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Lessons for Economic Reform Based on Pennsylvania's Experiences with the Two-Tiered Property Tax

By ROBERT ANDREW PETERS*

ABSTRACT. Although economic theory indicates that the imposition of a two-tiered property tax system facilitates urban revitalization, localities in most states have not been authorized to institute a two-tiered property tax. The authority to implement such a tax is partially determined by a state constitution's uniformity and equal protection clauses and tax rate ceilings. An analysis of these provisions reveals 23 states may establish a two-tiered tax, but implementation in 20 of the states must await the passage of state-enabling legislation. Because of the dearth of experience in enacting legislation and the absence of literature that provides guidance for securing its passage, the politics of enacting Pennsylvania's 1998 statute are assessed. The case study clearly indicates that enabling legislation enjoys bipartisan support as well as the backing of urban and rural representatives. However, the legislation's fate is primarily determined by the composition of local electorates and the political power of farm lobbies.

I

Introduction

URBAN REVITALIZATION EFFORTS HAVE TRADITIONALLY FOCUSED ON infrastructure improvements, industrial development bonds, tax abatements, and urban renewal grants. Over time, these forms of targeted aid have been supplemented by programs that benefit multiblock sections of

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downtown business districts, such as enterprise zones, downtown improvement districts, and tax increment financing. Although these initiatives have been adopted throughout the country, there is an option that has not been widely replicated: the two-tiered property tax.

Its infrequent use belies the fact that a two-tiered property tax offers significant incentives for urban redevelopment. Instead of imposing a uniform millage¹ on all of a parcel's elements, the two-tiered tax levies a higher tax rate on land than on improvements to land. Whenever a two-tiered tax replaces a single-rate property tax or whenever the tax rate differential between land and improvements is increased, the revisions raise the relative price of holding land and lower the relative cost of improvements. It is these changes that reduce the financial benefits of holding land for speculative purposes and provide incentives for improving the land. The two-tiered tax, therefore, generates incentives for redevelopment and a more efficient use of land.

Even though local governments may decide to institute this type of levy, legal and political factors may discourage its use. The equal protection and uniformity clauses of state constitutions determine whether or not a two-tiered tax is permissible. In the event that the levy is constitutional, local adoption cannot proceed unless the state government first enacts statutes authorizing its use. One of the key factors affecting the probability of enacting a state statute is the composition of local electorates and the political influence of lobbyists who represent their interests.

I have organized this article as follows. In Section II, I describe in greater detail the two-tiered tax's impact on redevelopment. This discussion is followed by Sections III and IV, where I review state constitutional provisions and the impact of social interests and lobbying groups on the adoption of state enabling legislation, respectively. Section V provides the foundation for an analysis of the Pennsylvania General Assembly's decision to extend two-tiered taxing authority to Pennsylvania's boroughs.² A summary of the findings and implications for other jurisdictions are contained in Section VI.

Pennsylvania is the focus of this study because of the frequency with which the legislature has dealt with the issue of two-tiered taxes

in the state. Two-tiered taxes were originally placed on the agenda by Pennsylvania-born economist Henry George, who proposed to eliminate property taxes on improvements to land. Although the state legislature did not adopt George's notion of a land-value tax, legislation was enacted in 1913 that authorized cities of the second class (Pittsburgh and Scranton) to establish a two-tiered property tax within their boundaries. Since authorization was limited to these two cities, other jurisdictions could not legally institute a two-tiered tax under the original enabling statute. However, when the issue resurfaced during the 1950s, statutory authority to adopt the two-tiered property tax was extended to third-class cities. Nine school districts were added to the state statute in 1995 and, three years later, the General Assembly approved legislation that permitted boroughs to also implement the tax. Given the frequency with which Pennsylvania's legislature has considered, and enacted, enabling legislation, there is ample opportunity to examine the historical record for evidence of variables that influenced the legislature's behavior.

II

Economic Development Incentives Provided by the Two-Tiered Property Tax

SINCE PROPERTY TAXES ARE BASED UPON the value of both the land and the improvements to land, construction or renovation projects on landed property generate higher property values and a concomitant increase in annual property tax burdens. The economist Henry George proposed to eliminate the negative implications of taxing improvements by shifting the entire levy so that it would burden only land. Throughout the past century, the Pennsylvania General Assembly has authorized second- and third-class cities, boroughs, and nine school districts to use a hybrid of the traditional property and land-tax systems. Instead of shifting the entire tax burden to land, state statutes permit these entities to impose a higher millage on land than on improvements.

Table 1 offers a simple numerical example to illustrate the manner in which a switch from the traditional, one-rate tax to a two-tiered property tax can affect outcomes. The table's numbers are based on

Table 1
Property Tax Options for a Hypothetical City, by Millage Rates, Millage Ratios, and Revenues

Property Tax Option	Land Millage	Improvement Millage	Millage Ratio	Revenue Generated by Land	Revenue Generated by Improvements	Total Revenue
Original	24	24	1:1	2.4 Million	21.6 Million	24.0 Million
First	50	21	2.38:1	5.0 Million	19.0 Million	24.0 Million
Second	62.5	25	2.38:1	6.25 Million	22.5 Million	28.75 Million

the assumption that the total assessed value of city property is \$1,000,000,000. Of that amount, it is assumed that land accounts for 10 percent of the aggregate (\$10,000,000) and the initial tax rate is 24 mills. Annual revenues generated by the tax on land and improvements are \$2.4 million and \$21.6 million, respectively. If the tax rate for land is raised to 50 mills and total tax revenues are held constant, then the millage rate for improvements can be reduced to 21 mills. The resulting ratio of tax rates for land and improvements rises from 1:1 to 2.38:1. Due to the increase in the relative price of land and decline in the relative price of improvements, property owners spend fewer resources on land itself and expend more funds on improvements to the land. The adoption of a revenue-neutral two-tiered property tax, therefore, expands the number of construction and renovation projects and stimulates economic development (Bourassa 1987; Brueckner 1986).³ In urban areas, greater construction and renovation activity tends to yield an increase in housing density. It should also be noted that whenever alterations in tax policy raise the present value of immediate development above the present value of holding vacant land, Bourassa (1992) and Douglas (1980) contend that speculation declines and vacant land is developed. The resulting fill-in development and expansion of existing buildings enhance the city's tax base, eventually increase the density of city development, and reduce the demand for suburban growth (DiMasi 1987).⁴

