

**The Adoption and Repeal of the Two Rate
Property Tax in Amsterdam, New York**

Donald J. Reeb
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Abstract

The two rate form of the property tax, a tax in which buildings are taxed at a lower rate than land, is an existing form of the property tax proposed by Henry George. The two rate tax has been accepted by Pittsburgh and more than a dozen other communities in Pennsylvania. It was imported to New York and used in the city of Amsterdam, but was repealed during its first year. While political conflict in Amsterdam was the major cause for the repeal, the property tax law in New York is encumbered with numerous special provisions, several of which grant exemptions from property taxes for selected buildings for a limited number of years. These special provisions made implementation of the two rate tax difficult and, along with a city-wide re-assessment of property, confused local officials and tax payers. A description of the success and failure of the two rate tax in Amsterdam contains lessons that can be helpful for others attempting this important property tax reform.

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The Adoption and Repeal of the Two Rate Property Tax in Amsterdam, New York

Property tax reform, even for one small city in New York State, must contend with a property tax law that has been modified constantly for more than a century. The discussion of a century of property tax law adjustments, the first section of the paper, creates the contextual boundaries for two rate property tax reform. The second and third sections describe the two rate tax and the two rate tax reform in Amsterdam, New York. The remaining sections report the interviews conducted with participants in the two rate property tax repeal in Amsterdam and interviews with public officials in two cities in Pennsylvania where the two rate tax was repealed.

I. The Property Tax: A Brief Introduction

Connecticut in 1843 established the first property tax review commission by state governments. The first New York commission was created in 1862. The second New York commission in 1870 was chaired by the well known David Wells. Other states that formed tax commissions by 1870 included Pennsylvania and New Jersey.¹ By 1893, twenty-eight property tax commissions were appointed by the states. While this experiment by state governments with property tax reform continued into the 20th century, the recommendations were similar, though certainly not identical, to those promulgated by the earlier commissions. Subsequent academic research and political discussions on property taxation in the 20th century have been heavily influenced by these commissions.

David Wells' commission became the benchmark and made four recommendations that were significant for property tax laws elsewhere. These were: the separation of state and local tax sources, a limitation on local property tax rates, a provision for state supervision of local government administration of the property tax and a requirement for state re-assessment if outrageous errors in local assessment were found.

The New York Commission also recommended the elimination of the list of intangible property values submitted by tax payers and the required oath concerning its accuracy, a peculiar feature of New York's laws.² The recommendations for special amendments and assessments for unusual properties, such as urban transit corporations, gas companies, state banks, and ferry and bridge companies, were widely copied later.

The establishment of a state income tax was a recommendation of other state property tax commissions as was the elimination of both the intangible and personal property tax provisions in the general property tax.

Accompanying the multitude of commission generated recommendations in the 19th century was a widely popular book by Henry George. It explained the economic basis for the taxation of land and reasons it should replace the property tax on buildings, personal property, intangible property and other taxes. The land tax proposal, unlike the commission-generated proposals, was not an administrative proposal but rather was based

on the economics of imperfect markets. The proposals of the many state commissions were never refined into model legislation. The land tax proposal in the form of the two rate tax is used in but a few cities. The two traditions live on into the present, certainly not ignored, but not producing for most communities either a well administered or an economically defensible property tax.

State property tax law has continued to add special provisions since the 19th century state property tax commissions. Numerous states enacted special provisions for mining, railroads and other companies as the regulation of each was changed. Difficulties in the discovery of the tax situs of corporate intangible and personal property created the demand for still more amendments in the general property tax as did the abandonment of forestry, mining and farm properties. Just a few years ago the focus for property tax amendments was on telephone carriers as that industry was undergoing restructuring. Still earlier attention in the 20th century was to create amendments to provide agricultural tax relief. In many states a property tax debate is occurring on the taxation of electric utilities as that industry undergoes deregulation. Defining and defending a property tax law that has coherence and integrity has obviously been difficult.

The property tax on buildings and land will undoubtedly continue to undergo change. Property tax law disagreements currently involve: the discontinuation of the property tax exemption for private businesses operating on tax exempt land; the elimination of the property tax exemption for federally owned property; curtailing the tax exemption for traditionally tax exempt activities; the assessment standard to be used for a home when it contains a home-operated business; and the use of the property tax by semi-private organizations such as business improvement districts. Agricultural property, condominiums, and “gated” communities will also continue to create more property tax controversies.

