see how C.S.E. arrived at the conclusion that homeowners in the poorer wards in Pittsburgh save AT LEAST \$728,741 a year with the two-rate approach. Some detective work is required.

First, it is necessary to determine which of the thirty-two wards in the city are poorer-than-median; this could be ascertained from U.S. census data (1980 Census-Pittsburgh, Table P-11).

Second, C.S.E. had to determine how homeowners fared under the two-rate tax. The Allegheny County Assessment Dept., which assesses for the city, doesn't classify property according to use - residential, commercial, industrial, etc. - but rather classifies property according to incorporated and un-incorporated ownership (see 1/5/85 "Total Value Municipal Summary," p. 3, Ray Watt, Assessor's Office). It is safe to assume that all or nearly all homeowners are listed on the un-incorporated list, as there is no advantage for a homeowner to incorporate and considerable time and expense to do so.

When C.S.E. combined the census with the assessment data, it found that the un-incorporated properties in Pittsburgh's poorer-than-median wards

saved AT LEAST \$728,741 a year with the two-rate approach (15.15%/2.7%) as compared to what they would have to pay with a one-rate tax (5.16% on both land and buildings) raising the same revenue for the city.

Poorer Homeowners in Pittsburgh Save

\$728,741/Year
AT LEAST

At Least!

But the actual savings to the homeowners in the poorer-than-median wards are much more than \$728,741 a year. This is because the un-incorporated classification includes, in addition to homeowners, some unincorporated commercial and industrial property as well as vacant lots. These properties tend to pay more with the two-rate approach (certainly all vacant lots do). If they were excluded from the un-incorporated list, then only homeowners would be left and consequently their savings in the poorer-than-median wards would far exceed \$728,741 a year.

And as far as tenants are concerned, they clearly are beneficiaries of the building-to-land tax shift, as they pay no land tax at all and there will be less building tax to be passed on to them in the form of higher apartment-rent.

Some may ask, "Isn't the land tax passed on to tenants in the form of higher apartment-rent?" Perhaps it is in the short run and in some cases, but every economics textbook asserts that a tax on land values

cannot be passed on to tenants in the long run. They argue that a tax on buildings can be passed on because it causes some buildings to become unprofitable to operate and thus fall into disuse; also, it reduces the profits on new construction and so fewer buildings get built. In the long run, the smaller supply of buildings allows the rental price to be raised. But land is different - its supply is fixed and so a tax on land values cannot increase the rental price of land; because the tax won't decrease the supply of land or increase the demand for it, the tax won't increase its rental price. In the short run, a land tax might be passed on because of pass-through leases but in the long run when leases are renewed, the land-rent increases won't stick. If landlords insisted, some tenants would move out of town and others would economize on their use of space, and the lower demand for land would cause a return to the previous land-rent level, all other factors remaining the same.

In fact, because more sites would be used if taxed, then the supply of available land would be increased - with a consequent lowering (not raising) of rent!

This economic reasoning is important because it means that a building-to-land tax shift benefits all tenants, poor ones included - they pay no land tax and there will be less building tax to be passed on to them in their apartment-rents. Almost half the city's population lives in rental quarters (U.S. Census-Pittsburgh 1980, H-1), and we can assume that an even greater proportion of poorer people in town are tenants. So the two-rate approach would be a great benefit to the poorer tenants, although by exactly how much it is hard to say.

Megabuck Savings for Harrisburg Developer

Harrisburg (pop. 53,115) is slowly emerging from a rough decade. This capital city of Pennsylvania was cruelly buffeted by the Agnes flood of 1972. In addition, huge shopping centers ringing the city have been slowly strangling the retail business in the downtown area.

But Harrisburg has been fighting back. New construction has increased since it first started to tax land more than buildings in 1974. A huge complex containing office skyscrapers and an indoor shopping mall sprouted up a few years ago - and therein lies the first part of our tale.

This multi-million dollar complex, called Strawberry Square, is currently assessed at \$24.488 million for buildings, \$1.477 million for land (assessments are at 60% of assessed market value). If a flat tax rate of 2.829% were levied on all land and buildings, the city government would get as much revenue as it now gets with 5.825% land, 2.188% buildings. But the Strawberry Square complex would then pay \$112,857 a year more in property taxes. In other words, that is the amount it saves with Harrisburg's current two-rate tax.

Megabuck Savings

The latest news in Harrisburg is that a new addition to Harrisburg's downtown, in addition to Strawberry Square, is on the verge of final approval. It is a hotel conference office complex of huge proportions - some \$60-\$80 million in all. Application is being made for a UDAG grant to cover some of the expenses (maybe as much as \$4-\$6 million).

If we assume that the new complex will have the same building-to-land ratio as does the existing part of Strawberry Square, and that seems like a reasonable assumption, then the proposed buildings will save about \$150,000 a year in taxes because of Harrisburg's two-rate property tax. It is hard to imagine that the prospective developers did not include low property tax costs of this magnitude in their calculations before offering to bid on the project. We'll never know whether they would have gone ahead with this project even with a flat tax rate, we can only say that this handsome tax savings was an added inducement. It is reasonable to think it helped clinch the deal.

Other Aspects

While it is true that these big downtown developers get substantial tax reductions with a building-to-land tax switch, do keep in mind that they provide the community with much-needed new jobs. And it is not the homeowners in town who are picking up the tax burden. Most of them pay less with a two-rate tax; about 60% of them, according to a citywide study performed in 1981. It is the under-users of land who pay more, and they are preventing the unemployed from working on their sites.

Just recently, the Harrisburg city government moved to a new, modern and beautiful city hall. The old Municipal Building, built 1910, stands starkly empty but plans are

afloat for selling it to a condominium developer. Extensive remodeling will have to be done, of course, and because of the two-rate property tax, it will all be taxed at a lower rate. Thus, the plans are more likely to be realized. Generally, apartment buildings are the biggest tax savers as the result of an LVT shift.

The current city administration is favorably disposed toward land value taxation. Writes Mayor Stephen Reed: "I believe that there is an incentive for new construction and rehabilitation when a higher rate of tax on land exists."

We look forward to continued good news from Harrisburg.

LVT Scranton Maintains Construction Lead Over Non-LVT Wilkes-Barre

Nestled in the northeastern corner of Pennsylvania are two sister cities - Scranton and Wilkes-Barre.

They are similar in many ways. The declining anthracite coal mining industry has been important to both of them, as is the newer electronics, garment and trucking industries. Both can boast of many institutions of higher learning. They are twelve miles apart and their citizenry share similar ethnic backgrounds. They share the same airport and philharmonic symphony. They tax real estate at about the same general percentage. Scranton has a population of 87,000, Wilkes-Barre 51,000; both experienced about a 14% population decline from 1970 to 1980.

But there is one significant difference between the two cities: in 1980 Scranton nearly doubled its tax rate on land to 9.6% while maintaining its building rate unchanged at 2.55%; in addition, it passed a law (known as LERTA) exempting all newly constructed commercial and industrial improvements from the property tax for the first ten years (the land was not tax-exempted), and new residential construction received a somewhat lesser but still generous exemption. Wilkes-Barre did none of these things; it continued to tax land and buildings at the same rate.

Scranton's city officials had hoped to encourage new construction. A study undertaken by the editor of this publication and published in the Summer 1982 issue indicated that their hopes were being fulfilled.

This study of building permits issued in Scranton

revealed that in the two-year period following the uptax on land coupled with the net downtax on buildings, new construction in Scranton increased 14% in number of building permits issued and 22% in value - and this in the teeth of a nationwide construction recession (1980-1981). In neighboring and comparable Wilkes-Barre, the corresponding figures showed a decline of 30% and 44% respectively.

The Wilkes-Barre construction decline was understandable in light of the stiff 1980-81 construction recession. But what could account for the Scranton increases during the same period of time? It would seem logical to ascribe it to the uptax on land, which should dissuade landowners from keeping their sites out of less-than-most-appropriate use; also the downtaxing of new improvements would encourage new construction and renovation. No other relevant changes seems to have occurred in the economies of Scranton and Wilkes-Barre since 1980.

New 1982 Figures

Your editor felt, however, that this study was somewhat incomplete. Symmetry demanded that a three-year period following the change, not two years, was needed to compare to the three-year period prior to the change. So back he went not long ago to the city halls of these two cities to unearth the taxable building permits issued for the year 1982. He found that Scranton was still out-constructing Wilkes-Barre. The theory and the facts were still in consonance. See the chart accompanying

A Comparison of the Number and Value of Taxable Building Permits Issued in Scranton and Wilkes-Barre Both Before and After January 1980, when Scranton Almost Doubled Its Land Tax Rate and Substantially Reduced its Tax Rate on New Construction.

	1977-1979		1980-1982		% Change 1980-1982 - 1977-1979	
	Number	Value	Number	Value	Number	Value
Scranton	1145	\$8,658,747	1239	\$10,669,047	+ 8%	+ 23%
Wilkes-Barre	2520	\$14,542,318	1651	\$7,721,485	- 33%	- 47%

NOTE: The numbers and values are annual averages for the years indicated. For example, 1145 building permits were issued annually, on the average, during 1977-1979.

this article

The study is now complete. We have compared the three years after the Scranton rate changes of January 1980 with the three years before. If we include years too far away from the change, then we run the danger of other factors arising to affect the rate of construction in these two cities.

Of course, the possibility of other factors affecting materially the construction patterns in these two cities can never be entirely ruled out. None seem apparent, however, and it is reassuring to note that similar comparisons of other LVT and non-LVT cities in Pennsylvania show similar results, as do similar comparisons in dozens of cities in Victoria, Australia and literally hundreds of cities in the Republic of South Africa.

Another reassurance, the highly respected Fortune Magazine recently ran a full-scale article on the Scranton-Wilkes-Barre statistics as well as similar statistics from other Pennsylvania cities, all of which have appeared in this and previous issues of this publication. Two of their researchers, editor Gurney Breckenfeld and writer Ed Baig, visited the same sources which your IT editor visited and verified the accuracy of these statistics. You needn't take our word only; take Fortune's. It's the same. We welcome their independent verification. So should you.

Conclusion

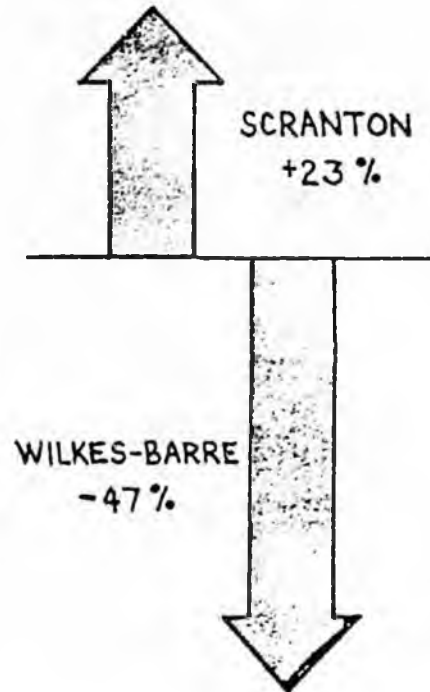
Has it crossed your mind, "If Scranton's modest uptax on land and downtax on new construction has seemingly produced a construction upsurge, what would continued annual moves to uptax land and downtax buildings produce? How much more new construction would there be, and above all how much more new employment would result?"