The benefits of the two-tiered tax are compromised whenever adoption is accompanied by an attempt to increase total property tax revenues. Consider the following example in Table 1: if the hypothetical city replaced the original 24 mill tax with a two-tiered structure of 62.5 mills for land and 25.0 mills for improvements to land, then total revenue would rise from \$24 million to \$28.75 million and the ratio of millage rates would increase from 1:1 to 2.38:1. Since the tax rate ratios for the first and second two-tier tax systems are identical, both systems generate incentives to shift resources from land to improvements (e.g., construction and renovation projects). However, the larger total tax burden imposed by the second example raises the after-tax cost of owning city property. These higher costs reduce the rate of return for city properties in relation to surrounding jurisdictions. It is this change in the relative rate of return that

leads investors to reduce their funding of city projects and expand monies flowing to the more profitable suburban areas. The siphoning of investment from the city to the suburbs continues until the increase in demand for suburban properties is reflected in higher prices and the rising prices reduce the suburban rates of return until the returns on suburban and city properties equalize. At this point, a larger share of the benefits from implementing a two-tiered tax accrues to the city and the difference in investment spending generated by each of the two-tiered tax systems declines.

The benefits of a two-tiered property tax are augmented by its capacity to limit the revenue hemorrhage of cities confronting population and economic decline. Under the traditional single-rate property tax, owners of abandoned factories and commercial buildings have an incentive to minimize their tax burdens by seeking lower assessed values for their structures. They usually do not seek reductions in the assessed value of land because lower assessments suggest the parcels are less desirable for development and, therefore, are less marketable (Sullivan 1997; Witte and Bachman 1978). Reductions in the assessed value of land, in other words, adversely affect the probability of selling an abandoned factory or commercial space, which is an undesirable outcome for the property's owners. Since the two-tiered property tax derives a larger portion of its revenues from land than the traditional one-tiered tax, and since land values are more stable than the value of structures, the adoption of a two-tiered tax minimizes the magnitude of revenue losses that accompany a declining population and economic base (Spossey 1997). A more stable revenue source enhances the probability of maintaining the city services and infrastructure that are necessary for stemming the loss of population and jobs.

III

Constitutional Provisions Affecting Implementation

THE UNIFORMITY AND EQUAL PROTECTION CLAUSES OF STATE CONSTITUTIONS determine the degree to which property tax burdens can be shifted from improvements to land. State courts have consistently interpreted these provisions to mean that assessments and tax rates must be

uniform within each property classification. Given these legal precedents, a locality cannot impose one millage rate on land and a lower rate on improvements unless the state constitution authorizes the use of these two classifications or the legislature can exercise sufficient latitude in defining property classifications.

An examination of state constitutions reveals tremendous variations in the legislatures' authority to establish property classifications. Twenty-seven state constitutions do not permit the legislature to establish property classifications or partial exemptions beyond those delineated by the constitution. Given that Louisiana is the only state in which land is defined as a separate category and that courts overturn any attempt to legislatively augment the constitutionally defined categories, the two-tiered property tax is unconstitutional in all of the 27 states except Louisiana. Louisiana's capacity to shift property tax burdens from improvements to land is constrained by a provision that limits the assessment ratio to 10 percent for residential land and improvements and 15 percent for all other property except public service property (Louisiana State Constitution, Article VII, Section 18).⁵

Of the remaining 23 states listed in Table 2, 18 constitutions incorporate uniformity clauses that permit state legislatures to define property classifications. The constitutions of the final five states do not include a uniformity clause. As a result, property tax administration is governed by the equal protection clauses of the state and national constitutions. When this factor is combined with state court declarations that the constitutional requirements of the uniformity and equal protection clauses are identical, the five state legislatures are provided the same latitude to classify property as the 18 states. It is therefore evident that 23 state constitutions permit the legislature to enact statutes giving a specified set of local governments the authority to establish a two-tiered property tax.

There are, however, additional constitutional constraints on the degree to which local governments in these 23 states are permitted to shift property tax burdens from improvements to land. The tax revolt of the late 1970s and 1980s produced state constitutional amendments that impose ceilings on property tax rates. In the State of Oregon, for example, a 1987 amendment stipulates that the total

Table 2
State Constitutional Provisions Relating to the Classification of Land and Improvements,
by Region, 1997

Northeast	South Atlantic	North Central	South Central	Mountain	Pacific
27 states in which land and improvements are not permissible classifications:					
Maine	Florida	Illinois	Alabama	Idaho	California
N. Hampshire	Georgia	Indiana	Arkansas	Nevada	Washington
New Jersey	S. Carolina	Kansas	Louisiana	Utah	
	W. Virginia	Michigan	Mississippi	Wyoming	
		Missouri	Tennessee		
		Nebraska	Texas		
		Ohio			
		Wisconsin			
23 states in which land and improvements are permissible classifications:					
Connecticut	Delaware	Iowa	Kentucky	Arizona	Alaska
Massachusetts	Maryland	Minnesota	Oklahoma	Colorado	Hawaii
New York	N. Carolina	N. Dakota		Montana	Oregon
Pennsylvania	Virginia	S. Dakota		New Mexico	
Rhode Island					
Vermont					