The possibility of a property tax with a single property tax rate applied to nearly all property with uniform property tax assessments have been curbed by the same forces that brought forth the property tax commissions and the Henry George land tax proposal. Legislative debate has focused on piecemeal property tax amendments: to promote an industry, to encourage some particular kind of new construction, to aid economic development in some region and to provide property tax relief.

While a century of amendments in the property tax law can only be illustrated for the nation, as above, current amendments can be more particularly summarized for one state. There are, in New York, nearly 200 classes of property that have been granted special exemptions by the state including those for volunteer firefighters, railroads, historic barns, condominiums, fallout shelters, business facilities in Job Incentive Programs, veterans, new construction and older homeowners. There are also local government property tax amendments or options that can be adopted by cities, towns and villages. About one million parcels, somewhat less than twenty percent of all parcels in New York State, are either wholly or partially exempt from the property tax. Like many states, New York has different assessment standards for different regions of the state. Nearly twenty-five percent

of all parcels are located in New York City and Nassau County. They use a different assessment system, a classified property tax, than the other regions of the state.

Two nearby assessment units, such as cities, could fulfill the property tax law and tax equally valued properties differently through community selected options to the property tax law. Also, two adjoining properties of identical value in the same assessment unit may be subject to different exemptions and tax payments under the property tax law and associated legislation.

In practice, the property tax law is a like a cruise ship with each passenger traveling at the same time and over the same route but each paying a different price for the voyage. Some differences in fares are based on differences in quality of accommodations but many of the differences are the result of bargaining skills, personal or business entreaties, date of purchase and discounts offered for special customers. The property tax has many similar attributes.

Property taxes may look like pricing based upon unequal bargaining skills, but not every economist would argue that such a paradigm is a wonderful replacement for Smith's first canon of taxation: "That the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under protection of the state." (Smith, page 777).

Special provisions and amendments to the property tax law continue to operate.

Governor Mario Cuomo invited Mayor Mario Villa of Amsterdam and a few others to be present for signing of the legislation granting Amsterdam the power to use the two rate land tax. Immediately following the signing of the Amsterdam legislation the governor signed legislation for another property tax amendment (Section 483-a of the Real Property Tax Law) granting tax exemptions to newly constructed silos, bulk milk tanks and certain other farm buildings, to provide relief to the impacted dairy industry. Persons associated with that amendment were present also.

The exemption of certain farm buildings from the property tax can be seen as similar to the land tax. The granting of exemptions to buildings, in effect, raises the portion of the property tax coming from land. The suggestion at the bill signing that there was a relationship between the two laws, the two rate form of the land tax and the special exemptions for certain farm buildings, seemed to confuse many of the dozen persons at the ceremony. (Not all property tax exemptions exempt only the building values. Only some exemptions, like those exempting certain farm buildings, are akin to a land tax for that farm building site. The special building exemptions, unlike the two rate tax, are usually for short periods, such as five or ten years).

The current property tax laws in other states are probably as filled with special provisions as in New York, though few states provide extensive information. States tend not to

provide local government data and very few provide data such as the ratio of sales price to assessment for recently sold taxable properties, the date when the last re-assessment occurred, the number of court challenges to assessment, and the number and value of court ordered changes in assessments. Broad legal provisions of the property tax laws are more readily obtainable. The 1992 Census of Governments, Volume 2 Taxable Property Values, Number 1 Assessed Valuations for Local General Property Taxation indicates that fourteen states have a classified property tax, eighteen states permit local taxation of business inventories, forty-two have taxation of other commercial and industrial tangible personal property, thirty-two tax agricultural personal property, seventeen permit household tangible personal property to be taxed, eighteen tax motor vehicles as property and nine tax intangible personal property. But even this summary information is sufficient to conclude that property tax laws are a swamp of special provisions.

Together with a lack of administrative information concerning the property tax, there is continuing disagreement surrounding the impact of many of the special exemptions and provisions. There are analytical disagreements concerning the impact of the special exemptions granted farmers, forest owners, low income homeowners, and the elderly. There are more conflicts surrounding the impact of differential rates and assessments (the classified property tax), homestead tax legislation, circuit breakers, and property tax exemptions for government owned property and new businesses.