If Scranton were to move steadily, year by year, in a land tax direction so that within five years or so the property tax would fall only on land and not at all on investors in new construction and rehabilitation, couldn't we reasonably expect to see a significant dent

made in its still-high unemployment rate? What we need is vision and vigor on the part of leaders in business and government to act upon proven theory - to turn studies into reality.

And what about your city?

% CHANGE IN BLDG PERMITS ISSUED



In 1980, Scranton, Pa. adopted a higher tax rate on land than on buildings. Wilkes-Barre did not. The above chart compares building permits issued in 1977-79 to 1980-82.

LVT McKeesport Still Ahead

At first glance, the city of McKeesport, Pa. seems to have little going for it. It depends heavily on the steel industry, and everyone knows how badly off that industry is. As a result, unemployment in McKeesport is far above the national average. Downtown retailing is suffering; vacancy signs can be seen on the main street, and Cox, the town's only department store, has been forced to close down. Many people are pessimistic about McKeesport's economic future.

But there's a lot of life in the old town yet. The streets buzz with people and cars, there's considerable office employment downtown, city government and private civic organizations are mounting strong efforts to combat the economic malaise.

And wonderful to relate - new construction and rehabilitation have been increasing steadily, year after year since 1980. It's the best statistic the town can offer to show that the city is still economically alive, with a viable future.

The year 1980 is a key year, since it was then that

the city introduced the two-rate tax:

- It increased the tax rate on land from 2.45% to 9%.
- It decreased the tax rate on buildings from 2.45% to 2%.
- New construction was given a three-year tax exemption (but not the underlying land assessment).

The net effect of the tax rate changes was to increase the total property tax revenues by almost 50%. The city government was then in a financial bind. One would think that the increased property tax burden would have reduced new construction and rehabilitation, but the reverse occurred. Following the aforementioned tax change, new construction and rehabilitation for the three-year period averaged 38% more than in the previous three year period. 38%!

We should not be surprised that when land is taxed more, an incentive will be created for the owners to put their sites to a fuller use (limited by zoning); and that when buildings are taxed less, it would be easier for the landowners to improve their sites.

Taxable Building Permits Issued

	1977-79 Annual Average	1980-82 Annual Average	% Change
McKeesport	\$1,716,000	\$2,370,191	+ 38%
Clairton	\$746,710	\$539,564	- 28%
Duquesne	\$1,053,315	\$839,731	- 20%

Source: Building permit records in the three city halls.

Tax land and we create the incentive for it to be used intensively, and economic growth results. This cannot be said about any other tax, since they are levied on labor or labor-produced commodities; the more they are taxed, the more dis-incentive we create. This seems to be borne out by the facts in McKeesport. See the table below.

Note that McKeesport's 38% gain is for taxable building permits issued. Tax-exempt construction was excluded because it is not affected by tax considerations.

Duquesne and Clairton

Of course, the question should immediately arise - could other factors have been responsible for McKeesport's 38% gain? You can never know for sure, but none seem to be present.

In order to further rule out other factors, it makes sense to compare the record of McKeesport (pop. 31,017) to that of its neighbors, Clairton (pop. 12,073) and Duquesne (pop. 10,099). The latter is right across the Monongahela River and the other is downstream about two miles. Each of the three cities has one U.S. Steel mill as well as steel-related industries, and consequently they all have much higher-than-average unemployment. There are no other nearby comparable cities.

These three cities are truly triplets, the only visible relevant difference being that McKeesport up-taxed land and down-taxed building in 1980 while the other two cities did not.

When we compare the record of building permits issued in Clairton and Duquesne to that of McKeesport, we see that the latter did considerably better than its two comparable neighbors. In fact, it did much better - Clairton's new construction and rehabilitation fell off 28% in 1980-82 as compared to 1977-79, while Duquesne's fall-off was 20%. The accompanying table gives the details.

Considering the hair-raising depression in construction that occurred during 1980-82, the record of Clairton and Duquesne is better than might be expected, but clearly McKeesport did much better.

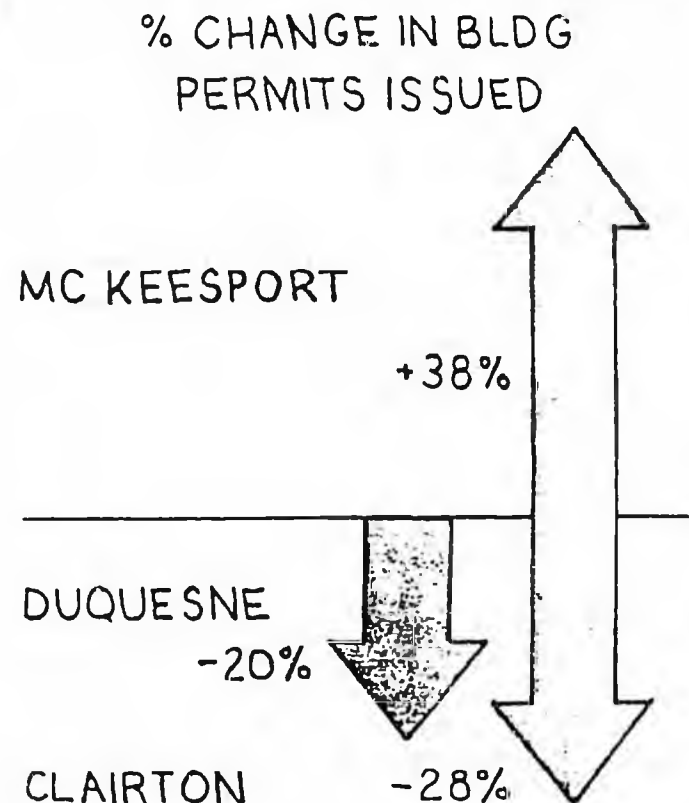
It is reassuring to note that these results are corroborated by similar studies comparing LVT Scranton to neighboring Wilkes-Barre, LVT Pittsburgh to other U.S. cities, and by similar studies in the state of Victoria, Australia (24 cities) and the Republic of South Africa (over 300 cities).

There is another kind of corroboration for these figures. FORTUNE Magazine sent two researchers around in Pennsylvania to gather research for their August 8th article on land value taxation, and they came

up with near-identical figures on building permits issued in McKeesport - Clairton - Duquesne (Scranton and Wilkes-Barre also), and reached the same conclusions. It is legitimate to wonder if the editor of Incentive Taxation, who is an announced land-tax advocate, didn't "doctor" the building-permit figures to suit his preconceptions. Well, the independent FORTUNE corroboration should put to rest these fears. If any IT reader wants to do his own verification, he need only consult the building-permit statistics in the three city halls; they are public records.

Conclusion

This Tale of Three Cities is now completed. We have compared their new construction for the three years following McKeesport's 1980 tax change to the three years before. Although no test in a changing urban setting can be declared as air-tight as what a chemist might do in a controlled laboratory setting, the case for land value taxation is clearly strengthened, especial-



In 1980, McKeesport, Pa. adopted a higher tax rate on land than on buildings. The other two cities did not. The above chart compares building permits issued in 1977-79 to 1980-82.

ly when the corroboration is added into the record
And why not? It shouldn't surprise us that an up-tax
on land would penalize inefficient use while a down-tax
on construction would give added incentive to build.
How much more evidence do our city officials need

before they act to introduce a two-rate property tax"
Let them bear in mind that there are unemployed people
out there - some of them are their neighbors - who are
suffering because the present one-rate tax is an obstacle
to economic growth.

Two-Rate Tax in New Castle, Pa. Followed by Construction Spurt

Up 70%!

That's the average annual increase in new construction experienced by New Castle, Pa., after it adopted a two-rate property tax.

More specifically, the dollar-value of building permits issued in New Castle was 70% higher per year for the years 1982-85 than for the years 1979-81. The first year for New Castle's two-rate property tax was 1982, and then in 1984 the city spread the rates further apart. The rates are now 5.78% on land and 2.1% of buildings.

8.2% of this 70% could be accounted for by general inflation (based on statistics from the U.S. Statistical Abstract 1985, p. 467).

This fact was unearthed by a study conducted by the Center for Local Tax Research, 5 East 44th St., New York, N.Y. 10021. C.L.T.R. engages in objective studies of the property tax and based this study on an examination of the city's records of building permits issued, which are on file for public inspection in City Hall.

The C.L.T.R. study revealed that at least \$1,200,804 more (adjusted for inflation) in new construction occurred during 1982-85 than in 1979-81 - see chart.

Comparison of Taxable Building Permits Issued in New Castle, Pa. for the Three Years Before the Introduction of the Two-Rate Tax (1982) with the Four Years Thereafter

1979 =	\$1,799,537	1982 =	\$3,622,847
1980 =	2,897,330	1983 =	1,990,649
1981 =	899,752	1984 =	2,226,356
		1985 =	4,854,569

[Source: C.L.R.T. Study based on city records of building permits issued.]

Job-starved New Castle could use the extra new construction during the post-1982 two-rate years. The city's economy has relied on heavy industries and they have been severely buffeted recently.

It is interesting to note that despite the adverse economic conditions, New Castle experienced a construction spurt anyway. Lately, this new construction is the only bright economic trend in New Castle.

The Center for Local Tax Research reported that

New Castle increased its building permit fee in 1984 and 1985. This change has had the effect of inducing many builders to reduce the dollar-value estimate of the permits they are seeking in order to lessen the fee they have to pay. If the fee had remained the same as in previous years, the estimated dollar value of building permits issued would have been higher in 1984 and 1985 than actually reported, and the construction spurt would have been reported to be higher than 70%. Also: the 1986 building permits issuance will show a huge increase.

Comparison to Other Cities

There is good reason to believe that the building-to-land tax shift resulted in the spurt in new construction. After all, if we reduce taxes on buildings, we make them cheaper and more profitable to build and maintain. And if simultaneously we increase the tax on land assessments, we encourage landowners to develop their sites more efficiently in an effort to obtain an income adequate to pay for the higher land tax as well as a reasonable profit on their improvement investment.

"But," some could say, "maybe the construction spurt was due to other factors than the building-to-land tax switch. Just because the spurt followed the switch doesn't prove cause-and-effect."

Well, this is an objection worthy of consideration. It's difficult, though, to see what other factors could possibly cause the construction spurt, especially in view of New Castle's depressed economy. And then there's another aspect of the study by the Center for Local Tax Research which strongly undermines the other-factors explanation.

C.L.T.R. examined the building permits issued in two neighboring and comparable cities - Farrell and Sharon, Pa. The economies of these cities also depend heavily on heavy industry and have experienced considerable unemployment lately. So it should come as no surprise that the average annual construction (as measured by building permits issued) is decidedly down for the 1982-85 period as compared to the 1979-81 period. Sharon's new construction was off 90% while Farrell was down 66%. Compare this to New Castle's increase of at least 70%!