Source: Constitutions of the 50 states.

property tax rate for local government and public schools shall not exceed 25 mills in 1991–1992 and gradually declines to a maximum of 15 mills in 1995–1996 and thereafter. The provision was repealed in 1997 and was replaced by an amendment that dictates further reductions in property tax burdens (Oregon State Constitution, Article XI, Sections 11 and 11a). In the absence of a constitutional amendment that raises the ceilings on property tax rates, the capacity to shift property tax burdens from improvements to land is severely constrained.

If the preceding elements do not produce barriers to implementing two-tiered taxes, then the final, essential component is the enactment of state-enabling legislation. The passage of legislation is an inherently political activity in which lawmakers represent their districts' interests. Since all interests do not exercise similar levels of influence, the following two sections assess the degree to which the composition of the local electorates and the political power of their lobbyists affected the extension of two-tiered property taxing authority to Pennsylvania's boroughs.

IV

Interest Group Characteristics and Political Power

AN INDIVIDUAL'S BELIEFS AND PREFERENCES are not developed in a vacuum. They are a function of society's norms and beliefs that are the foundation for defining what is valued and preferred (Berger and Luckmann 1966; Cox 2001). These special meanings are what influence the strategies of policy entrepreneurs. For example, the stereotypes that dominated congressional deliberations on AIDS prevented policy entrepreneurs from altering the conceptual discourse or setting new parameters for evaluating spending policy. Due to the characteristics ascribed to homosexual males and those who inject illegal drugs, funding for prevention, research, and treatment was significantly smaller than would have been the case if the disease had initially infected groups that society views in positive terms (Jennings 1999). The influence of interest group characteristics was reinforced when public conceptions about the infected populations expanded to include those who were defined in positive terms (heterosexuals,

children, and those who do not abuse drugs). At this point, the nature of the debate shifted and additional monies were provided (Pollock 1994). It is therefore apparent that societal views of interest groups provide insights into the agenda-setting process, policy formulation and design, and legislative behavior (Czech and Krausman 2001).

The impact of society's perceptions is magnified when these perceptions are commingled with an interest group's political clout. Even though these variables can be measured on an interval scale, the presentation is simplified when they are defined on nominal scales and placed on a two-by-two table. Table 3 indicates the upper-left quadrant is occupied by advantaged groups that are politically powerful and defined in positive terms. Legislators are predisposed to advocate policies that benefit these groups because they are able to generate the votes, contributions, or political participation that improve a lawmaker's reelection prospects. The politician's electoral fate is also enhanced by public reaction to policies that benefit advantaged groups. Since the groups are defined in positive terms, the public approves of government bestowing additional benefits on them

Table 3
The Political Power of Target Populations,
by Their Social Construction

Political Power	Social Construction	
	Positive	Negative
Strong	Advantaged Elderly Veterans	Contenders Large Unions Big Business
	Dependents Children Mothers	Deviants Criminals Drug Addicts

Source: Schneider, and Ingram (1993).

(Schreiber and Ingram 1993). Advantaged groups, therefore, exercise sufficient power to wrest more than their fair share of benefits from government, and the public views the outcome as just.

A prime example is Social Security and Medicare. The political power of elderly citizens enables them to claim a larger share of public resources than is the case for children. The record also reflects the public's propensity to view the elderly as deserving. Congressional debates consistently define an expansion of benefits as just compensation for the elderly's lifetime of hard work and sacrifice that built the country and made it great. Due to these elements, as well as the number of citizens who have elderly parents or grandparents and expect to grow old themselves, a Harris poll (1998) revealed that 67 percent of adults felt the balance of federal spending for the programs benefiting the elderly and children was about right. Even in the mundane world of allocating state funds for medical education, Knott and Weissert (1995) conclude policy inducements are skewed in the direction of advantaged groups.

The oversubscribing of benefits, however, creates a legitimation crisis for government. It must explain why "democracies concentrate wealth and power in the hands of a few rather than the many" (Schreiber and Ingram 1993: 339). Policymakers attempt to address this issue by linking policies that benefit advantaged groups to universal, instead of special, interests. More specifically, the rationale for these initiatives typically focuses on the group's link to achieving important public purposes, such as national defense and economic competitiveness (Schreiber and Ingram 1993).

The political power and group characteristics that generate an oversubscription of benefits also contribute to a reticence to impose burdens. When confronted with the possibility of increased costs, advantaged groups marshal their forces in opposition to the measures, and the general public is sympathetic to their cause. The dynamics that generate an oversubscribing of benefits, therefore, produce an undersubscribing of costs (Schreiber and Ingram 1993).

Deviants occupy the opposite corner of Table 2. Since this category encompasses groups that wield minimal political power, they have little control over the formal agenda or the design of policies and programs that affect them. When this element is combined

with society's attribution of negative characteristics, policymakers are prone to impose burdens or punishments even when these approaches are less effective than bestowing benefits (Schneider and Ingram 1993).

The third aggregate is composed of dependents, such as children and the handicapped, who are portrayed in positive terms but are not politically powerful. Although their virtuous characteristics make it politically expedient for policymakers to appear sympathetic to the groups' interests, the low rates of political participation and clout produce insufficient incentives for lawmakers to adequately address their needs. The resulting gap between the groups' needs and publicly provided resources is minimized through mechanisms such as stigmatizing the receipt of benefits, providing insufficient outreach programs, and raising the costs of participation. The political environment, therefore, yields benefits that are undersubscribed and burdens that are oversubscribed (Schneider and Ingram 1993).

