

Just how will a kind of land tax play in Peoria?



• Downtown Peoria and the Illinois River. The impact is going to be considerable.

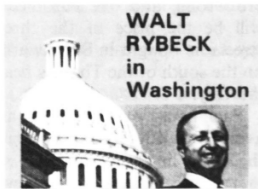
Picture: PEORIA JOURNAL STAR

SEEKING to emerge from a crippling recession, Peoria, Illinois, has voted that new construction in a large sector of the city will be nearly tax-free for the next decade. There will however, be no abatement of taxes on land values.

This is not a land-only property tax of the Australian variety. Nor is it the Pennsylvania approach of uniformly higher tax rates on land than on buildings. Yet the Peoria measure effective as of January 1987 substantially shifts taxes off improvements and on to land values.

"See how it plays in Peoria."

According to an old cliché, this is where one tests new ideas. Mayor James Maloof takes this cliché about his mid-American city of 130,000 people as a compliment: "We have a reputation



of being kind of fussy about what we like."

The mayor enthusiastically promotes the abatements. "This is what I campaigned on two years ago. I took on City Hall and the Chamber of Commerce, saying we had an Enterprise Zone but no incentive package to go along with it."

The abatement applies within the 6.2-square-mile Enterprise Zone which, explained City Development Director Quentin E. Davis, has two parts. First is a

somewhat decrepit industrial area along the Illinois River, with buildings dating back to the turn of the century, and adjacent commercial portions of the downtown.

Second is Pioneer Industrial Park at the northwest edge of the city, developed in the 1960s. The two areas, miles apart, are connected by a three-foot-wide strip down the center of a street.

New buildings in the first section will enjoy 75% tax abatement of their property tax rate for five years and then 45% for the next five years. Abatements in the second section will be 50% for five years, then 42% for the following five years.

Why these different formulae? Residents pay property taxes not only to the city and county, but also to separate jurisdictions that manage schools, parks, a junior

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college, the airport, mass transit, sewers and so forth. Many of these taxing jurisdictions have noncontiguous borders.

The city and county, for example, "went all the way" with 100% abatement for 10 years, said John L. Kelly, vice president of Shearson Lehman Brothers, who has campaigned intensely since 1984 for untaxing improvements.

The Peoria School District, whose territory includes the riverfront-commercial area, adopted a 50% abatement for five years.

"We're behind it and hope it works," said Marilyn Ketay, president of the Peoria School Board. "If it helps the city grow, the tax base will grow. Without business, we won't need schools. It's a circular thing." If abatements work, she feels the board may extend its participation beyond five years.

The Dunlap School District, in contrast, which covers the Pioneer Park portion of the Enterprise Zone, did not approve the abatement, fearing it would lose revenue.

"Lose money from abatements? Heavens no!" challenged Mayor Maloof. "You win because you are attracting business that might have gone to South Bend or some other city. You are helping existing, home-town businesses to stay and grow.

"These firms supported the city for years; they have paid their dues. You are creating new jobs, new salary base, new tax base, and we are not giving up the land tax base."

The mayor called adoption of the new tax policy "an awakening procedure" for Peoria, a city that had been affluent for years, a city proud of its symphony, ballet and museums, but a city seriously wounded by the decline of Caterpillar and other manufacturers.

"Now we are aggressively competing with other cities across the country and even



Mayor James Maloof

around the world, and the benefits of the tax incentives are going to be wonderful," added Mayor Maloof.

Bob Marcusse, President of the Economic Development Council for the Peoria Areas, said: "My feeling is that this kind of property tax relief is going to have a very positive impact. Companies are already showing interest."

Marcusse called abatements "the most significant part of the package" of state local incentives for firms within the Enterprise Zone. Other features include elimination of sales tax on materials for new construction; applying the cost of a new physical facility as a credit against state income tax; and modest grants for the rehabilitation of older buildings.

Janice Kepple, vice president of Peoria's Commercial National Bank, who serves on the Designated Zone Organization, appointed by the mayor to help make the Enterprise Zone succeed, said the group spent a year seeking "innovative ways to make our area attractive."

One thing she likes about tax abatement is that "it doesn't erode the current tax base". Ms. Kepple is planning a direct mail campaign and other methods to alert businesses to their new opportunities.

How will abatements affect assessments? "Not at all", responded Bradley E. Horton, the elected assessor of Peoria Township which embraces the city. "I just go about valuing properties the same as before.

"Since we already assess land and buildings separately, this poses no change for us. I determine how much value has been added to buildings and to land, equalized according to Illinois law at 33% of market value. I simply report these values to the county clerk and treasurer, and the county applies the rates and abatements enacted by each governing body."

Horton said he takes a wait-and-see attitude about the impact of abatements. Yet, looking at what other areas are doing, he commented: "We may need something like this to compete to keep industries like Keystone Steel and Wire and to attract regional insurance offices, for example."

Meanwhile, Horton's assessment office will track the value of all new construction within the Enterprise zone so analysts may compare this data to construction activity in areas outside the zone.

The Real Tests. Will this partial land tax within a restricted segment of one city make a noticeable difference? If it does, says Kelly, jurisdictions which were reluctant to go "all the way" within the Enterprise Zone, may change their minds for the second five years. "Beyond that, we may see that it makes sense to adopt something like this for the entire city or the entire county - not only for a decade but as a permanent policy."

In Britain and the United States, enterprise zones have been criticized because special provisions to help depressed areas tended to bestow excessive benefits to landlords within the zones. By specifically not abating taxes on rising land values, Peoria's approach is intended to spread benefits to the general community. This heightens interest in the ten-year experiment that Peoria has just launched.