This New Castle-Sharon-Farrell study is strongly corroborated by other similar studies reported in this publication. For example,

• Pittsburgh experienced a 114% increase in its three post-land-tax-increase years as compared to its three

prior years (see Oct.-Nov. 1982 issue); its construction spurt far out-distanced the nationwide construction increase during the same years.

• Scranton experienced a 23% increase in its three post-land-tax-increase years as compared to its three prior years (see Oct. 1983 issue); neighboring and comparable Wilkes-Barre experienced a 47% decrease during the same years.

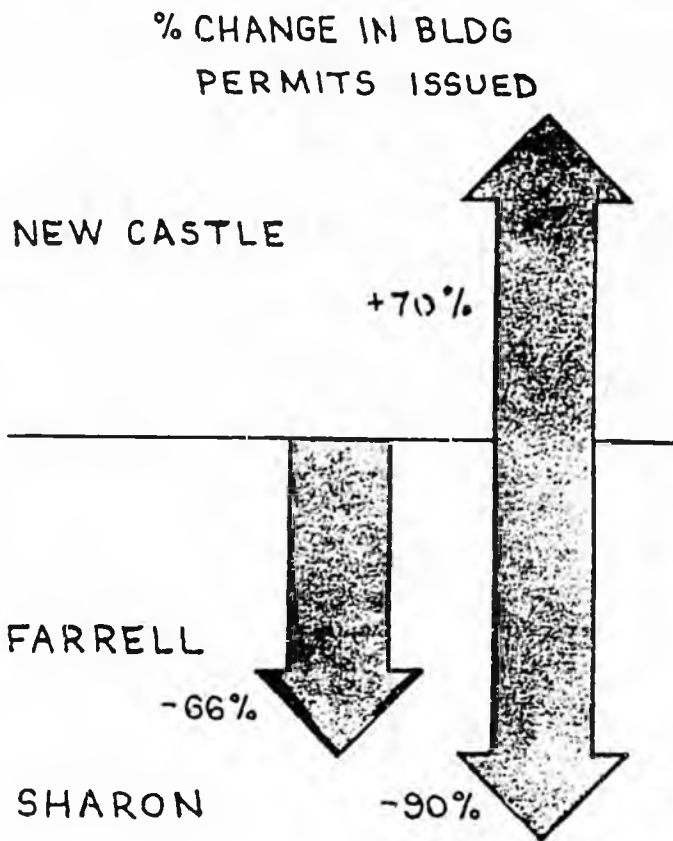
• McKeesport experienced a 38% increase in its three post-land-tax-increase years as compared to its three prior years (see Nov. 1983 issue); neighboring and comparable Duquesne and Clairton experienced 20% and 28% declines respectively in new construction during the same years. Duquesne has since adopted a two-rate property tax.

• 23 cities switched to taxing only land values in the Australian state of Victoria since 1955. All of them experienced construction spurts far out-distancing the construction records of neighboring and comparable cities (see issues of Oct. 1977, Jan. 1978, and Nov. 1978).

• A 310-city study in the Republic of South Africa showed that those cities taxing only land values experienced the greatest construction increase over a 20-year period. Cities taxing land more than buildings experienced the next greatest construction increase. Cities taxing land and buildings at the same rate experienced the least construction increase. And cities switching to taxing only land, or to taxing land more than buildings, experienced a greater construction increase than any of the above categories (see Sept. 1983 issue). These issues are available from this publication for one dollar each.

If there were only one study supporting the contention that a building-to-land tax switch encourages new construction, it would be legitimate to question whether the tax switch caused the construction spurt, but in light of all these studies, can we not conclude that the switch encourages new construction?

Why shouldn't it happen in your town also?
What are you doing to encourage construction and reduce unemployment in your town via the land value tax?



In 1982, New Castle, Pa. adopted a higher tax rate on land than on buildings. The other two cities did not. The above chart compares building permits issued in 1979-81 to 1982-1983.

Mayor James Barrett McNulty (Scranton): "We're really used to it. People don't even recognize that it's in place in the City of Scranton. We've increased the rate four times as of 1980, and as a result we've had a tremendous increase in the number of building permits in the city for the years 1980 and '81 with an increase of up to 22% in the City of Scranton, while in our neighboring city of Wilkes-Barre, which is 14 miles down the Susquehanna Valley, there has been a drop of 44% over the last three



years. I believe that one of the main reasons for that is that the builder is no longer penalized in the City of Scranton."

II

Australian

Evidence

Two American Experts Report: LVT Easier to Administer in Australia and New Zealand

In the fall of 1964, two American experts visited Australia and New Zealand in order to evaluate the land value taxation systems being practiced there. They were A. M. Woodruff, then Provost of the University of Hartford (and formerly a real estate appraiser) and L. L. Ecker-Racz, then Assistant Director for Taxation and Finance of the Advisory Commission on Intergovernmental Relations. Their report appeared in the October 1965 issue of "The Tax Executive."

Their comments on the ease and fairness with which land value taxation can be administered are especially interesting. We quote the following from their report:

Dr. J. F. N. Murray, the highly regarded author of the leading Australian textbook on valuation techniques holds that

(a) equity in valuation can be more easily achieved when the rating is based on land rather than a combination of land and building.

(b) considerable economies can be achieved if the Valuer General (chief assessor) does not need to maintain records on the character of buildings.

(c) most of the errors in valuation involve buildings and not land; and

(d) use of cadastral maps not only readily permits equalization of land values but reference to such maps makes it very simple for an aggrieved owner to determine whether he is treated equitably.

In consulting with the United Nations concerning tax systems for new nations, where ownership records are good enough to permit clear identification of taxable holdings, Murray strongly advocates site value taxation because of its simplicity and the relative ease with which inexperienced civil servants can be trained to do the job.

The argument commonly heard in America that site

value rating is administratively impossible because of the difficulty of assessing land apart from the buildings on it, is not heard at all in Australia and New Zealand. Many decades of experience have convinced even the most hardened skeptics that while it may be considerably more difficult to appraise the land component of a single improved parcel apart from the building on it, the reverse is true when great numbers of properties have to be evaluated for tax purposes. Involved calculations need be made only for selected bench mark properties and the values established for the bench marks may be extrapolated to all properties, very much as American assessors customarily build up land value maps. The land value atlas or "cadastral map" is the device for accomplishing the extrapolation. Both Australian and New Zealand tax professionals, including a few who either oppose site value taxation or are lukewarm to it, are agreed on its administrative simplicity.

Woodruff and Ecker-Racz also reported that "the earlier graduated land taxes of the Commonwealth of Australia, the Australian states, and the central government of New Zealand were a decided factor in the breaking up of large landed estates."

The case for the use of unimproved capital value for the base of property taxation on grounds of administrative simplicity, efficiency, and resultant equity between individual owners and classes of owners is also impressive, if only because professional administrators representing as a group nearly 300 years of collective experience are satisfied that substantial savings could be realized in valuation (assessment) costs, and assessment quality raised, if unimproved capital value were the only base used for local and state property taxation.

They Don't Kid Around in New South Wales

Some people who know a little bit say that since Australian localities don't have to raise tax money to pay for schools or police - those are state and federal functions there - the tax rates on land there are insignificantly low and provide no valid test of the common Australian practice of raising all local revenue by a tax on land only. If those towns exhibit spurts in new construction when they shift their building tax to a land tax, it's pure coincidence and the main cause for the construction spurt must be due to some other factor.

You're entitled to raise your eyebrows at such an explanation since the construction spurt invariably fol-

lows in so many cases upon the adoption of the single local land tax that coincidence would seem to be ruled out as the explanation. But now new evidence comes to us from the state of New South Wales which shows that the tax rate on land is in fact significantly high - much higher than in this country, for example.

In New South Wales, which includes the huge and booming city of Sydney, all localities are required by law to tax land values only. The tax rates there range, for most localities, from 2% to 7% of assessed value, and in Australia the assessments are up-to-date and genuine (in large part because the assessors there are state

civil service employees and are not paid by their neighbors and assessees, and also they need only assess land rather than both land and buildings, and this considerably simplifies their task).

In addition, water and sewer rates are levied separately. They range from 1% to 5.2% and when they are added to the basic general rates, it is seen that the tax rate on land is substantial enough to produce the construction spurts mentioned above. (Information from Sidney Gilchrist's article in Progress Magazine, Melbourne, June 1979, page 9)

How New South Wales is Beating the Home-Building Recession

In the past, "Incentive Taxation" has presented ample statistical evidence from many states in Australia showing that spurts in new construction have followed the shift to a tax on land values only. Now a new state has just been heard from - New South Wales.

It had been difficult to get evidence from this state, since every locality in it has been taxing only land values for over sixty years, thus making it difficult to run before-and-after-adoption studies or comparisons between land-taxing and non-land-taxing localities.

But in 1974, the Sydney Metropolitan Water Sewerage and Drainage Board and the Hunter District Board (serving Newcastle and its surrounding area) switched to a tax on land values only, effective for 1975 and thereafter. The switch affected 1,255,000 homes which had previously been taxed both on land and buildings. Commercial and industrial properties were not affected by the switch and continued under the old system.

Interestingly, water and sewer boards in rural areas of New South Wales have long been taxing on land values only. Now that tax has been extended to the urban boards.

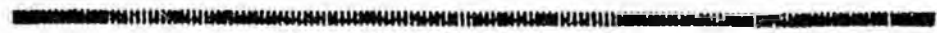
The statistical table in this article shows the home-building approvals for the areas covered by the Sydney, Newcastle and Melbourne water and sewerage boards. The Melbourne and Metropolitan Board of Works does not use the land-tax-only system and is included here for the sake of comparison.

Before we analyze the data, the reader should know that a serious recession occurred in Australia, as in this country, in 1975. It hit the home-building industry particularly hard.

Let's Look at the Data

The statistical table shows immediately that home-building recovered from the recession much more quickly and fully in land-value-taxing Sydney and Newcastle than in non-land-value-taxing Melbourne.

● In Sydney, the number of approvals increased 11% from 1975 to 1979; in Newcastle, despite serious setbacks in its large ship-building industry, approvals increased 72%. In unfortunate Melbourne, approvals de-



HOME-BUILDING JOB APPROVALS

Year ended 30th June	Number of New Dwellings approved	Total Values of all Dwelling approvals (SO0X)'s)
SYDNEY STATISTICAL DIVISION*		
1979	25,513	878,889
1978	22,319	698,911
1977	21,312	591,981
1976	17,392	445,153
1975	23,047	452,729
NEWCASTLE STATISTICAL DISTRICT		
1979	2,995	96,103
1978	1,724	88,086
1977	1,585	71,661
1976	1,407	57,536
1975	1,742	51,337
MELBOURNE STATISTICAL DIVISION†		
1979	15,674	547,626
1978	15,863	554,825
1977	21,771	658,485
1976	24,250	618,359
1975	18,323	383,684

- * Includes Wollongong Statistical District also served by the Sydney Water and Sewerage Board.
- † Excluding shires of Flinders, Hastings, Healesville and Mornington which are outside the Melbourne and Metropolitan Board of Works rating area.
- ‡ The horizontal line separates the figures since un-taxing dwellings from those under the old basis where they were taxed.



creased 14% over the same period.