The final group is composed of contenders who are politically powerful but are defined in negative terms. Since interests such as wealthy individuals, labor unions, and large corporations are actively engaged in the political process, they possess sufficient political clout to secure resources. However, the negative characteristics attributed to these interest groups produce negative reactions to the provision of clearly defined, visible benefits. Lawmakers, therefore, balance the groups' political clout and the public's negative perceptions by granting benefits that are evident to the contenders, but not to the general public. On the burden side of the ledger, regulations give rise to the impression that burdens are being inflicted when, in reality, the initiatives impose minimal, negative effects. Both sets of strategies enable legislators to minimize the political ramifications of granting benefits to, and restricting the regulatory burdens borne by, politically powerful groups that are defined in negative terms (Schneider and Ingram 1993).

Given the impact on the policy-making process of characteristics attributed to interest groups and their political clout, the following section utilizes these variables, along with constitutional and statutory constraints, to assess Pennsylvania's efforts to expand the range of governments authorized to establish two-tiered property taxes.

V

The Politics of Enacting Enabling Legislation

THE LEGISLATIVE RECORD INDICATES THAT LOCAL GOVERNMENTS AND THE FARM LOBBIES were the only interest groups that were attempting to influence the enabling legislation's development and composition. Local governments were actively pursuing a liberalization of state law that would permit a wider array of jurisdictions to adopt the two-tiered property tax. The farm lobbies opposed passage because the owners of developed parcels could use the legislation to shift part of their property tax burden to farmers. Since the outcome was clearly affected by each group's political power and characteristics, the following subsections examine these variables and the manner in which they were manifested in the legislative process.

A. Characteristics and Political Clout of Local Governments

Since local governments are in closer geographic proximity to the people than state or national governments, they are generally perceived as the most responsive to citizen needs and the most efficient providers of goods and services. A Council for Excellence in Government poll (1999) found that 51 percent of the respondents felt connected to local government. This figure compares to 41 percent for state government and one-third for the federal government.

The preference for government that is physically closest to the people is also demonstrated by the question of whether people trust government to do what is right just about always or most of the time. Thirty-five percent of the respondents trusted local government a great deal or quite a lot. The figures for the state and national governments were 33 percent and 21 percent, respectively (Center for Excellence in Government 1999). Similar results were generated by a 1997 Gallup poll, but a Pew Research Center for People and the Press survey (1998) found a difference of 7 percentage points between those who had a great deal of confidence in their local and state governments. When the preceding outcomes are combined with the percentage of respondents who trust small business (56 percent) and large corporations (22 percent), the Council for Excellence in

Government (1999) concluded that the “preference for small, local institutions over large, national ones is not unique to government.”

The positive image and political clout generated by these attributes are augmented by local governments’ role as partners in the delivery of services; localities administer a variety of programs that are partially funded by the state and national governments. State legislators, therefore, consult with their local counterparts in order to minimize the possibility of instituting policies that may harm local government or generate a backlash by local constituents. Due to the political power emanating from local government’s position in the federal system and the public’s positive views of local government, these entities are defined as an advantaged group.

There is, however, a caveat to including local governments on the list of advantaged groups. Variations in the political, economic, historical, cultural, socioeconomic, and financial composition of localities translate into differences in local interests and positions on impending legislation. A locality confronting a declining population and stagnating economy will support a different set of state economic development initiatives than a high-growth area that is experiencing labor shortages. Whenever these differences are reflected in divergent positions on legislation, the influence of local governments is reduced. It is, therefore, evident that local governments’ impact on the legislative process is affected by the extent to which local interests are dispersed or concentrated (Peters 1994).

B. Local Government’s Impact on Pennsylvania’s Legislative Process

One hundred years of Pennsylvania legislative history indicate that support for two-tiered property tax enabling legislation has been bipartisan and geographically dispersed. In 1913, the Pennsylvania General Assembly used its constitutionally provided latitude (Constitution of the Commonwealth of Pennsylvania, Article VIII, Section 1) to authorize second-class cities (Pittsburgh and Scranton) to enact two-tiered property taxes (*Senate Journal*, 1959 session: 3533). A half-century passed before similar authority was extended to third-class cities. Since the latter statute was ratified without a floor debate in either chamber and there was only one legislator who voted against

the bill, the record does not divulge the rationale for restricting eligibility to third-class cities or the roles of interest group characteristics and political clout in determining the bill's fate and composition.

Although no legislation was introduced between the mid-1950s and mid-1970s, each of the 34 subsequent bills replicated the language of the third-class city statute. More specifically, the bills authorized jurisdictions to "levy separate and different rates of taxation for (borough, city, or township) purposes of all real estate classified as land, exclusive of the buildings thereon, and on all real estate classified as buildings on land. When real estate taxes are so levied, the rates shall be determined by the requirements of the (jurisdiction's) budget as approved by (the governing body)." During the 1990s, this language was supplemented by (1) a prohibition against implementing two-tiered property tax rates that would generate more revenues than the maximum, permissible millage for land and buildings, and (2) a stipulation that tax rates for land and structures must be uniform within each classification. The former acknowledges the public's desire to limit tax burdens, while the latter recognizes constraints imposed by the constitution's uniformity clause.