The lack of an accurate description of the property tax and the lack of a common understanding of its effects does not prevent one conclusion: that the property tax is less important as a source of revenue than it once was. Occurring along with the near elimination of the personal property tax and the intangible property tax and implementation of numerous special provisions in property tax law, there have been changes in the tax structure of governments. Local governments were once the largest tax collectors and state governments the smallest. Local governments now rank third behind the national government and the state governments in total tax revenues collected.

The decrease in relative importance of property taxes is dramatic, particularly for state governments in the 20th century. The national government used the property tax but infrequently in the 19th century and not at all in the 20th century.

The near *de facto* elimination of the intangibles portion of the property tax came early in the 20th century and permitted the creation of the state income tax. This was spurred following the loss of alcohol tax revenues from prohibition in the 1920's. Stocks, bonds and other financial holdings once subject to the intangibles portion of the property tax became subject, or at least their yearly earnings, to the personal income tax. Subsequently, the near elimination of the personal property portion of the property tax made it easier for states to create the general sales tax. This largely occurred with the depression of the 1930's and the tradition of lax enforcement of the personal property tax. The merchandise that once was subject to the personal property tax began to be taxed through the sales tax on general merchandise.

This change from a property tax on holdings of personalty and intangibles to a tax on general merchandise and income eased the administrative burden of property tax collectors. Reconstruction of the property tax transferred much of what could have been property tax receipts from the tax on intangible and personal property to the state and national governments in the form of income and sales taxes. Property tax reconstruction made sizable state and federal grants possible as these new taxes raised substantial revenue. The foreclosed opportunity for local governments to tax personalty and intangibles made inter-governmental grants necessary, as well.

In 1902 both the national and state governments had tax revenues less than that received by local governments. In 1993 the tax revenues of the national government were approximately twice those of the states, and state government tax revenues were about \$100 billion greater than that of local governments.

Along with the change in the relative amounts of tax revenues, state governments became less reliant on a single tax source. The reconstruction of the property tax changed the property tax itself but did not substantially change local government tax sources. Local governments derived 88.6 percent of their tax revenue from the property tax in 1902, relative to 75.6 percent in 1993. See Table 1. State governments moved from reliance on the property tax to reliance on income and sales taxes. In 1902 they derived 52.6 percent of tax revenues from the property tax and in 1993 state governments derived over 88 percent from sales and income taxes.

Local governments have three approximately equal proportionate sources of revenue: property taxes, inter-governmental revenues and miscellaneous receipts (current charges, interest earnings, utility revenue and insurance trust revenue). State governments have four approximately equal proportionate sources: sales taxes, income taxes, inter-governmental revenues and miscellaneous receipts. Sales taxes are actually a diverse mixture of taxes on general sales, tobacco and other products while the income tax is a mixture of corporate and personal income taxes. There are numerous exceptions to these proportions for individual state and local governments.

There is something akin to a fourth source of “revenue” for local governments. State governments collect revenues and share part of the proceeds—only part of the proceeds—with local governments through inter-governmental revenues. The fourth source of “revenues,” though, is from the direct replacement of services, state aid in kind. State government takeover of financial responsibility for city government financed universities and direct provision of tunnels and bridges are some examples.

At least since Wells’ 1870 commission, revision of the property tax has focused on excluding property from the property tax, intangible and personal property, and enacting special provisions for selected classes of property such as farm buildings and certain commercial buildings in urban areas. Property tax limits and other administrative changes recommended by the state property tax revision committees were also enacted.

While the reconstructed property tax, directed by state governments, resulted in enhanced tax revenues for the states, the reform suggested by Henry George, to remove still more property from the property tax, all buildings, has largely gone unfulfilled. The reconstruction of the property tax is, thus, unfinished. Special exemptions for selected buildings for short periods is insufficient.

II. The Case for the Two Rate Form of the Land Tax

Land taxation is ancient. The *Encyclopaedia of the Social Sciences* (page 70) in discussing “Land Taxation” says “The land tax is probably the oldest form of taxation. Essentially a tax on the yield of land, in its primitive form it was assessed on the basis of area. In its more developed form it is a tax on the annual yield.” As a tax, it required simply sharing the yield at the time of the harvest, akin to paying a yearly rent.

