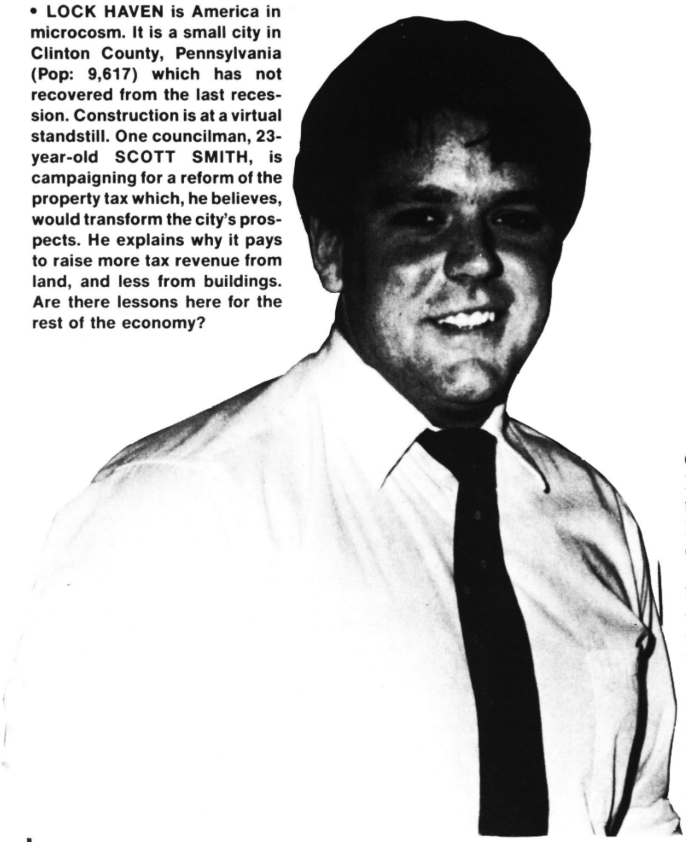
• LOCK HAVEN is America in microcosm. It is a small city in Clinton County, Pennsylvania (Pop: 9,617) which has not recovered from the last recession. Construction is at a virtual standstill. One councilman, 23-year-old SCOTT SMITH, is campaigning for a reform of the property tax which, he believes, would transform the city's prospects. He explains why it pays to raise more tax revenue from land, and less from buildings. Are there lessons here for the rest of the economy?



Lock Haven — H
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BID FOR TWO-RATE TAX

OUR CITY is in serious economic decline. Local politicians have very few tools available to effect basic changes in their economy. Besides grants and loans, the tax base is the only effective tool that we can utilize.

The city council has the ability to adopt two basic variations on the property tax: a flat rate, which is currently used, and the two-rate tax that levies a higher tax on land than on buildings.

The two-rate tax encourages development by lowering the tax on buildings, and discourages blight and vacant lots by raising the tax on land. Under the present system, vacant lots make up 7.8% of the assessed value of all land in the city (Table I), but contributes just 1.3% of tax revenue (Table II).

The flat-rate property tax has been around for years, and that seems to be the only reason for keeping it around. It makes very little economic sense, and is particularly dangerous for cities that are in the midst of economic decline. It is common sense that the higher the tax on buildings, the less construction you will have.

The flat-rate property tax of 7 mills (0.007%) makes it possible for people to hold 3m square feet of buildable land out of use (Table IV).

When I analysed the tax records, I discovered a disturbing anomaly. At 15 cents per sq ft., buildable vacant lots were assessed at about half the value of the developed parcels. This means that the owners of vacant property are being subsidized by those who use their land.

In the first ward, which is predominantly commercial, vacant lots make up 7% of all land values but pay 0.7% of the tax raised.

In the third ward, which is mainly residential,

* * *

vacant lots make up 10.5% of land values pay just 1.7% of the property tax.

The fifth ward, having the lowest total l values and the highest percentage of vac lots, pays the lowest amount of property The entire ward pays $42,669 in property ta Residential properties pay 83% of that total, commercial properties pay about 14%. Vac lots, which account for 20% of all land val pay 2.6% of the tax bill.

WHAT would happen if the city's land v assessed at the same level as other propert The owners of buildings could have a tax red tion of over $3,150.

If the city were to adopt a two-rate prop tax of 3.5 mills on buildings – cutting the ra half, to encourage construction – it would h to raise the rate on land to 26.6 mills to main the current level of revenue. The redistribu of the burden would be as shown in Table II that case, the net reduction on the owner buildings would be over $11,000.

Property owners who have buildings, ei homes or factories or stores, are subsidizing owners of vacant land to the tune of $11,0

If Lock Haven wanted to have no tax buildings, the millage on the land would h to be raised to 46.2 mills, which would gene about $400,000, or what the city curre receives. The two-rate property tax would vide a variety of benefits.

• Encourage construction and the reh ilitation of the city. The cost of building a h or factory would decrease.

• Over 80% of homeowners would recei

Table I ASSESSED PROPERTY VALUES, Lock Haven (PA)

	Land		Buildings	
	$ (m)	%	$ (m)	%
Residential	4.71	54.6	31.3	64.5
Commercial	3.24	37.6	17.1	35.2
Vacant lots	0.67	7.8		
	8.63	100.0	48.4	100.0

Table II PROPERTY TAXES paid in Lock Haven, 1986

	$	%
Residential	242,029	60.6
Commercial	152,188	38.1
Vacant lots	5,012	1.3
	399,325	100.0

Table III THE TAX BURDEN: $

	Single rate Tax
Land	60,454
Buildings	338,879
	Two-rate Tax
Land	229,728
Buildings	169,435

Table IV BUILDABLE VACANT LOTS

Ward No.	Square Footage	%
First	601,740	23.8
Second	89,009	3.5
Third	742,582	29.4
Fourth	344,821	13.7
Fifth	746,503	29.6
Redevelopment	440,362	–
	2,965,017	100.0