As was the case with the enactment of legislation for third-class cities, the legislation was supported by members of both parties. Table 4 indicates that 63.8 percent of the 34 bills were cosponsored by Republicans and the total number of co-sponsors who represented urban or rural districts was virtually identical. Within each party, the data indicate that a majority of the Republican co-sponsors represented rural constituencies, while a majority of the Democratic co-sponsors were from urban districts.

An analysis of the geographic distribution of House seats indicates that the preceding pattern is a function of each party's power base rather than philosophical differences among factions of the two parties. Even though the urban districts within the City of Philadelphia and its surrounding suburbs were an important source of Republican House seats, statistics for the 1993–1994 session indicate the party derived 63.3 percent of its House seats from rural districts. This figure is slightly higher than the percentage of Republican co-sponsors who represented these areas.

Table 4
Party Affiliation of House Districts Sponsoring Township
Legislation, by Population Density

Party Affiliation	Population Density		Total
	Urban	Rural	
Republican	81 42.2%	111 57.8%	192 100%
Democrat	71 65.1%	38 34.9%	109 100%
Total	152 50.5%	149 49.5%	301 100%

Chi-square = 14.65.

Relationship is not statistically significant at the 0.01 level of significance.

The Democratic Party, on the other hand, derived a minority of its legislative seats from rural districts in the state's traditional coal mining and steel manufacturing regions, while 63.8 percent of its 1993–1994 House members represented the cities and suburbs of Philadelphia and Pittsburgh. When this percentage is compared to the share of Democratic co-sponsors who represented urban districts, it is apparent that the urban Democrats' share of House seats approximates the share of co-sponsors.

The rationale for the legislation's popularity is clearly evinced in the legislative record. According to information gleaned from the House's 1992 school finance debate, the legislation's appeal to urban lawmakers was partly a function of the tax's capacity to stabilize local tax bases. The school finance bill, which included a provision authorizing school districts to implement a two-tiered tax, was sponsored by a representative whose district was located in the heart of Pennsylvania's steel manufacturing region. When foreign competition brought about the closure and razing of steel mills in her district, the

tax base and revenues of the city and school district were depressed. Since the implementation of a two-tiered property tax supplied the city with the means to counter its revenue hemorrhage and eliminate its annual budget deficit, local officials sought to secure similar benefits for the local school district. The urban districts, therefore, defined the passage of school district enabling legislation as an essential ingredient in their efforts to restore the school district's fiscal health and generate sufficient funds to defray the cost of the new teachers' contract (*House Journal*, 1992 session: 882).

The base of support was augmented by the belief that property taxes should not penalize people who maintain and/or enhance their property. For example, State Senator Wozniak (1998) stated: "[I]t's absurd that you have to pay taxes when you improve your home. You own the home, and if you want to improve it, you should not be penalized. Usually, the land stays the same, and if you tax the land, most everyone is treated in a fair manner. The tax rate should not have anything to do with bettering the place that you call home." This statement is similar to Senator McGinnis's 1959 pronouncement that "if you rob a chicken coop, they will fine you once, but if you build one, they will fine you every year" (*Senate Journal*, 1959 session: 3533–3534).

Support among rural and suburban legislators was also based upon the belief that the two-tiered tax would encourage a more efficient use of urban land. It was believed that the use of a two-tiered tax would generate fill-in development that would reduce the demand for farmland and minimize urban sprawl.

The record, therefore, indicates that legislators were sympathetic to local governments' desire to stabilize their tax bases and to ameliorate the financial burdens and adverse environmental impacts associated with urban sprawl. Given the variety of legislators who sponsored legislation and the rationales that supported their positions, the probability of local governments speaking with one unified voice was maximized. Under these circumstances, localities possessed the attributes of an advantaged group—they were defined in a positive manner and their political power was not diluted by disagreements concerning the legislation's preferred fate.

C. Characteristics and Political Clout of Farmers

However, local governments' capacity to secure the passage of two-tiered tax enabling legislation was inhibited by the second advantaged group composed of farmers. Logic suggests larger groups are able to exert more political pressure than smaller groups. However, the influence of the latter group is magnified by the minimization of the free-rider problem. More specifically, the members of smaller interest groups, such as farmers, are more likely to "know each other, monitor each other, and encourage each other to pull his [sic] weight" (Matusaka 1995: 149). Each group member, in other words, is aware that the group's success may depend on his or her actions, whereas, in a larger group, an individual's actions are unlikely to be a decisive factor in the outcome (Matusaka 1995). The political influence of the farm lobby is manifested in the heavy subsidization of agriculture in industrial countries where the sector is relatively small, and the imposition of heavy taxes in many developing countries where the sector is large (Zablotsky 1995).

Agriculture's political clout is buttressed by the belief that family farmers are stewards of the land and, therefore, advance the goals of environmental protection and the preservation of open space (Browne et al. 1992). It is this belief that entices environmental groups and open space advocates to join the battle on some agricultural issues. Since Czech and Krausman (2001) define political power as the number of interest groups supporting a particular cause, the addition of these nonfarm groups enhances the political clout of the agricultural lobby. The political power generated by these issues is also impacted by the popular appeal of preserving farmland and open space. Although surveys from the late 1990s did not focus on the preferences of Pennsylvania residents, data from the adjoining state of New Jersey reveal that 72 percent of the respondents felt farmland and open space preservation was very important (Star Ledger/Eagleton-Rutgers Poll 1998).

When compared to local governments, it is also apparent that agriculture's capacity to influence state policy is not diluted by a profusion of issues affecting its interests. The smaller and more focused agenda enables the agriculture lobby to concentrate its

resources on a limited range of issues and thereby maximize its influence. Due to the preceding elements, farmers are defined as politically powerful.