Advocacy of the land tax may be traced to Francois Quesnay in the 1750’s, followed by Adam Smith, David Ricardo, James Mill, John R. McCulloch, John Stuart Mill, Henry George and many others. In the United States it is closely identified with Henry George (Tideman, pages 105-121).

In contrast to the taxation of merchandise, wages and salaries, housing or other objects of taxation, a tax on land cannot deter production since land can neither be produced nor destroyed. Wherever it came from, land is here. A tax on land tends to discourage idle land and encourage its use and development since the tax is payable whether the land is used or not. A tax on buildings tends to discourage the use and construction of buildings.

The theoretical analysis of land taxation is complex. Modern economic discussion of the property tax tends to include numerous variables: interest rates, savings rates, intergenerational distribution effects, exports, choices between labor and leisure, the timing and basis of re-assessment and price changes, zoning and the use of the revenue from the tax. The interaction of these and other economic variables is quite complex, however, and models cannot yet simultaneously include all relevant variables. But there is still a clear conclusion—Henry George was generally correct. Taxes on land are efficient because the amount of the tax is independent of any counter action that an owner might take (Tideman, page 135).

One form of the land tax is the two rate tax, sometimes called the graded property tax. It is a tax in which the tax rate on the assessed value of land is increased while the tax rate on the assessed value of buildings is decreased. This is the form of the tax that was implemented in Amsterdam, New York and is currently used in Pittsburgh, Scranton, Harrisburg, and other communities in Pennsylvania. It was recently approved in a referendum in Allentown, Pennsylvania. There appears to be no reason to conclude that the effects of the two rate version of the tax are different from those of the land tax.

An increase in the land tax permits the government to reduce the tax on buildings, assuming the level of spending remains constant. This permits a rise in the quantity of buildings on the land. The effect of the two rate tax on new construction has been tested.

A Pittsburgh study by Wallace Oates and Robert Schwab at the University of Maryland attempted to discover whether the two rate tax could be found to have an impact on building and development.³ They compared Pittsburgh's development of commercial buildings (value of commercial building permits) with those of fifteen cities in the same region with about the same population size as Pittsburgh and for the same years, for 1960-1979 and 1980-1989. The land tax rate in Pittsburgh after 1979 was raised so that it was about five times that on structures. In the earlier period it had been about twice that of the tax rate on structures. Pittsburgh, like comparable cities, also began granting generous tax abatements for commercial building construction during the latter period, in effect lowering the tax on buildings still further.

Oates and Schwab found that commercial space scarcity did have some positive effect on building development in Pittsburgh as did the abatements on buildings. However, the much higher tax rate on land and the lessened tax rate on buildings were found to be of major importance in explaining the exceptional increase in commercial building permits in Pittsburgh for the 1980-1989 years. This result can be expected in other cities when a similar two rate land tax is used.

The two rate or graded tax was also examined by Alanna Hartzok (1997). She studied the fifteen Pennsylvania communities using the two rate tax and concluded that the land tax did increase building permits. Steve Cord (1983) also studied the Pennsylvania communities using the graded tax and reached a similar conclusion. Use of building permit data as the measure for economic development, given the lack of yearly gross domestic product data for small areas, was a breakthrough in the analysis of the graded tax provided by Cord. These studies are not as statistically rigorous as that of the Oates and Schwab Pittsburgh study, however.

Joshua Vincent of the Center for the Study of Economics in Columbia, Maryland in 1998 also studied the two rate tax through use of building permit data. He investigated Uniontown and nearby Washington, another county seat city in Pennsylvania of nearly the same population size of about 15,000. Washington adopted the two rate tax in 1985 and Uniontown had a two rate tax for but one year, 1992. The building permit data was for 1987 through 1995 and excluded building permits for carports, signs, fences and building demolitions. He found that the value of building permits was about thirty percent higher per capita for the city of Washington. For the nine years, 1987-1995, Washington had \$8 million more in building permits than did Uniontown.

Vincent also compared Uniontown with Connellsville, again, cities that are comparable in population size. Each adopted the two rate tax in 1992, though Connellsville did not repeal its tax. The average per capita building permit value for the three years after 1992, compared to the three years before, was 3.5 times greater for Connellsville and 1.05 times

for Uniontown.