● Sydney increased its total dollar value of home-building approvals by 94% in the 1975-1979 period, while Newcastle's increase came to 87%. Melbourne lagged behind with only a 43% increase.

The statistical table comes from the September 1979 Issue of Progress Magazine (Melbourne), page 3 and is compiled by Alan R. Hutchinson from building approval statistics published regularly by the Australian Bureau of Statistics

Corroborating Data

Mr. Hutchinson also informs us that "the superiority of the N.S.W. performance over that of the Melbourne area applies only to dwelling construction." Remember that commercial and industrial properties in New South Wales were not switched over to the land-tax-only system and they show no greater improvement in new approvals issued for 1975 to 1979 than did the similar non-land-taxed properties in Melbourne. Welcome corroboration! It reduces

the likelihood that other factors may be causing the greater dwelling construction in Sydney and Newcastle

If and when the land-tax-only system is extended to commercial and industrial properties in New South Wales, it will then be interesting to examine their four-year change in approvals issued

The Darvall Board of Inquiry has recently recommended that the Melbourne Board of Works be given power to switch to land value taxation. The dissemination of Hutchinson's figures should make the switch more likely

In the face of this sea of evidence, this flood of studies, showing that the higher taxation of land values stimulates economic growth, is it not legitimate to ask readers of this publication: what are you doing to get your own home town or state to increase the tax on land values and decrease unemployment and poverty?

Seymour Shire Building Permits Escalate Since Adoption of Land Value Taxation



Three years have now passed since Seymour Shire - a rural area in Victoria, Australia - changed over to taxing only land values instead of penalizing building owners with a property tax on both land and buildings. It is now time to analyze the results, as seen by this chart produced by Allan Hutchinson for the February 1985 issue of "Progress" Magazine:

Year Ending 30th Sept.	Values of Building Permits Issued for:				
	No. of Dwellings	New Dwellings	Alterations & Additions to Dwellings	Building Other	All new
Buildings Un-Taxed		\$ 000's	\$ 000's	\$ 000's	\$ 000's
1984	131	5,270	78	3,215	8,563
1983	89	3,672	143	584	4,399
1982	63	2,412	135	2,769	5,316
Buildings Taxed					
1981	58	1,998	22	988	3,008
1980	56	1,760	56		3,361
1979	68	1,905	62	945	2,812

The source of these statistics is the quarterly publication by the Victorian office of the Australian Bureau of Statistics (catalog number 8702.2), which contains data on building permits issued.

The essence of the chart is this:

- Seymour Shire issued 55% more building permits

in the three-year period following the switch to land value taxation (LVT) as compared to the three-year period preceding.

- The dollar value (in Australian dollars) of building permits issued was 99% greater for the after-period as compared to the before-period.

Could this construction spurt in Seymour Shire be due to factors other than the introduction of LVT? We are aware of no other factors, although you never know. But it is relevant to point out that ALL 22 of the other localities in the state of Victoria which switched to LVT since 1955 experienced a similar construction spurt, after-switch as compared to before, and not only that, but their construction spurt exceeded by far that of neighboring and comparable cities. See Incentive Taxation issues of 10/77, 1/78 and 11/78. In the light of all this experience, each reader should judge for himself how valid the "other factors" explanation is in explaining the construction results of LVT.

And after making an appropriate judgment, let each reader then ACT accordingly.

(The state of Victoria is in the southeastern corner of Australia. Its capital city is Melbourne).

Seymour Shire Prospers During a Recession

IT readers of some years' standing will remember that we have published three separate studies on all 23 localities in the southeastern Australian state of Victoria which switched after 1954 from taxing land and buildings to taxing only land. In each case, a building boom followed the switch, and the boom exceeded any new-construction increase that might have occurred in neighboring and comparable localities. See IT issues of October 1977, January 1978 and November 1978 (available upon request).

In September 1981, Seymour Shire became the twenty-fifth locality in Victoria to shift to land-only taxation since 1954. Reports received earlier this year in this country tell that Seymour Shire is no exception: building permits issued are far greater than in the best previous year. The "Seymour Telegraph" of October 9, 1982 quoted a local government report as saying:

"There has been a building boom in Seymour Shire over the past year with building permits valued at more than \$7,000,000 being issued."

The official report went on to say that Seymour Shire's building permits issued in the year ending September 30, 1982 (which is the first year following the switch to land-only taxation) was almost 2 1/2 times the value of the best previous year, and the number of building permits issued represented a 5% increase over the best previous year.

This should come as no surprise: un-tax buildings and we'll have more of them; up - tax land and we encourage the fuller use of sites.

But wait - there is more to consider. The Australian Bureau of Statistics reported that in the year ended October 31, 1982, new home construction in the state of Victoria slumped to its lowest level in 20 years! "If ever there were any doubts as to just how bad conditions have become, then these figures will certainly put an end to them," Housing Industry Association chief executive Les Groves said.

So - after Seymour Shire switched to land-only taxation, it experienced an unprecedented building boom while the

SEYMOUR SHIRE PROSPERS (cont.)

state in which it is located slumped to a 20-year low.

The score on land value taxation in Victoria is now 23 wins, no losses. In Pennsylvania, the score is 5-0. Isn't it reasonable to say that the longer we delay introducing a two-rate tax in our home town, the more we contribute to the decline of local business and the more the army of the unemployed grows and grows? How much more evidence is needed to convert intellectual approval

into real-life action? To know and not to act...

(Information for this article came from Progress Magazine of Melbourne, issue of Dec. 1982-Jan. 1983)

Perhaps this question has crossed your mind: "if land value taxation is so good, why hasn't it been more widely adopted?" Well, if you're not going to act after reading articles like the one above, then at least you'll know the basic answer to the question.

Hard Facts Show Land Value Taxation Spurs Economic Growth

In its five years of existence, this periodical has presented literally dozens of studies showing how the adoption of land value taxation was almost immediately followed by increased construction and rehabilitation. The chart on the right presents still more evidence. It presents building permit statistics for those localities which have switched to the land-value-tax-only basis since 1970.

The chart is based on A.M.I.S. Australian government statistics as gathered by the Land Values Research Group, Alan Hutchinson, Director, and as reproduced from Progress Magazine (Melbourne), November 1975, p. 11. UCV stands for unimproved capital value, which to Americans means a tax only on land values. NAV means net annual value and represents a tax on the estimated annual income of real estate; it is mostly a tax on buildings.

The figures in parentheses repre-



ALLAN R. HUTCHINSON,
B.Sc., M.I.E. Aust.

Municipality and local tax basis. Year ended 30th June	Dwelling permits issued Nos.	Value \$ (000's)	Total value of all building permits \$ (000's)
KILMORE SHIRE			
Buildings un-taxed			
1975 UCV	112 (51)	2258 (981)	2577 (1646)
1974 UCV	110 (67)	1688 (1000)	1830 (1563)
1973 UCV	79 (55)	1109 (662)	1394 (1047)
1972 UCV	45 (41)	611 (443)	925 (680)
*1971 UCV	26 (27)	348 (334)	570 (530)
Buildings taxed			
1970 NAV	32	342	592
1969 NAV	19	202	388
1968 NAV	21	207	320
BUNINYONG SHIRE			
Buildings un-taxed			
1975 UCV	108 (38)	2149 (763)	3349 (986)
1974 UCV	114 (60)	1824 (944)	2723 (982)
1973 UCV	90 (48)	1278 (624)	2080 (657)
*1972 UCV	44 (35)	550 (396)	1897 (444)
Buildings taxed			
1971 NAV	30	322	393
1970 NAV	33	353	414
1969 NAV	28	298	415
MELTON SHIRE			
Buildings un-taxed			
1975 UCV	517 (326)	9211 (6503)	11902 (7689)
*1974 UCV	825 (485)	11881 (7461)	14850 (8423)
Buildings taxed			
1973 NAV	587	7202	8848
1972 NAV	467	5043	5893
1971 NAV	299	3212	3907

UCV means Unimproved Capital Value of land.

NAV means Annual Value of land plus buildings.

*The transition year comprises 9 months of un-taxed and the remaining three months of taxed buildings

sent the building permits which could have been expected had local taxes on buildings continued after 1970 in accordance with the general construction trends in the State Statistical Divisions in which these localities are situated.

For example, in 1975, Kilmore Shire issued \$2,577,000 in building permits, more than four times the value issued in the last year prior to the switch to the land-only tax. Had Kilmore Shire experienced the same post-1970 growth rate as its district did, it would have issued only \$1,646,000 in building permits. The difference of \$931,000 represented wages and profits that would not have

existed at all without a switch to a land-tax-only system.

It might cross your mind that perhaps we are showing you statistics for only those land-taxing localities which have had good construction records. Not so. Rest easy.

This article, coupled with three others that have appeared in the past, show statistics for ALL the localities in the state of Victoria which have adopted land value taxation between 1955 and 1974. See our previous issues for October 1977, January 1978 and November 1978. Thus, there has been no selective use of statistics to substantiate the case for land value taxation.

New Victorian Study: LVT Towns Outgrow Their Neighbors

If more hard evidence is needed, here it is

● In the Melbourne metropolitan area, the 27 cities taxing land values only for local government showed an average inter-census growth for privately built dwellings of 12.9%, while the 15 cities that tax land and building values together showed an average growth of only 2.8%

● For all of the state of Victoria, Australia, the average growth rate was 15.2% for the land tax only localities compared with a 10.9% for the tax-buildings-also localities

A comment on "Inter-census" it

refers to the difference in privately dwelling construction between the latest government census, June 30, 1976, and the previous census of June 30, 1971

These statistics come to us from Progress Magazine (Melbourne), July 1979 page 8 and were based on a 17-page report giving details for each of the 211 councils in Victoria. Copies of the full study (Reference 4.4) are obtainable at \$1.00 per copy from Mr H B Every, Hon Secretary, Land Values Research Group, 27 McCallum Road, Doncaster, Vic 3108, Australia

One can wonder what tremendous economic growth would ensue if these land taxing towns in Victoria were to impose an increasingly higher tax rate on land assessment, using the extra revenue to pay for their residents' state and federal taxes, or perhaps they could distribute the extra land tax revenue received on an equal per capita basis

Conclusion How much more hard evidence do you need before you try to get your town to lower the property tax rate on buildings and raise it on land?

Sale City Sizzles

It didn't happen yesterday, but if it was true then, it is true now and it has important implications for the beleaguered economies of our American cities. We refer to an article appearing in the February 1971 issue of Progress Magazine. It deals with the spectacular rise of Sale City, 136 miles east of Melbourne. The following is excerpted from that article:

"Its growth has been spectacular for a rural city. Its population stood at 6,537 at the census in 1954, when it ceased imposing local taxes on homes and other improvements. By the 1961 census it had risen to 7,899 (an increase of 20.8 per cent). By the next census in 1966 it had risen further to 8,648 (increase of 9.5 per cent) and in 1970 is approximately 11,000. The growth to 1967 preceded the gas and oil developments which have accelerated it since.