Agriculture's capability to secure benefits is buttressed by the positive characteristics society associates with family farms. Even though the number of family farms has been declining and agribusiness accounts for a growing share of agricultural output, Americans have retained a romanticized, positive view of farmers. This view emanates, in part, from a long-established belief that farmers are the most vigorous, independent, and virtuous citizens. It is also claimed that, due to the ownership of land, the interests of farmers, their communities, and freedom are intertwined. The farmers' connection to the land and means of production yields additional stereotypes that include an interest in preserving social stability, developing a sense of community, and serving as a repository for values such as honesty, integrity, hard work, charity, stewardship, self-reliance, and independence. Farming also provides an opportunity to be one's own boss and is an alternative to working for wages. Consequently, it provides a safety valve for the American economy and a means of preserving individual liberties. Lobbyists for American agriculture, as well as lawmakers who advocate for bills that are beneficial to farmers, have relied on these positive views of family farms to preserve old programs and advance agricultural interests (Browne et al. 1992). Due to agriculture's political clout and society's positive views, farmers clearly are an advantaged group for which benefits are oversubscribed and costs are undersubscribed.

D. The Farm Lobbies' Impact on Pennsylvania's Legislative Process

It was readily apparent during the 1992 House school finance debate that the Pennsylvania General Assembly was reluctant to undermine efforts to preserve open space or impose costs on the advantaged group of farmers. Representatives Freeman (D-Northampton), Godshall (R-Montgomery), and Heckler (R-Bucks) contended that granting two-tiered taxing authority to school districts would undermine the state's efforts to maintain farmland and open spaces. Whenever, in more specific terms, the homeowners in a taxing jurisdiction

outnumber farmers, the former group could use their numerical advantage to establish a two-tiered property tax that would dramatically raise the millage rate for land. The heavier levy on land would reduce the farmers' profit margin and thereby enhance their incentive to sell farmland for residential development (*House Journal*, 1992 session: 876–877).

In order to eliminate the potential negative impact on farmers and open space preservation efforts and to enhance the probability of final passage, the bill's sponsor introduced an amendment that authorized only nine urban school districts to implement a two-tiered tax. By adopting this amendment, the legislature limited the use of the two-tiered tax to older urban cores, "where it is most needed, without harming open space and prime farmland" (*House Journal*, 1992 session: 882). The amendment also provided an opportunity for the legislature to "take up the rest of it when we have more time to reflect and understand its potential impact" (*House Journal*, 1992 session: 882).

The legislature's reluctance to harm agricultural interests resurfaced during the 1993 legislative session. A bill authorizing boroughs to impose a two-tiered tax was reported by the House Local Government Committee. Following the bill's rereferral to the House Appropriations Committee, it was reported without amendment, and the House voted 133–166 for final passage. Table 5 indicates that the vote was partisan: slightly less than 9 percent of the House Democrats opposed final passage, while a majority of the House Republicans voted against the bill. When population density is added to the equation, it is apparent that 61.1 percent of the urban Republicans supported passage, while 70.5 percent of the rural Republicans opposed the bill.

Seventeen of the Republicans who opposed final passage also co-sponsored identical legislation during the next legislative session. Of the seven Republicans who responded to written inquiries concerning the apparent discrepancy, there was unanimous support for the concept of two-tiered property taxes. However, all of the respondents stated that the 1993 floor debate raised concerns about the legislation's potential negative impact on farmers. Instead of supporting a bill that could be injurious to agricultural interests, the legislators

Table 5
1993 House Vote on HB 2532, by Party Affiliation and Region

House Vote	Republican		
	Urban	Rural	Total
Yea	22 61.1%	18 29.5%	40 41.2%
Nay	14 38.9%	43 70.5%	57 58.8%
Subtotal	36	61	97
House Vote	Democrat		
	Urban	Rural	Total
Yea	62 96.9%	31 81.6%	93 91.2%
Nay	2 3.1%	7 18.4%	9 8.8%
Subtotal	64	38	102
Total	100	99	199

elected to err on the side of caution and oppose final passage. When subsequent inquiries revealed that boroughs located within their legislative districts did not encompass farmland, the possibility of shifting property tax burdens from homeowners to farmers was eliminated (Brown 1997; Gerlach 1997; Godshall 1997; Hershey 1997; Lynch 1997; Phillips 1997; Stern 1997). This information eliminated concerns about the adverse effects on their districts' farmers as well as the barrier to subsequently co-sponsoring and supporting enabling legislation for borough governments.

The enabling legislation was referred to the Senate Local Government Committee on October 4, 1994 and reported without amendment on November 14. As was the case in the House, the Senate rereferred the legislation to the Appropriations Committee on

November 21, nine days before the end of the 1994 session. Due to time limitations and the volume of end-of-session business, the Senate leadership did not bring the bill to the floor for consideration or a vote (Gardner 1997). Evidence concerning the potential impact of agricultural interests on Senate deliberations, therefore, was not provided by the 1994 session.

During the ensuing legislative session, 28 of the 39 Republican co-sponsors and 2 of the 4 Democratic co-sponsors represented rural areas. The decision to co-sponsor the borough bill and the first-class city bill did not represent a betrayal of their districts' agricultural interests because the co-sponsors did not represent any of the boroughs that encompassed farmland. Those who owned homes in boroughs represented by the bill's co-sponsors or in the City of Philadelphia, therefore, could not adversely affect their districts' agricultural interests by shifting part of the property tax burden to land.