In a study on entrepreneurship in Pennsylvania, 1976-1980, Donna Kish-Goodling used a proxy variable for those communities with a two rate property tax, along with sixteen independent variables. The dependent variable was the birth of firms in Pennsylvania communities. Since economic studies have found that the two rate tax leads to more building permits, she hypothesized that the two rate tax could also lead to higher births of firms. The empirical results support the hypothesis: the two rate tax encourages the development of new firms.

In 1991 a meeting was held with Mayor Mario Villa of Amsterdam, New York, and the two rate tax was proposed to him to replace the traditional city property tax. Amsterdam is a depressed, small, manufacturing city not unlike many found in the nation. The two rate tax was to be crafted to yield exactly the same total property tax revenue as the present tax and was to be modeled on that used in sixteen cities (and in one school district and one business improvement district) in Pennsylvania, with some adjustment.

Unlike Pennsylvania, New York's law includes local property taxes on electric and gas utilities poles and lines. The bulk of these improvements are on private land and, therefore, the utility is not subject to a tax on the land value. New York's property tax law provides, also, that railroads be subject to a ceiling tax, a tax computed without concern for railroad land values.

The proposed New York two rate property tax law was refashioned to continue to tax utility property under the general property tax law and railroads under its property tax amendment. The remainder of private property would be taxed under the graded or two rate tax law. A special amendment to New York's general property tax law would be required if Amsterdam was to use the two rate tax. A two rate tax law was drafted and introduced after help was sought from State Senator Owen H. Johnson, a long term advocate of land taxation.

Another related impediment to advocacy of the two rate tax in New York, and one that was often voiced in presentations to the New York Conference of Mayors and other organizations, was a 1986 monograph, *A Two Rate Real Property Tax System*, issued by the New York State Legislature, Temporary State Commission on the Real Property Tax.

The authors of the 1986 New York monograph were unmindful of the impact of a two rate tax law that includes the property tax amendment relating to utility lines and poles and the property tax amendment concerning railroad property. The 1986 study calculated the effects on property owners from a two rate tax. It rejected the two rate tax law when it was found that a shift to the two rate tax in New York would provide the largest tax decrease to the electric utilities, in effect exempting their electric lines and poles from the tax.

Using the 1986 study data and making corrections by eliminating the applicability of the two rate tax to some utility property and railroads changes their conclusion. The revised

conclusion of the 1986 study of the two rate tax would be that the bulk of property tax reductions would occur for homeowners.

Along with attaining a draft of the two rate legislation and correcting the benchmark study in New York on the two rate tax, a Forum at Albany Law School, Union University was conducted, January 12, 1993, on the two rate tax. Senator Owen H. Johnson was the legislative sponsor of the Forum. The audience recorded numerous property tax professionals employed by the State, many local government officers and others interested in property tax reform. Papers were given by Mason Gaffney, Gene Wunderlich, and Ted Gwartney, three very knowledgeable researchers on property taxes. Mayor Mario Villa of Amsterdam also spoke and members of the Amsterdam City Common Council were in attendance.

Mason Gaffney offered an argument that all property tax analysts might find appealing. He said, suppose that the property tax rate is two percent of the building value over fifty years. That is equal to one hundred percent of the value of a new building. Depending on the discount rate used, discounting those future payments to the present brings it down to thirty percent, which is something akin to a thirty percent sales tax on current building use value. Many would tend to agree that a thirty percent sales tax on anything, tobacco, alcohol, medicine, food, clothing, would have a negative impact on production and consumption.

Alternatively, explained Gaffney, you can compare the inflation adjusted interest rates on mortgages, say five percent, to the property tax rate of two percent, which makes property tax rates forty percent of the financing costs. Again, a likely major impact.⁴ A land tax removes the negative effect of a property tax on buildings and substitutes a positive incentive for development.

Since the two rate or graded tax not only reduces the negative effects from taxes on buildings but promotes the development of new buildings and provides tax reductions for homeowners, the mayor of Amsterdam opted to pursue implementation of the two rate tax. His intent was to eventually remove the property tax from all buildings in Amsterdam.

