

THE SUBURBAN LIFE...AND DYSFUNCTIONAL DEVELOPMENT

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Sprawl began for many reasons. Attracting people back into the cities in large numbers will not be an easy task. Philadelphia is better positioned than some but must adopt some very practical long-term measures that will make the city a place where people can and will want to live, work and play in safety. What too few of the city's leaders understand is the destructive role taxation has played in the out-migration of people and businesses.

Common sense ought to tell us that the more we tax behavior we want to encourage the less of that behavior we will get. And, conversely, the more we tax behavior we do not want the less of that behavior we will get. The problem is that we have not come to a consensus about what we want and do not want.

What we want is a continuously self-renewing city. If public policy is working this will occur. Buildings have a limited useful life. Continuous maintenance and frequent retrofitting extend this useful life. Others reach a point where they ought to be replaced. This is what occurs in fits and starts now. However, as we know, the process has been accompanied by many problems. Buildings sit vacant for decades even in the city's central business

district. Valuable parcels of land are left undeveloped or paved over and used as surface parking lots.

The Inquirer observes that "Harrisburg policymakers are ... creating new land-use tools" in an effort to deal with sprawl. One tool that has long been available but not brought into general use is to exempt buildings from the real estate tax and begin to impose an annual tax on land parcels that make holding land off the market for speculation (or simply abandoning land) a costly proposition. The annual tax on land should be set at or near what the parcel would yield if rented by the owner to the highest bidder. Think of how this would change the behavior of property owners. If I own a parcel of land with a rental value of \$12,000 a year and that is what the city charges me as my annual tax, my return on investment as a land speculator will be greatly reduced. In order to generate positive cash flow I will either develop the land myself or put it on the market to be purchased by someone who will. At the same time, if my tax rate on the building I construct on the property is zero (or, at least considerably lower than that on the land parcel) my incentives are to construct a building that maximizes my cash flow (i.e., to develop the parcel to its highest and best use in the market). At minimum, land prices will stabilize, the increase in land brought to the market somewhat offset by increased demand. Land prices to developers would tend to begin to fall over time.

This is where the anti-sprawl component begins to appear. As the city begins to renew itself -- as property owners are no longer penalized when they renovate or build new structures -- businesses and people will increasingly see the city as a desirable place to be and not just in a few neighborhoods that now benefit by abatement programs and public subsidies.

I do not suggest that people will begin to abandon the suburbs and return to the city. However, by correcting the serious structural flaw in tax policy that has existed for so long, the city will begin to self-renew. Community leaders and residents and business owners must come together to plan how this renewal will take place, to ensure that neighborhoods retain existing amenities and create new ones that will make every neighborhood vital and attractive.

Philadelphia does not need to wait for Harrisburg or the Federal government to come through with funding. The laws are already on the books to allow Philadelphia to move to a land-based property tax. Harrisburg is one of the cities in the Commonwealth that has already taken advantage of the enabling legislation with good results. Philadelphia ought to and needs to take this crucial step as soon as possible, and as aggressively as possible. Exempting property improvements from taxation and collecting all of the property tax from land values (which are created by the community as a whole and not by any individuals) is the cornerstone to continuous self-renewal.

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