

Testimony to the Senate Finance & Revenue Committee

Regarding SB 702

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Chair Hass and Committee Members:

Since this committee passed a longer version of this bill in 2015, we've streamlined the provisions to both ensure no fiscal impact and expedite the study results. This session we have omitted the provision that directed the Legislative Revenue Office to assess a tax abatement on improvements. The intent is to make findings on the economic incentive effects of a land-weighted property tax available as soon as possible, so that legislators can consider the policy options to craft a permanent fix to our broken property tax limitations.

As legislators well know, Measures 5 and 50 have thoroughly created widespread economic distortions and inconsistent property tax obligations statewide. Our study of Salem's early experience with property tax limitations and use of maximum assessed values showed that tax burdens have shifted off of rapidly-appreciating properties and onto properties with slower-growing or decreasing assessed values (1). Statewide, the effect has been to transfer tax burden onto residential properties.

Because Measure 5 tax limitations have caused local levies to go uncollected, fixing compression alone leaves out the underlying unfairness of Measure 50. Moreover, leaving the equal rates unaddressed misses the disincentive to invest in capital improvements: the statewide lack of housing supply is evidence of this penalty. How can we permanently fix these problems while maintaining a check on unlimited growth in property taxes?

Considering the 80-plus years of success in some of the nearly 20 cities in Pennsylvania and Hawaii that use a lower rate on improvements and compensate with a higher rate on land values, several advantages can be expected if Oregon cities adopt this model (2) (see attached exhibit):

1. Similar to the Enterprise Zone, cutting the improvement rate minimizes the penalty for investing in capital improvements. This consistently leads to increased building permit volumes, redevelopment in commercial multi-family zones, an increase in housing supply, higher lending activity, increased employment, and an expanding tax base (3).
2. Adjusting the rate on land assessments upward has been shown to cause no deadweight loss or drag on the economy, unlike income or sales taxes. In fact, studies have shown this drag effect costs about one-third of the revenue collected in these other taxes (4).
3. When improvement assessments become less important, and because land is assessed on an area basis, property tax appeals have been found to decrease. This has led to fewer staff and greater productivity in assessment departments.

Sample Pennsylvania Cities Using Land Value Taxation

- (1) The contiguous cities of Allentown and Bethlehem in eastern Pennsylvania are very comparable as to size and economy. In 1997, Allentown started taxing buildings less than land; Bethlehem did not. **Allentown's new private construction & renovation thereupon grew by 32% in dollar value in the three years** after the shift to land value taxation as compared to the prior three years. That was **1.8 times more than Bethlehem's increase** in private construction & renovation during the same time period, even though Bethlehem (but not Allentown) received much federal grant money in the prior three years. These figures come from a study of building-permits on file in the Allentown and Bethlehem city halls by Benjamin Howells (science researcher and one-time Allentown Councilman), William Kells (science-oriented businessman) and Steven Cord (professor).
- (2) Washington and nearby Monessen (both in southwestern Pennsylvania) are roughly comparable as to size and economy. After Washington started shifting some of its tax off buildings onto land in 1985, its new private construction & renovation increased by 33% in dollar value in the three years after its two-rate adoption as compared to the prior three years. But during the same time, nearby one-rate Monessen's new private construction & renovation actually decreased by 26%.
- (3) Connellsville, Pa., saw its new private construction & renovation **jump 3.46 times in the three years** after it adopted a two-rate LVT property tax as compared to the prior three years. This jump over-shadowed the modest **1.07 increase** in new private construction & renovation of nearby **one-rate Uniontown** during the same time period. The two cities are quite comparable, although Uniontown is the county seat and is somewhat larger (economic development plusses).
- (4) Aliquippa, Pa., after the closing of its large steel mill, shifted some taxes off building onto land values in January 1988. Result: most residents paid less taxes and its new private **construction & renovation jumped 97% in the three years** after the two-rate switch as compared to the three-years-before. Nearby **Ambridge**, comparable except that it is closer to the Pittsburgh International Airport and enjoys brisk tourist traffic at its Old Economy Shaker Village (both economic plusses), experienced a **30% decline in private building-permits** issued during the same period of time. Nearby Beaver Falls, also comparable except that it is less hilly than Aliquippa and is the county seat (again, economic plusses) experienced a 7.2% decline during the same time period. In July 1993, the **Aliquippa School District** adopted a two-rate building-to-land property tax. Its new private construction & renovation thereupon spurted: for **1994-95, it was 2.3 times greater.**
- (5) In 1989, Clairton, Pa., an industrial suburb of Pittsburgh, was under direct state fiscal control, officially labeled "financially distressed." It took the advice of the prestigious Pennsylvania Economy League and adopted two-rate LVT. Building assessments were taxed at 2.105% and land assessments at 10% (instead of both at 3.7%). During the three-year period after the switch, its taxable building permits were 8.5% more than in the three years before (based on building-permit records in Clairton City Hall). This is to be compared to the **5.8% decline in all U.S. building permits issued during the same time.** **(The Clairton School District made a major tax shift from buildings to land. Results so far: as predicted, higher building permits)**