III. Amsterdam, New York: An Experiment with the Two Rate Tax

When New York State passed permissive legislation in August, 1993 allowing Amsterdam, New York to remove all buildings from the property tax for the City, it was a long awaited step in a campaign directed by a number of affiliated people, loosely termed the Albany Group. The Albany Group, H. William Batt, Albert S. Hartheimer, William Kells, Hollis (Todd) Swett and the author, came together because of Hartheimer's initiative to promote property tax reform through implementation of the two rate tax. Hartheimer had attempted for years to persuade local governments in New York to adopt the two rate tax and had nearly succeeded in Rome, New York some years before.

The Albany Group met frequently in Albany to discuss strategy. Various members of the Group met with state employees, local government organizations and lobbyists in Albany to explain the two rate tax. During the nearly three years of intense activity by the Albany Group leading up to the vote, meetings were held in Amsterdam with Mayor Villa and each of the members of the Common Council and persons in the property tax offices in the county.

Discussions were held with staff members of relevant senators and assembly members and with senior staff members of the governor's office, the Speaker of the Assembly, and his counterpart in the Senate. Meetings were held with the New York Conference of Mayors and presentations were made at its annual meetings.

Meetings with persons at the Amsterdam newspaper and radio stations, and with those at non-local newspapers and radio and television stations that are received in Amsterdam, were also held. Explanations about the two rate tax and packets of information describing the two rate tax and its impact on Pennsylvania communities were provided at each meeting. Phone-in talk radio shows on the two rate tax were held, letters to the editor were written and replies to questions concerning the two rate tax were sent. More than twenty op-ed articles were written by Batt and others and published in the Amsterdam newspaper.

Every venue for distributing information on the proposed two rate tax in Amsterdam that was thought to be productive was pursued by various members of the Albany Group.

That the Amsterdam law was unanimously approved in 1993 in both houses of the State Legislature had more to do with home rule or single district legislation than to the efficacy of the Albany Group. Since the Amsterdam district's State legislators (Assembly member Paul Tonko and Senator Hugh Farley) were sponsors, the Legislature often extends the courtesy of voting favorably on amendments that have an impact on only one district. That these legislative sponsors were members of the majority party in their legislative chambers made unanimous passage more likely.

The justification for the bill, accompanying the sponsored legislation, speaks favorably of the experience of Pennsylvania cities using the two rate tax. The bill justification described Aliquippa, a city of 16,000, which saw its construction projects increase by more than three hundred percent from the earlier pre-two rate tax years. It also described Pittsburgh's experience and that of New Castle.

This legislative courtesy provided to home rule bills does not extend to the governor's office. Intervention by the local assembly member and senator was necessary along with the help of letters from the mayors of other cities in the state. When Governor Cuomo signed the bill, S. 5652 and A. 7901, into law on August 4, 1993, it became Chapter 643 of the laws of 1993. Cuomo noted its passage in his State of the State Address the following January, somewhat unusual for home rule legislation.

Amsterdam is an older city of about six square miles with a population of some 20,000, having declined from a peak of 34,000 in 1930. It is divided by the Mohawk River and is about 30 miles west of Albany. The City had been at its property tax limit (one percent) for many years. Amsterdam had undertaken severe cost cutting measures, raised its local sales tax to the maximum permitted under state law, and had re-organized several important services. Like nearly all cities in the state, Amsterdam had seen building development wane and the demands for revenues soar. Meanwhile suburban towns were benefiting from both increased building and property tax receipts. Amsterdam seemed an ideal city for adoption of a tax that would reduce the negative effects from the general property tax, aid new construction, and provide tax reductions for homeowners.

The cities in New York, not including New York City, from 1950 to 1990 witnessed the market value of taxable real estate rise by less than one third that of other areas in the state, that is, an increase of eleven fold relative to thirty-four fold for towns (all of the area outside cities). Amsterdam's property taxable values increased only six fold. The New York Conference of Mayors was aware of this disparity in city-town development and wrote letters to the legislature and governor's office supporting the two rate tax legislation for Amsterdam.

The Amsterdam City Council had twice approved, in 1992 and early in 1993, petitions to the State to grant the City the authority to use the two rate tax. These petitions were prepared in Mayor Villa's office but approval by the Council gave them added urgency and paved the way for implementation by the City.