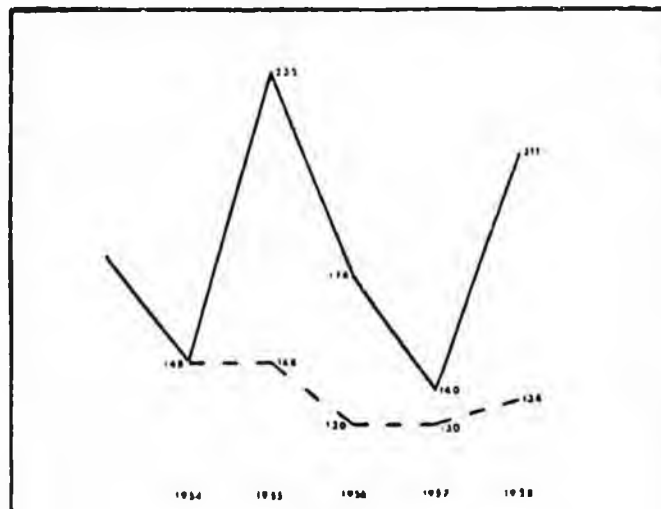
"Before it changed to site value rating with untaxed improvements in 1954, the prospects of Sale looked bleak. Number and value of building permits issued had progressively fallen for the three years preceding. But the stimulus of untaxed buildings first stopped the rot and then reversed the trend, and the city has never looked back since. At the time of the change-over, value of building permits issued in the year was \$296,000. For the year ended June 1970 the value totalled \$3,310,000.

"An article in the magazine 'The Age' says, 'The townfolk say there is no doubt that the discovery of natural gas in Bass Strait, with its consequent industrial establishments near Sale, accelerated the city's growth. But they claim it was happening anyway - that Sale was progressing rapidly towards increased industrial and commercial self-sufficiency and that the past three years of rapid expansion should be regarded merely as a most welcome shot in the arm for local confidence.'

"Motels numbered only three a couple of years ago and now there are seven with more planned. Just about every pub in town has the builders in remodelling and on the outskirts of the city developers are going great guns with new housing subdivisions. At the Sale Club they argue whether they have 13 or 16 millionaires as

members. Significantly they were mostly farmers! "

In our American cities, wages and profits are lower than they ought to be, and unemployment and poverty await those who slip and fall in the competitive struggle. Is there an urban politician here or there who can look beyond the numerous short-term crises that beset him, and do something basic and powerful for the long run benefit of his constituents?



Sale City

The above chart represents actual new construction (solid line) after the adoption of LVT compared with projected construction levels (dashed line) had this town followed the construction changes of other non-LVT towns in its statistical district. (The above figures represent old Australian pounds. One pound equals two new Australian dollars.)

Sydney vs. Melbourne:

Another LVT

Success Story?

Sydney and Melbourne are cities in Australia of similar size (population 2.7 million and 2.4 million respectively) - but with one important difference. Sydney has been taxing only land values for its revenue needs for decades while Melbourne taxes both land and buildings. In 1976, the independent Sydney Water and Sewerage Board, which had been taxing both land and buildings, switched to a tax on only land values (LVT) for all of its not inconsiderable revenue needs. The Melbourne Water and Sewerage Board continued to levy a land and building tax.

Since 1976, residential construction has increased much faster in Sydney than in Melbourne. The difference is surprising - in excess of eleven-fold! These statistics from Progress Magazine (2/83, Melbourne) tell the story:

Year	Unit (\$ milins.)	Value of Dwelling Permits Issued	
		Sydney Metro	Melbourne Metro
1981-82	(..)	1193	790
1976-77	(..)	554	718
Growth	(..)	639	72

During the years covered above, Sydney's value of dwelling permits increased 115% while Melbourne's increased only 10%.

One might expect that if new construction is taxed less, there will be more of it; if land is taxed more, then it will be more fully developed. Nevertheless, other factors might also help account for Sydney's greater growth.

Yet it is reassuring to note that once again the LVT town shows more economic viability than the non-LVT one. There are literally hundreds of corroborating comparisons pointing to the same conclusion, with more to come.

Something to think about in these times of high unemployment.

Study Shows LVT Towns Have Fewer Properties in Tax Arrears

Latest information just received from Victoria, Australia shows that towns in the Melbourne suburbs which tax only land values (LVT) have less property in tax arrears than towns which tax both land and buildings. Here are the figures

Arrears as Percent of Revenue Collected

	1976-77	1977-78	1978-79
--	---------	---------	---------

Non-LVT Localities

Bacchus Marsh Shire			
Cranbourne Shire			
Bulla Shire	6 62	6 25	5 82
Lillydale Shire			
Healesville Shire			
Sunshine City			

LVT Localities

South Melbourne City			
Sherbrooke Shire			
Croydon City	3 50	3 46	4 13
Ringwood City			
Melton Shire			

Source: Allan Hutchinson, January 7, 1981 letter to Incentive Taxation, citing Australian Government Bureau of Census and Statistics.

In other words, an average of 6.23% of the revenue collected in the non-LVT localities was in tax arrears

(non-payment), while for the LVT localities the same percentage was 3.7%, or almost half.

Mr. Hutchinson also gave the arrears revenue percentages for central Melbourne City. For the years given above, they are: 5.14%, 3.02%, 1.20%, for a three-year average of 3.12%, which is about equal to the three-year average of the LVT localities. But it would seem wiser to compare the arrears revenue percentages of the suburban LVT localities with the suburban non-LVT localities rather than with the quite different central city.

These figures should help allay the fears of local officials in the United States who think that if the property tax is shifted from buildings to land, many derelict properties will revert to the city in tax default. Not so - the result rather will be an increase in construction.

As a matter of fact, the LVT localities listed above have an average improvements-to-land ratio which is 14% higher than their suburban non-LVT counterparts. This indicates a higher rate of construction in the LVT localities.

And one last point: the taxes payable on vacant land under LVT in all the localities listed above are more than double the taxes payable under the non-LVT approach. It is vacant land rather than built-upon land which mainly becomes tax delinquent. If there were no other factor working it could therefore be expected that the amount of unpaid taxes on vacant land would increase under LVT more than twice as quickly as under non-LVT. But the evidence here is that they are increasing only at about half the rate under land value taxation.

Ignore This Hard Evidence If You Can

The evidence piles up. Up and up and up. Now comes still more.

Regular readers of this bulletin have seen numerous hard fact studies showing how land value taxation boosts new construction and rehabilitation.

Now comes yet one study more. And it is a beauty.

The Land Values Research Group of Melbourne, Australia, using data from the Australian Bureau of Statistics, has examined the record of new construction and rehabilitation in Caulfield City (Victoria, Aus.) and the seven cities adjoining it. Here is what the Group found:

In the three-year period 1966-69, Caulfield City taxes only land values for local revenue purposes. Then it went on to a dual tax system, collecting part of its revenue from a tax on land values and part from a tax on real estate income. This unfortunate regression at least gives us the opportunity of finding out what happens when a city reduces its reliance on land value taxation.

What happened in Caulfield? It shouldn't happen to your town, but maybe it has. The immediate effect of the change was to cut the total value of dwelling permits issued by half for the three-year 1969-1972 period as compared to the 1966-1969 land-tax-only period. Nor had the total value of dwelling permits recovered by the 1975-1978 period.

In the four adjoining cities taxing only land values (Moorabin, Oakleigh, Malvern, Cumberwell), the value of dwelling permits issued progressively increased from the initial period of 1966-1969 through 1969-1972, 1972-1975 and 1975-1978. In the latter period the value of dwelling permits issued were 50% higher than in the initial period!

But lo! The poor non-land-taxing neighboring cities of Brighton, Prahran and St. Kilda. Their value of dwelling permits issued progressively decreased, so that by 1975-1978 it was less than half of the initial period of 1966-1969!

To sum up: the cities which taxes only land values experienced progressive economic growth Caulfield suffered when it started taxing buildings. The cities levying an income tax on real estate did worst of all.

If you want a copy of the report, send one dollar to Allan R. Hutchinson, Hon. Director, Land Values Research Group, 32 Allison Ave., Glen Iris, Victoria 3146 Australia.

Is it too much to say that the unemployment and economic stagnation that might exist in your home town is partially the fault of those who, having read the results of this study and the many others like it, make no effort to get the mayor and city councilmen to lower the tax rate on buildings while increasing the tax rate on land?

Construction Spurt in Kilmore Shire

The latest figures for the township of Kilmore Shire show continued construction growth ever since its electorate voted in 1971 to tax land values only.

● In the four years prior to the switch new construction grew 104%. In the four years after the switch, it grew 209%.

● Construction continued to grow so that by 1977 (the last year for which statistics are available), it had grown by 508%.

But you are entitled to think, "Maybe it would have happened anyway. Maybe the whole region experienced construction growth."

As a matter of fact, the whole region did grow, but only by 160%, which is considerably less than Kilmore's 508%. All this is revealed in the figures in parentheses in the table below. They show the construction which could have been expected had Kilmore followed the construction growth of the Goulbourn statistical district in which it is located. They are arrived at by multiplying the construction figure for the last year of taxed buildings (1970 = A\$592,000) by the construction change for each of the following years.

For instance construction in the entire Goulbourn district was off 20% from 1970 to 1971. Had Kilmore followed the construction trends of its district it could have expected A\$474,000 in new construction (A\$592,000 minus 20%). Instead, after having adopted taxation on land values only, it had A\$570,000 in new construction.

Year ending June 30th	Value of all Building Permits Issued (A\$'000's)
Land Value Tax Only	
1977	3602 (1539)
1976	2658 (1598)
1975	2577 (1527)
1974	1830 (1450)
1973	1394 (799)
1972	925 (509)
1971*	570 (474)
Buildings Taxed	
1970	592
1969	388
1968	320
1967	290

*In 1971, land value taxation was used for the last nine months only.
Source of statistics: Australian Bureau of Statistics, building permits reference number 7, 1978, Victorian Office.

Note that in every year from 1971 to 1977, Kilmore's actual construction outstripped what it could have expected had it followed its district's construction trends.