The introduction of legislation in both legislative chambers and the progression of enabling legislation during the previous session suggested that a borough bill should have been approved within a relatively short period of time. This assumption was not supported by events. Due to concerns about the potential adverse tax implications for farmers who owned land within the boundaries of several boroughs, all of the two-tiered property tax bills languished in committee and died at the end of the session.

Concerns about farmland preservation and the legislation's negative impact on farmers resurfaced during the following session's Senate debate. Since the state's boroughs could not be separated into classifications, it was not feasible to replicate the school finance approach of excluding classifications of governmental entities that included farmland within their borders. The Senate, therefore, opted for an amendment that established the property tax categories of farmland and nonfarmland, and stipulated that a higher tax rate could only be imposed on the latter category. The provision also defined farmland as any tract that is actively devoted to agricultural use as defined in Section 3 of the Act of June 30, 1981 (P.L. 128, no. 43), the agricultural area security law. Additional protection for agricultural interests was provided by a nonseverable clause. Due to this clause, the entire statute would be voided by a judicial finding that the subclass-

sification of land violated the constitution's equal protection or uniformity clause.

The House Local Government Subcommittee on Boroughs struggled with the constitutionality of the subclassification of land. Prior state court rulings indicated that property classifications are constitutional as long as (1) they are not capricious, arbitrary, or unreasonable, (2) they are based on the nature or use of the property, (3) they exhibit a fair and substantial relation to the objective(s) of the authorizing legislation, and (4) the ratios of assessed value to market value and tax rates are uniform within each classification. Since the subclassification of land is intended to preserve agriculture and this goal is embodied in several state statutes as well as the state's constitution, the provision addressed the first three criteria (House Local Government Subcommittee on Boroughs 1997). Although the fourth requirement is primarily a function of implementation, the legislation supports the imposition of uniform assessment ratios, assessment methodologies, and tax rates for each classification. Legal precedent, therefore, suggested that the legislation would pass constitutional muster.

The subcommittee was also concerned about the financial implications for farmers. As was the case in the Senate, subcommittee members were troubled that residential development could use the two-tiered tax as a vehicle for shifting part of its property tax burden to the farmers. Although the establishment of farmland and non-farmland subclassifications was intended to eliminate opportunities for shifting property tax burdens to agriculture, there was offsetting testimony that farmers in other countries benefited from a two-tiered tax that did not subclassify land. If the positive effects could be replicated in Pennsylvania, then Pennsylvania's farm preservation efforts could be buttressed without the subclassification of land. Due to a lack of clear guidance concerning the merits of subclassification, the subcommittee chair requested the Pennsylvania State Farm Bureau and the Pennsylvania Grange to examine the issues and decide which option they would support. When both organizations deemed that it was in the farmers' best interests to retain the land subclassification amendment (Armstrong 1998), the subcommittee elected to go along with the farm organizations' decision and retain the amendment. This

decision, in conjunction with the amount of time the bill languished in subcommittee, indicates the committee members were reluctant to impose burdens on the advantaged group of farmers.

Following resolution of the constitutional and agricultural issues, the subcommittee sent the bill to the full committee, which reported the bill on May 6, 1998. Because of calendar constraints imposed by House Chamber renovations, the House did not approve the bill until November 16. Eight days later the bill was signed by the governor.

VI

Conclusion

THE TWO-TIERED PROPERTY TAX'S CONTRIBUTION to urban revitalization emanates from the millage rate differential between land and improvements on the land. Whenever the implementation of the tax lowers the millage for improvements and raises the millage for land, there is a commensurate reduction in the tax disincentive for constructing, renovating, and expanding structures. At the same time, there is an increase in the relative cost of holding land. These changes spur urban redevelopment by encouraging investment in structures and the development of vacant parcels. The benefits associated with the adoption of a two-tiered property tax are maximized when the change from a single-rate tax to a two-tiered tax is revenue neutral. If this constraint is violated, then investment will be impeded until the after-tax costs and rates of return on investments are equalized between the jurisdiction imposing the tax reform and the surrounding region. It should also be noted that the two-tiered property tax enables jurisdictions confronting population and/or economic decline to stabilize their tax base and provide the services that retard or reverse the downward spiral.

The legality of implementing a two-tiered property tax is determined by a state's constitution and statutes. At the present time, only 23 constitutions permit the legislature to establish those property classifications that are essential to the implementation of the two-tiered property tax. Dillon's Rule⁶ stipulates that the localities in these 23 states cannot levy the two-tiered tax unless authorization is granted by state statute. If the state statutes are mute on the subject or pro-

hibit its use, then local officials cannot adopt the tax until the state enacts the requisite enabling legislation. In the event that enabling legislation is passed, then the extent to which localities can shift tax burdens from improvements to land is affected by the constitution's limits on maximum property tax rates.

An analysis of Pennsylvania's constitution and statutes does not reveal any barriers to implementation. Article VIII, Section 1 permits the state legislature to define land and improvements as distinctive property tax categories. Since Article IX does not set a ceiling on property tax rates, there are no constitutional limits on the extent to which tax burdens can be shifted from land to improvements.

Local adoption of the two-tiered property tax therefore is dependent on the enactment of state-enabling legislation that is influenced by the political power and characteristics of participating interest groups. One of the interest groups that participated in the recent liberalization of Pennsylvania's two-tiered property tax statute was local government. This entity is defined as an advantaged group because of its members' geographical proximity to its constituents and its role as partner in the delivery of services. The polls consistently find that citizens trust and feel a closer connection to entities such as local government that are smaller and physically closer to them than the state or national counterparts. Since localities partner with the state and national governments in the delivery of goods and services, state legislators are reticent to approve bills that adversely affect localities or that may generate opposition among local interests.