Preceding the historic Amsterdam Common Council vote in December, 1993 to implement the two rate tax for city property taxes, the local newspaper, the *Amsterdam Recorder*, published numerous editorials in favor of the two rate tax. Leading up to the December, 1993 vote the Albany Group, sometimes accompanied by Mayor Villa, met frequently with the newspaper editors and reporters. The Albany Group supplied the newspaper a simulated 1992 tax roll showing the tax reductions for homeowners from use of the two rate tax. The twenty-five percent tax yield from land used in the simulation, and in the implementation legislation, was a doubling of the yield from land in the 1992 City property taxes.

Copies of the simulated roll were made available at the local library and other sites and discussed at public meetings held at City Hall. A table from the mock roll is reprinted in Table 2.

The Albany Group tended to emphasize the lack of dramatic changes in the two rate tax bills for homeowners, as Table 2 indicates. The savings for most residential properties, though small, became the most often mentioned feature by tax payers. The expectation of long term benefits from economic development did not bring forth comments from Amsterdam tax payers. The significant research conclusion that land taxes tend to promote economic development was not the subject of tax payer comments.

Four months after the Governor signed the state legislation the City of Amsterdam, in December, 1993, adopted the two rate legislation to take effect at the beginning of the fiscal year, July, 1995. Mayor Villa had hoped that the new two rate tax could be used for the upcoming city fiscal year, beginning in July, 1994, but there was not sufficient time. The tax roll is closed at the end of December for all property taxes, under state regulations.

Only one of the five Common Council members, Anthony Natoli, voted against use of the two rate tax. He was not a member of the subsequent Common Council that voted to repeal the two rate tax nor were two of the Council members who voted for the two rate tax.

Before the December, 1993 City Council vote, it was understood that implementation of the two rate tax would need cooperation from the State Division of Equalization and Assessment, the state property tax office. With a very complex property tax law, each of the nearly 200 property tax amendments needed to be examined. Subsequently, the computer codes used in computation of the City tax bills would have to be re-written to apportion the special exemptions granted in the amendments. The City and the local property tax assessing offices were not administratively or technically equipped to examine each amendment or adjust the computer codes.

An appeal was made to the state property tax office. Robert Beebe was an adviser on the flawed 1986 Temporary Commission study of the two rate tax and in 1994 was chief counsel to the state property tax office. He commented on a list of questions concerning implementation of the two rate tax raised by the staff of the state property tax office (June 9, 1994 memo). The questions were technical. For example, whether a fixed dollar exemption needed to be apportioned between land values and building values, whether the land tax is within the meaning of re-valuation and requires individual notices to be sent to all property owners, and which exemptions involve only improvements.

The director of the state property tax office, David Gaskell, had early doubts concerning the two rate tax. These would appear to have been removed when the legislation was re-drafted to exclude utilities (Codes 860 through 869) and railroads (Code 842) (Gaskell letter of May 5, 1993 to Hartheimer).

A budget allocation became necessary for the state property tax office to answer the technical questions and revise the computer program. After many meetings with representatives of the state property tax office in August, September and October, 1994 and entreaties by state legislative members and Mayor Mario Villa, the Governor's office was asked to come to the assistance of the City. With Governor Mario Cuomo's aid an appropriation was re-allocated so that the state property tax office could extend its cooperation and leadership and make the necessary examination of the general property tax law and adjustments in the computer codes in 1994. This would permit preparation of the tax roll by January, 1995, the last possible date if the two rate tax was to be operational by the beginning of Amsterdam's fiscal year in July, 1995. The City was relieved that implementation of the two rate tax would not have to be further delayed. By having the

state property tax office undertake the work, there was also confidence that the results could be used again if other communities should choose to adopt the two rate tax.

The computer codes were a technical concern. A different type of problem occurred earlier, in August, 1993. The State of New York had, like other states, advocated periodic re-assessments of all property in each assessing unit but had used only the power of moral suasion to promote this end. In August, 1993 the state property tax office announced it would begin to enforce a 1981 law requiring assessments to be a uniform percentage of value in each assessing unit. Those cities, villages and towns with extremely unequal assessments, defined as those with a coefficient of dispersion (COD) of fifteen percent or greater, would be required to take immediate action to improve their assessments. Larger assessing units that had high COD's and where no steps had been taken to re-assess were to be sent notices for immediate enforcement of the 1981 law. Amsterdam's COD was 28.06 and the City had steadfastly repelled requests by the state property tax office to re-assess.