In fact, it experienced A\$5,660,000 more in con-

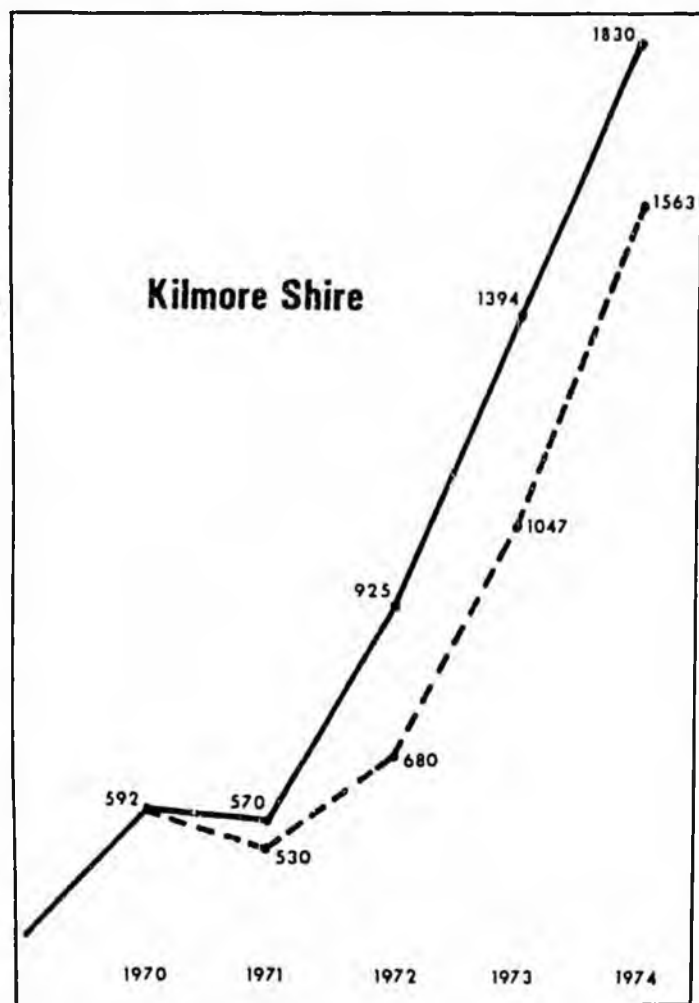
struction that could have been expected. In percentage terms, 72% more for the entire seven-year period!

To Be Expected

No one should be surprised to see this faster growth. After all, wouldn't you prefer to build in a community where your efforts would not be taxed? If you owned land, would you be less willing to keep it out of full use if you had to pay a heavier tax on it whether you used it or not? Wouldn't you want to build an improvement on it at least adequate to pay the tax on it? So we should expect a shift to land value taxation to spur new construction.

Are there people in your town walking around looking for jobs because land is not being taxed enough, buildings too much? Wouldn't land value taxation spur new construction in your town, just as in Kilmore? Why should it be any different?

What are you doing to improve economic conditions in your town?



The above chart represents actual new construction (solid line) after the adoption of LVT compared with projected construction levels (dashed line) had this town followed the construction changes of other non-LVT towns in its statistical area.

Draw Your Own Conclusion

Buninyong is a rural shire 73 miles west of Melbourne. It was famous in the past as a rich gold mining center but its fortunes declined when the mines were worked out. In 1972, the local taxpayers, mostly farmers and cattlemen, voted out the old property tax system and replaced it with a tax on land values only. It has no other taxes.

We present here the record of building permits issued both before and after the change. You draw your own conclusions.

Year ended 30th June	Building Permits Issued Number	Value (A\$'000's)
Buildings un-taxed (LVT)		
1978	184	7.087
1977	158	5.976
1976	166	4.545
1975	108	3.349
1974	114	2.723
1973	90	2.080
1972*	44	1.897
Buildings taxed		
1971	30	393
1970	33	414
1969	28	415

*Year of tax change, three months of taxed and nine months of un-taxed buildings.

The source of these statistics is Progress Magazine (Melbourne), June 1979, page 3, as taken from the Australian Bureau of Statistics, series catalog number 8703.2.

Bear in mind that 1975-76 were years of serious recession in the building industry.

Good Old Evidence for Land Value Taxation

Good evidence is good evidence, no matter how old it is. According to a pamphlet by Johan Hansson entitled "Land Value Reform in New Zealand" and published around 1910 -

- in those towns of New Zealand which are not taxing land values exclusively, the increase in population from 1901 to 1906 was 15.5%;
- in the land-tax-only towns, the increase was 29%.
- the value of improvements increased 36% in the non-LVT towns and 82.3% in the LVT-only towns.

These statistics were based on government census data. They seem to support the contention that LVT induces economic growth, and this is how we might combat unemployment today.

III

Miscellaneous

Evidence

How to Contain Urban Sprawl and Save the Clean-and-Green Countryside

I live about a quarter of a mile north of Indiana, Pa., a town of some 15,000 souls. Between my house and the town boundary there are four empty lots for which the owner is asking \$17,000 apiece. In the other direction, away from the town about two miles out, is a pretty picture postcard farm, surrounded here and there by homesteads. The farm now bears a sign, "For Sale."

There's a clear cause-and-effect relationship between the empty urban lots and this farm (as well as others) up for sale in the countryside. Because homeowners are not settling on those urban empty lots, they are settling in the countryside, enticing farmers to sell out. And when the homeowners settle out of town, they buy an acre or two, whereas in town they would have bought a quarter-acre plot.

To be sure, many homeowners out in the countryside are there by choice. They prefer the great outdoors to in-town living. But most of them would have preferred to live in town, as the higher price of in-town land indicates.

Because these homeowners are living out of town while working and shopping in town, they use gas, emit exhaust, use up the roads, increase costs for the extension of sewers, gas and water to their distant sites, etc.; all these costs would be less if they could have settled on the in-town and near-town lots which were their preferences had not these lots been held out of use at a huge price.

Not only that, but public transportation becomes uneconomic in sprawled out, sparsely settled areas.

In addition, the city provides roads, sewers, utilities, schools, hospitals, police and fire protection to those lots at huge cost. What a waste to service empty lots! And what a windfall profit to the landowners, since the taxes paid by workers and building owners finance the public improvements that enable these landowners to sell out at a huge profit. What an insane system - the active producers of wealth are taxed to enrich non-

producers! How much would those vacant lots be worth if those public improvements didn't exist?

Of course, the obvious solution is to tax land more. It would become too expensive to keep land out of use and it would also bring down the price of land within the means of lower-income homeowners.

Because we don't tax land more, the countryside is despoiled, gas is wasted, pollution increases, and the cost of local government services skyrockets. Also land costs more and so does homeowning.

"When urban land shoots up in price, developers are encouraged to construct in the suburbs or rural areas instead. When rural land prices zoom, then farmers are encouraged to sell out at a speculative profit. Up-taxing land and down-taxing buildings is the antidote." - Catalyst!, p. 36

Moreover, because countryside land is inadequately taxed, it is used inefficiently and this causes still more invasion of the clean and green. Rural sprawl is no good, either.

21%

"Wait a minute," some readers will say. "That all could be true, but look about you. There isn't much vacant land around. There are more important causes of the problems you mention."

Not so. In 1971, the prestigious journal "Land Economics" published a vacant land survey of all 86 U.S. cities with populations over 100,000. Fully 21% of the land area in the cities for which data was available (58 out of the 86) was vacant and buildable upon. 21%! A much greater percentage than that was vacant, but not all the vacant land was buildable upon (see Ray Northam, "Vacant Urban Land in the American City," Land Economics, 11/71).

The chart below gives vacant land information for 13 of the 86 cities surveyed.

Vacant and Buildable Land in 13 U.S. Cities

City	Date Reported	Proportion of land area vacant	Total Acres Vacant Land	Proportion Considered Buildable	Proportion vacant and buildable	Net Acres of Buildable Vacant Land
Allentown, Pa.	1970	22%	2,465	75%	17%	1,849
Erie, Pa.	1970	17	2,063	95	17	1,960
Fresno, Ca.	1970	20	3,169	100	20	3,169
Jersey City, N.J.	1970	17	1,750	100	17	1,750
Los Angeles, Ca.	1970	10	29,408	100	10	29,408
Milwaukee, Wis.	1970	23	14,092	85	20	11,978
Mobile, Ala.	1966	59	46,782	NA	NA	NA
Newark, N.J.	1966	9	1,422	NA	NA	NA
New York, N.Y.	1970	13	25,656	90	12	23,090
Pittsburgh, Pa.	1970	23	8,230	36	8	2,963
San Diego, Ca.	1970	54	107,537	95	51	102,160
San Francisco, Ca.	1970	5	1,371	85	4	1,165
San Jose, Ca.	1970	57	39,630	62	35	24,571

Sources: Ray Northam, "Vacant Urban Land in the American City," Land Economics, 11/71. Values referring to dates other than 1970 are calculated from data in National Commission on Urban Problems. "Land Use in 106 Large Cities." Three Land Research Studies. Study No. 2, Research Report No. 12, (Washington, D.C.: Government Printing Office, 1968). Values referring to 1970 are based upon personal correspondence with officials of each of the cities reported.

"Ah, yes," some will say. "But that was in 1971, or just prior. What about today?"

Well, these are the most recent figures I can find. But consider: Most of these cities have lost population since 1970. Abandoned old buildings are a well-known urban problem of the 1970's. It is not likely that the 21% vacant-yet-buildable figure has decreased, and it may well have increased.

Other studies corroborate this one. They are summarized in a book entitled "Catalyst!" available for \$5.00 from HGFA, 2000 Century Plaza, Suite 238, Columbia, MD. For example, a 1966 U.S. census report showed the number of vacant lots to be 14.25 million, or 1.25 million more than in 1957, despite all the new construction of the 1957-1966 period. This is another indicator that the 21% vacant-yet-buildable figure is not out of date.

But there's another big consideration. Unused land is just the tip of the iceberg. What about all the partially used land sites - aren't they semi-vacant? To the

degree they're vacant, shouldn't they be added to the 21% basic figure?

For example, suppose we put a camping tent on a valuable vacant site, isn't it still mostly vacant? Suppose the site contains a building which was once suitable but has depreciated into dilapidation; once again we have a partially used site. Aren't most downtown parking lots in only partial use? Ditto for two-story buildings at valuable intersections, and so on. Many sites are not being put to their highest and best use, and so they are to that extent vacant.

It is not possible to measure exactly how much partial use there is, but it is clearly considerable.

Tax land more and we do much to correct the ills of urban sprawl. We do much to keep our countryside clean and green.

Don't tax land more and we continue to dilapidate both town and country. And fall victim to other economic ills also.