The political clout of local governments was also augmented by the legislation's universal appeal, which minimized the fissures in local government ranks. Urban localities favored the incentives for economic development, while suburban and rural officials were attracted by a potential reduction in urban sprawl and the associated decline in financial and environmental costs. The tax was especially popular in areas that were confronting the exit of major employers. In these instances, the tax provided a means to stabilize the local property tax base and thereby preserve the resources that are essential to maintaining a beleaguered jurisdiction's infrastructure and competitiveness.

However, the positive characteristics and political clout of local

governments were not sufficient to overcome concerns about the legislation's potential negative effects on farmers and the preservation of open space. The Pennsylvania General Assembly continually struggled with the possibility that inhabitants of residential developments could use their numerical advantage to shift part of their property tax burden to farmers. Legislators were also concerned that higher property tax burdens would increase the number of farmers who choose to sell their land and undermine the state's efforts to preserve open space. The gravity of these concerns clearly affected the disposition of legislation authorizing school districts and boroughs to levy a two-tiered property tax. In the former instance, only nine urban school districts were permitted to utilize a two-tiered tax. Enabling legislation for the Commonwealth's boroughs was stymied in subsequent legislative sessions until the House Local Government Subcommittee on Boroughs (1) developed a method for protecting farms within nine of the Commonwealth's 962 boroughs and (2) gained assurances from the farm lobbies that they did not object to the amendments. It is therefore apparent that the fate of two-tiered tax enabling legislation was dependent on eliminating from the bills jurisdictions containing farmland or gaining the acquiescence of agricultural organizations such as the Farm Bureau and the Grange.

Since farmers in other countries are also politically powerful, the necessity of placating farmers and supporting open space preservation efforts could be replicated in other parts of the world. However, the experiences of Australia and New Zealand highlight the need to add one caveat to the Pennsylvania experience. In each of these cases, the entire property tax burden was shifted to land and the change was accompanied by the introduction of steeply progressive tax rates. There was, however, one important distinction—the policies of these two countries were intended to “break up large landholdings and redistribute wealth, rather than . . . controlling urban sprawl, stimulating construction, or controlling land speculation” (Wyatt 1994: 2). Thus, it is apparent that the interests of farmers and open space advocates can dash the hopes of local governments unless there is an overriding national interest in curtailing the wealth and power of agricultural interests.

In an era where globalization and cost cutting have contributed to

the closure of major employers in many localities, the two-tiered tax has the unique capacity to stabilize the property tax base and furnish the resources that are essential to maintaining a jurisdiction's competitiveness. It also produces incentives for the redevelopment of downtown business districts and the enhancement of housing stocks. Before the benefits of the tax can be realized, significant legal hurdles must be overcome. The constitutions in 27 states must be amended so that land and improvements to land can be defined as permissible property tax categories. In each of these states and in most of the remaining 23 states, the legislature must also enact enabling legislation that authorizes localities to adopt the tax. Throughout the legislative process, the characteristics and political clout of the participating interest groups will impact the legislation's composition and fate. The Pennsylvania case clearly indicates that agricultural interests and the desire to preserve open space will trump the desires of local governments. Consequently, the probability of enacting enabling legislation will be maximized by limiting the authorization to jurisdictions that do not include farms within their boundaries.

Notes

1. A millage is the term that defines the property tax rate. Since one mill generates one dollar of property tax revenue for each \$1,000 of assessed value, real estate with an assessed value of \$50,000 will generate \$50 of revenue for each mill of property taxes.

2. Boroughs occupy a middle ground between city and township governments with per capita revenues, expenditures, and net municipal debt that are greater than townships but less than cities. Boroughs are typically governed by a seven-member council and a weak mayor. One-third of Pennsylvania's boroughs are located in urbanized areas (64 in the Philadelphia Urbanized Area, 124 in the Pittsburgh Urbanized Area, and 143 in smaller urbanized areas) and an additional 126 boroughs are classified as urban but located outside of these urbanized areas. The remaining 508 boroughs (52.5 percent of the Commonwealth's boroughs) are classified as rural (Governor's Center for Local Government Services 2000).

3. The numerical examples focus only on the effects of property tax policy. Even though they do not assess the ramifications of expending the revenues, it must be noted that changes in a jurisdiction's spending priorities magnify or diminish the incentives to improve land and thereby influence the long-term density of development.

4. The literature has examined the two-tiered property tax's impact on the distribution of tax burdens, property improvements, and urban redevelopment, but has not assessed the degree to which fill-in development has affected urban sprawl. Consequently, constraints on urban sprawl arising from the implementation of a two-tiered property tax have been based on conjecture and mathematical modeling rather than an analysis of Pennsylvania cities.

5. The judicial branch consistently differentiates between the classification of property for purposes of imposing differential tax burdens and classification for purposes of calculating cash or market value. In the 27 states that are constitutionally prohibited from imposing different tax burdens on various classifications of property, the courts nevertheless uphold a legislature's authority to establish property classifications for the purpose of estimating the properties' cash or market value. The rationale for the apparent discrepancy is the mechanisms markets utilize to establish a property's market value. The criteria for determining the market value of residential property is not the same as the criteria for establishing the value of industrial property. As a result, it is not possible to establish the fair or equalized market value unless the state government defines multiple classifications and assessment formulas that are appropriate for each classification.

6. Dillon's Rule is a legal doctrine that is named for Justice John Dillon. According to Dillon's Rule, local governments can exercise only those powers that are explicitly granted to them (e.g., the power to levy specific taxes), clearly implied by the explicitly granted powers, or essential to "meeting the declared objectives and responsibilities of local government" (Nice 1987: 138).

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