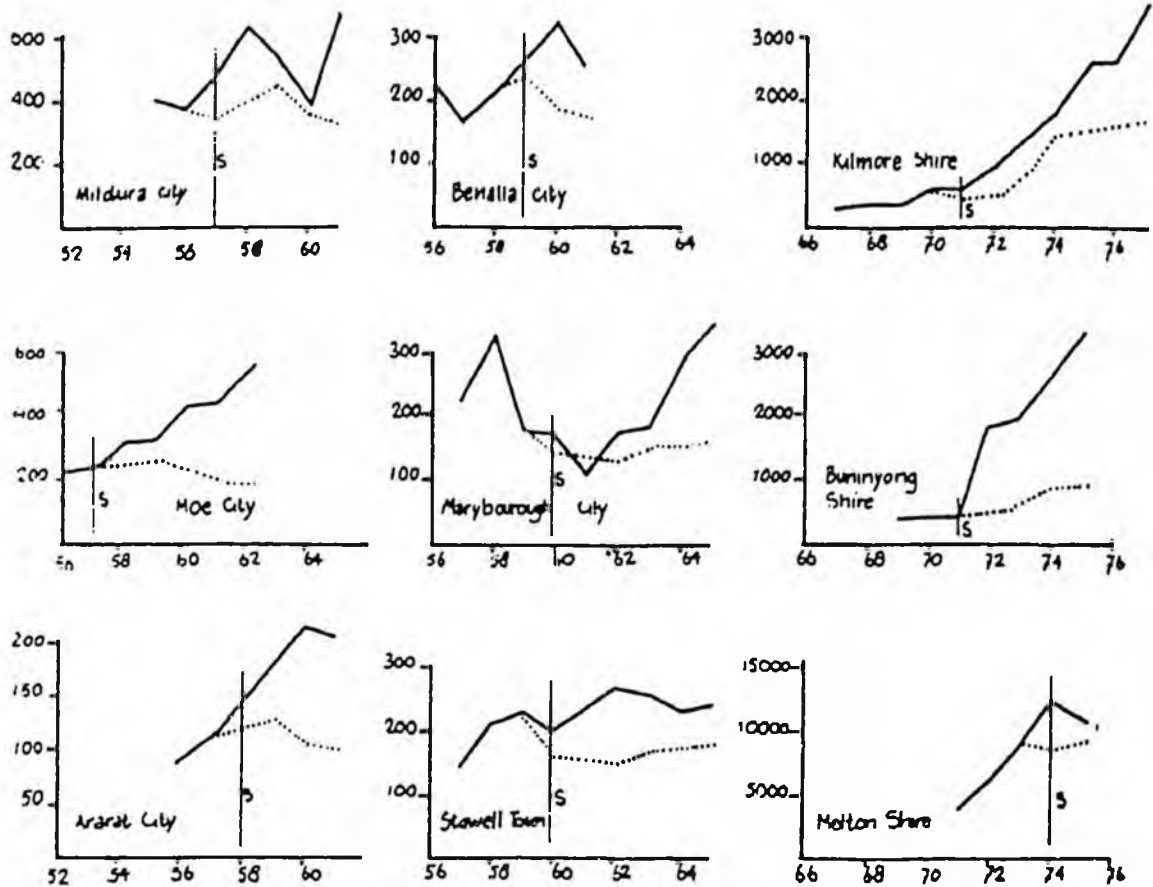
COMPARISONS OF THE 20-YEAR GROWTH OF THE 125 LARGEST TOWNS IN THE R.S.A.

1959 - 1979 Bldg. Assessments

Flat Rate	486%
Two Rate	561%
Site Rate Only	850%
Flat To Two Rate	748%
Two Rate To Site Rate	996%

This chart shows that in the Republic of South Africa during 1959-79, cities taxing only land-sites increased their building assessments the most (i.e., bldg. asmts. increased 850% for cities taxing only site values). And when they shifted toward taxing land-sites more during 1959-79, they showed the greatest building assessment increase of all. Land value taxation seems to produce economic growth.

Flat Rate - same property tax rate on both land and building assessments. Two Rate - higher rate on land. Site Rate Only - only land asmts. taxed. The last two categories refer to towns which switched, 1959-1979.



The solid line above represents actual new construction. These towns adopted LVT in the year indicated by the vertical line marked "S" (for switch). The dotted lines represent what the construction would have been had these towns followed the construction changes of the other towns (some of which were taxing land-only) in its statistical district. [The above figures represent old Australian pounds. One pound equals two new Australian dollars.]



The Urban Land Institute calls land value taxation “A golden key to urban renewal, to the automatic regeneration of the city—and not at public expense.”

(Research Monograph No. 4, Pg. 28)

We take this opportunity to thank the Robert Schalkenbach Foundation for its generous grant which made possible the publication of this pamphlet.

Would you like to obtain copies of Catalyst! (115 pages, \$5), “Incentive Taxation” (free back issues, \$2/yr. subscription), or more information on two-rate taxation? Then contact the Center for the Study of Economics, 2000 Century Plaza [238], Columbia MD 21044, [301]740-1177 or after office hours [301] 997-9232.

A biographical note about the author of these articles: Steven Cord has been a professor of history and social science for 24 years at Indiana University of Pennsylvania [13,000 students, Indiana, Pa.]. He retired in 1986 to become full-time president of C.S.E. and editor of “Incentive Taxation.” He has authored two books and many research articles on land value taxation. He is married, with three children.

1987

ISBN 0-911312-76-5

#	Date In	Doc. Type	Date	Subject	DESCRIPTION	From	Copied	Init
①	2/17/88	Bul	2/15/88					
②	4/4/88	Revised	4/4/88	HB 475 Revised		WCA		
③	4/4/85	CS HB 475	4/4/88	HB 475 CS		S. POWSON		
④	4/1/88	RELEVANT BACKGROUND	4/1/88	Background material		S. POWSON		
①.1	4/5	CS FN	4/5	DCRA - FN				
①.2	4/5	CS PP	4/5	DCRA - PP				
⑤	4/5	ltr		Assessing Offices				
⑥	4/6	memo	4/6	Mat-Su Bar, -				
11	4/8	(Min)						
⑦	4/15	page		State Assessor info				
	4/8	WR						
	4/15	(Min)						
	4/15	WR						
				Int. report - House Research				

① = Distributed, all files

(Ltr) = Master, Backup, Next Com. Files

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99801
907-465-3800

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

HC+RA	4-8-88	3:00 P.M.
	4-15-88	3:00 PM.

For an Act entitled: "An Act relating to real property tax
deferments; and providing for an
effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA

*Section 1. AS 29.45 is amended by adding a new section to read:

Sec. 29.45.063. TAXES DEFERRED ON HOMESTEAD PROPERTY (a) A
municipality may by ordinance partially defer real property
taxes due on homestead property. A tax deferment under this
section may:

- (1) only be applied to taxes resulting from an
increase in the assessed value of the land, and
- (2) be granted only to the extent a tax exceeds the
prior year's tax on the same land by more than
10%.
- (b) Deferred property taxes shall become a lien against the
property and must be paid in full if the property is sold,
leased, conveyed or used for non-residential purposes.
- (c) Interest on the deferred tax shall accrue at 8% per annum.
- (d) In this section "homestead property" is defined as owner

occupied residential real estate in which the owner has
acquired title through established federal or State of
Alaska homestead programs.

Sec. 2 This act takes effect January 1, 1989.

File Contents

HB 475 - Tax Assessments of Undeveloped Land

<u>No.</u>	<u>Description</u>
1.	Bill - HB 475
1.1.	Zero Fiscal Note with Comment - DCRA
1.2	Position Paper - DCRA
2.	Bill Review - Harrison
3.	Proposed CS [add subsection (c)]
4.	Background material
5.	Alaska Assoc. of Assessing Officers - ltr
6.	Mat-Su Borough Memo

FISCAL NOTE

REQUEST: _____

Revision Date: _____
Title: "An act..tax assessments of certain undeveloped land;..effective date."
Sponsor: Representative Phillips
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: Municipal & Regional Assistance Div.
Components: State Assessor

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The passage of the bill would cause no fiscal impact to the State. If adopted by municipalities however, it could cause a substantial shift of the tax burden from one segment of taxpayers to another.

Prepared by: Jim Plasman, Deputy Director Phone: 465-4750
Division: Municipal & Regional Assistance Date: 4/5/88
Approved by Commissioner: [Signature] Date: 4-5-88
Agency: Community & Regional Affairs

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

April 5, 1988

POSITION PAPER

RE: CS for House Bill 475

SPONSOR: Representative Phillips

Program Effects of the Bill

House Bill 475 would allow municipalities by ordinance to assess "undeveloped land" that has increased in value as a result of plans for or construction of a major development at a value as if no construction, or plans for construction, existed.

Undeveloped land is defined as a parcel of at least 40 acres with improvements worth no more than \$200,000.

Comments

The Department has no general objection to the passage of optional municipal property tax exemptions. When granted, however, we believe those options should be consistent with existing statutes, should serve a positive public purpose, and should provide adequate guidance and direction to municipalities. It is our position that HB 475 falls considerably short of fulfilling those criteria.

We strongly believe that this bill does not serve a broad public purpose. The benefactors of this legislation would be a narrow segment of the state's population, and, any tax relief enjoyed by these few would cause a greater tax burden to be placed on the majority. Tax exemptions should at least be available to, or potentially available to the majority of the property owners within a municipality. The property owners this bill would benefit are in the extreme minority.

Municipalities are currently looking for ways to encourage economic development and strengthen their local tax bases. Those activities are fully supported, and, in fact, promoted by this department. CSHB 475 encourages precisely the opposite. It would tend to manipulate the open real estate market by shielding certain properties from market influences, and, it would promote economic stagnation by encouraging non-development, which would inhibit growth of the local tax base.

①.2 HB 475

STEVE COWPER, GOVERNOR

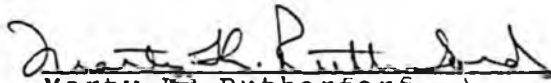
- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

CS House Bill 47⁵
April 5, 1988
Page 2

CSHB 475 does not provide adequate guidance for its implementation at the municipal level. The terms "substantially", "plans for construction", "major development" and "area" are not defined and are therefore open to broad interpretation and most certainly would result in unequal application of the law statewide.

Summary

In summary, the Department opposes the concept and direction promoted by this bill. We believe that tax exemptions, if adopted, should have positive impacts in municipalities and should benefit as many taxpayers as possible. We believe that it would be poor public policy to allow property tax relief to a narrow segment of the state's population who would automatically receive benefits through property value increases in an open real estate market.


Marty K. Rutherford
Acting Deputy Commissioner



Alaska State Legislature

House of Representatives

Committee on Community & Regional Affairs

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4833

April 4, 1988

TO: Henry Springer, Chairman HCRA

FROM: David C. Harrison, P. A., HCRA *DCH*

SUBJECT: Review HB 475 "An Act relating to tax assessments of certain undeveloped land; and providing for an effective date." [Phillips]

Section 1. AS 29.45 is amended by adding a new section to read:

Sec. 29.45.063. UNDEVELOPED LAND (a) If the full and true value of undeveloped land increases substantially due to plans for or construction of a major development in the area, the undeveloped land shall be assessed on the basis of what the full and true value of the land would be if no plans for or construction of the major development existed.

COMMENTS: The effects of this bill is to place/hold assessment limitations on the full and true value of undeveloped land that increases for reasons specifically mentioned herein. Concern that a large development or plans for such type development might raise surrounding homestead like property assessed values and cause increased property taxes.

The questions could be asked?
How many families would this bill affect?
Is it necessary to require cities to do this or should this be optional with local governments?
Should statewide application be made if municipalities could provide this under present law?

CS FOR HOUSE BILL NO. 475 ()
only

Substitute bill enclosed provides to a municipality that approves the application of this section by ordinance. dch.

Effective date Jan. 1, 1989.

③ HB 475

File

5-1876B
Cook
3/4/88

Original sponsor: Phillips

1 IN THE HOUSE

CS FOR HOUSE BILL NO. 475 ()
IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to tax assessments of certain undeveloped land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.45 is amended by adding a new section to read:

Sec. 29.45.063. UNDEVELOPED LAND. (a) If the full and true value of undeveloped land increases substantially due to plans for or construction of a major development in the area, the undeveloped land shall be assessed on the basis of what the full and true value of the land would be if no plans for or construction of the major development existed. Undeveloped land assessed under this subsection shall continue to be assessed under this subsection only so long as the owner at the time of the increase in value retains title to the land and the land qualifies as undeveloped land.

(b) In this section "undeveloped land" means a parcel of land that is at least 40 acres in size with improvements assessed at no more than \$200,000.

(c) This section applies only to a municipality that approves the application of this section by ordinance.

* Sec. 2. This Act takes effect January 1, 1989.



P.O. Box 7, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

④ HB 475

February 9, 1988

MEMORANDUM

TO: Representative Randy Phillips
ATTN: Janet Seitz
FROM: Patricia Brawley *pb*
Legislative Analyst
RE: Proposed Eagle Valley Ski Resort: Cost of Utilities and Access
Research Request 88.118 (Supplemental Information)

Attached please find additional information from the National Conference of State Legislatures on land use taxation. I hope this information is useful to you.

Attachment



WISCONSIN'S FARMLAND PRESERVATION PROGRAM
CURRENT LAW AND STATUS

STAFF BRIEF 82-18

Wisconsin Legislative Council Staff

July 28, 1982
(Corrections Made August 10, 1982)

State Capitol

Madison, Wisconsin

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PART I - DESCRIPTION OF THE FARMLAND PRESERVATION LAW	3
A. LEGISLATIVE HISTORY	3
1. The Original Law; Chapter 29, Laws of 1977	3
2. Chapter 418, Laws of 1977	3
3. Chapter 34, Laws of 1979	4
4. 1981-83 Legislative Session	4
B. LAND USE PLANNING PROVISIONS OF THE FARMLAND PRESERVATION PROGRAM	5
1. Initial Preservation Agreements	6
2. Land Use Planning Requirements After 1982	7
C. INCOME TAX CREDIT PROVISIONS OF THE FARMLAND PRESERVATION PROGRAM	11
1. Determining the Household Income	11
2. Calculating the Amount of "Excessive Property Taxes"	11
3. Determining the Size of the Maximum Tax Credit	12
4. Determining the Size of the Actual Credit	12
5. The 10% Minimum Credit	14
D. PENALTIES UNDER THE FARMLAND PRESERVATION LAW	14
PART II - STATUS OF THE FARMLAND PRESERVATION PROGRAM	17
A. FARMLAND PRESERVATION AGREEMENTS	17
B. AGRICULTURAL PRESERVATION PLANS	17
C. EXCLUSIVE AGRICULTURAL ZONING	19
D. TAX CREDITS	20
PART III - STUDIES ON THE FARMLAND PRESERVATION PROGRAM: PRESERVATION OF FARMLAND AND PATTERNS OF URBAN DEVELOPMENT	23
A. DOES THE FARMLAND PRESERVATION PROGRAM PRESERVE FARMLAND?	24
1. Zoning	24
2. Preservation Agreements	30
B. DOES THE FARMLAND PRESERVATION PROGRAM AFFECT PATTERNS OF URBAN DEVELOPMENT?	30
1. Columbia County	30
2. Walworth County	32

Wisconsin Legislative Council Staff

Madison, Wisconsin

Special Committee of Interrelationship of
Urban and Rural Policies

July 28, 1982
(Corrections Made 8/10/82)

STAFF BRIEF 82-18*

WISCONSIN'S FARMLAND PRESERVATION PROGRAM
CURRENT LAW AND STATUS

INTRODUCTION

This Staff Brief was prepared for the Legislative Council's Special Committee on Interrelationship of Urban and Rural Policies, which was created by the Legislative Council at its meeting of May 27, 1982. The Special Committee's directive included, among other things, that it "...examine state programs and policies relating to agricultural lands and maintenance of urban centers to determine whether such programs are achieving their intended objectives and whether these objectives are in conflict or produce competition between urban and rural interests...."

This Staff Brief provides a description of the Farmland Preservation Program and briefly reviews the current status of this relatively new, major "rural" program. PART I describes the statutory basis for, and operation of, the Program, while PART II reviews the current level of Program implementation. PART III summarizes studies which examined whether the Farmland Preservation Program (a) preserves farmland or (b) affects patterns of urban development.

*This Staff Brief was prepared by Leslie Glustrom, Science Analyst,
Legislative Council Staff.

PART I

DESCRIPTION OF THE FARMLAND PRESERVATION LAW

A. LEGISLATIVE HISTORY

1. The Original Law; Chapter 29, Laws of 1977

The Farmland Preservation Law was enacted by the 1977 Legislature as part of the 1977-79 Biennial Budget Act [Ch. 29, Laws of 1977], in order to provide income tax credits to owners of farmland who participate in some form of land use planning designed to preserve farmland.

The income tax credit available under the Farmland Preservation Law is based on a complex formula involving the amount of property tax paid and the household income. In general, as a farmer's property tax bill increases, so does the credit, while as household income increases, the tax credit decreases. In this sense, the tax credit program is termed a "circuit breaker" approach; as the size of the property tax relative to household income increases, so does the size of the tax credit. Conversely, as the property tax decreases relative to household income, so does the credit. Under the original formula, only low- and moderate-income farmers who participated in the Farmland Preservation Program received a tax credit. [The tax credit and land use planning components of the Farmland Preservation Law will be described in further detail in Sections B and C, below.]

Since enactment of the original law, a number of changes have been made by the Legislature. Some of the key changes are described below.

2. Chapter 418, Laws of 1977

A variety of changes were made in the original Farmland Preservation Law by the 1978 Budget Review Act [Ch. 418, Laws of 1977]. Among other things:

a. The definition of "income" was modified to exclude the first \$7,500 of nonfarm wages;

b. The maximum amount of property tax used to calculate the credit was increased from \$4,000 to \$6,000; and

c. The maximum tax credit was increased from \$2,600 to \$4,200.

In addition, Ch. 418, Laws of 1977, modified the provisions in the law relating to soil and water conservation. The original law [Ch. 29, Laws

of 1977] required that farmers receiving tax credits as a result of a preservation agreement operate their farm in accordance with a soil and water conservation plan. No provisions were made for deviations from the conservation plan. Chapter 418, Laws of 1977, required that the farm be operated in substantial accordance with an approved soil and water conservation district plan and allowed deviations from the conservation plan, if personnel were not available to institute the suggested conservation practices or the practices were not economical for the owner to adopt.

3. Chapter 34, Laws of 1979

During the 1979 Legislative Session, additional changes were made in the original law by a number of laws including the 1979-81 Biennial Budget Act [Ch. 34, Laws of 1979]. Among other things, Ch. 34, Laws of 1979:

a. Allowed individual stockholders of "tax-option" corporations to claim their share of the income tax credit.

b. Modified the formulae used to calculate the amount of property taxes used to compute the credit and the income tax credit. The effect of these changes was to provide a higher tax credit to those farmers with a lower income.

c. Modified the population density criteria used to define counties where income tax credits are only available if the land is subject to exclusive agricultural zoning. Previously, counties having a population of 75,000 or more, or those adjacent to a county with a population of 400,000, had to have an exclusive agricultural zoning ordinance, for owners of farmland to be eligible for an income tax credit after 1982. Chapter 34, Laws of 1979, changed this so that presently counties having a population density of 100 or more persons per square mile are required to have exclusive agricultural zoning for farmers to be eligible for a tax credit after 1982. As will be described below, farmers in counties with population densities of less than 100 persons per square mile are eligible for tax credits if the county either has exclusive agricultural zoning or a farmland preservation plan.

4. 1981-83 Legislative Session

The 1981-83 Legislature made several changes in the Farmland Preservation Law. Among other things, the 1981 Legislature:

a. Modified the formula for calculating what constitutes "excessive property tax" with the result being that most farmers will receive a smaller credit than previously [Ch. 20, Laws of 1981].

b. Modified the definition of income by:

- (1) Deleting the deduction for the first \$7,500 of nonfarm income [Ch. 20, Laws of 1981];
- (2) Requiring the inclusion of nonfarm business losses [Ch. 20, Laws of 1981]; and
- (3) Disallowing depreciation deductions for more than \$25,000 [Ch. 317, Laws of 1981].

The net effect of these changes was to generally increase the calculated household income and thereby reduce the tax credit.

c. Modified the Program to provide a minimum credit, equal to 10% of property taxes, to any farmer subject to an exclusive agricultural zoning ordinance, regardless of income [Ch. 93, Laws of 1981].

d. Provided that after July 1, 1983, the Agricultural Lands Preservation Board would be abolished and its duties would be transferred to the newly-created Land Conservation Board [Ch. 346, Laws of 1981]. [The functions of the Agricultural Lands Preservation Board are described in Section B, below.] The Agricultural Lands Preservation Board [s. 15.135 (3), Stats.] consists of the Secretaries of the Department of Administration (DOA), the Department of Development (DOD) and the Department of Agriculture, Trade and Consumer Protection (DATCP) or their designees and two public members appointed by the Governor. The Land Conservation Board consists of the Secretaries of DOA and DATCP or their designees, three members of county land conservation committees designated at the annual meeting of the conservation committees and two public members appointed by the Governor.

[Chapter 346, Laws of 1981, mandated that each county establish a land conservation committee which is to be responsible for certain soil and water conservation functions.]

B. LAND USE PLANNING PROVISIONS OF THE FARMLAND PRESERVATION PROGRAM

This section describes the land use planning provisions of the Farmland Preservation Program. The original Farmland Preservation Law

provided for two phases in the Program. The initial phase (which terminates in 1982) allowed farmers to qualify for income tax credits regardless of whether local government took any farmland preservation action. After 1982, however, farmers can only become eligible for tax credits if there has been local government action to preserve farmland. These two phases of the Program are described below.

1. Initial Preservation Agreements

From commencement of the Farmland Preservation Program in December 1977, until September 30, 1982, farmers can qualify for tax credits (provided the other eligibility requirements are met) by signing an initial agreement to preserve the farmland [s. 91.31, Stats.]. To be eligible to sign an agreement, the farmer must have 35 or more acres in a parcel and the land must have produced \$6,000 in gross profit from agricultural uses during the last year or \$18,000 in gross agricultural profit during the preceding three years [s. 91.01 (6), Stats.].

If a farmer signs a preservation agreement, no structures may be built or improvements made on the land [s. 91.13 (8), Stats.], unless they comply with one of the following criteria:

- a. They will provide a residence for a person (or a family of which at least one member) earns a substantial part of his or her livelihood from the farm or for the parent or child of the operator of the farm;
- b. They are consistent with agricultural use;
- c. They are approved by the local governing body and the DATCP; or
- d. They are incident to a scenic, access or utility easement or license.

In addition, a farmer who signs an initial agreement must either have a soil and water conservation plan or such a plan must be under development. Farmers who sign an initial agreement are exempt from special assessments for sanitary sewers, water, lights or nonfarm drainage projects unless the farmer decides to accept the assessment in order to benefit from the improvements [s. 91.15, Stats.].

To apply for an agreement [s. 91.13, Stats.], a farmer applies to the county clerk who notifies the DATCP as well as several local government officials who have 30 days to comment on the application. The county board has 120 days to approve or reject the application. If the county board approves the application, it forwards it to the DATCP which must approve the application unless the farmland does not meet the eligibility criteria described above related to size and profits. If the county board