After the decision to enforce the 1981 law in August, 1993, many of the larger twenty-two towns and cities with the highest COD's began property re-assessment actions. Other local governments with high COD's expected to be required to undertake re-valuations in the near future and began to enter into contracts for community wide re-assessments, also.

The gubernatorial election of 1994 brought with it a change in governors and a change in policy emphasis concerning required property re-valuation. The strong enforcement of the 1981 legislation concerning equalized assessment was reversed. Today, once again, moral suasion is used more than directives to promote community re-assessments in New York. The earlier orders to re-asses, however, were not rescinded.

Amsterdam had not re-assessed its property since 1959 and its equalization rate (the percent assessed values are of market values) was about 14 percent in 1992. The required re-assessment for Amsterdam was going to occur. It was to become a frequently mentioned reason for the repeal of the two rate tax.

The City was not prepared to hire the contractors necessary to complete the task of re-assessment. However, the re-assessment went forward beginning in 1993 with the bulk of the work done in 1995 and 1996. The new assessed values would be available for the January, 1997 tax roll. The two rate tax bills for 1995-1996 were computed on the basis of the January, 1995 tax roll.

On April 17, 1996 before the end of the first year of the two rate tax, the Common Council voted to repeal the two rate tax. Two votes in favor of retention came from Raymond Halgas and James Martuscello, elected from the Second and Fifth Wards, respectively, who had served on the earlier Common Council and had previously voted to implement the two rate tax.

The three votes for repeal came from the new Common Council members, Mary Ann Smith and Arthur Iannuzzi, each elected in 1995 from the Third and Fourth Wards, respectively, and Gerard DeCusatis, from the First Ward, elected after the 1993 two rate tax vote and re-elected in 1995 in a close election. DeCusatis was the sole Republican council member.

A public hearing on repealing the two rate tax was held on April 30, 1996. There were arguments made to Mayor John Duchessi, the newly elected (in 1995) mayor, a Democrat, to veto the Common Council action. It was argued by the author at the Common Council meeting where the mayor presided, that state legislation provided for an evaluation of the two rate tax in Amsterdam to be completed in eight years, a sufficient time to see the effects of the two rate tax. Furthermore, the City had no alternative plan to promote economic development in any systematic way, and that most homeowners would see a tax increase with repeal of the two rate tax.

Mayor Duchessi indicated that he did not intend to interfere with the repeal of the two rate tax by the Common Council. The two rate property tax for Amsterdam ceased on June 30, 1996.

IV. Interviews Concerning Repeal of the Two Rate Tax

This section of the study reports on the interviews with people and groups of people in Amsterdam who were thought to be knowledgeable concerning the decision to repeal the two rate tax.

Several of the people were interviewed more than once. The questions and comments by the interviewers are not reported but are easily inferred.

A. City Assessor, Michael Chiara

The City Assessor, Michael Chiara, was at the center of both the two rate tax and the re-assessment. An assessor works with tax payers who wish to file grievances and make claims in the Small Claims Court against their assessment, and prepares data for the computation of tax bills.

In the interviews, Chiara indicated that the basic problem was confusion concerning the two rate tax. People did not understand it, he said. Nothing (no economic development) was occurring. The two rate tax was a failure. Chiara said that the city was still losing population. He said the two rate tax should have waited until after the re-valuation was completed. The two rate tax was in effect for one year from July, 1995 until June, 1996, while the re-valuation was not available until January, 1997. Chiara claimed that the assessed land values that the two rate tax had to use were grossly inaccurate.

Chiara did not have any expectation that the land tax would encourage new construction in Amsterdam. The two rate tax was focused on residences, and development had to come from businesses. The two rate tax, if it was going to be put in place at all, should have been applicable only to business property. The taxes on the business properties should have been carefully studied to encourage the re-use and improved use of the old mill buildings and other vacant business properties in Amsterdam. It made no sense to apply the two rate tax to residences with side lots that will never be developed. Nor did it make any sense to tax required parking areas adjoining businesses as buildable land. The two rate tax is not for older cities like Amsterdam.

The argument about revision in the tax got ahead of knowing how to implement the tax, according to Chiara. The two rate tax was an idea, but not necessarily the right idea. The City assessor has to be able to defend an assessment and the tax and the land assessments and the tax were not defensible, he argued.

There are no land sales upon which to base land value assessments that are defensible. Too much guess work is involved. Possibly a land value study should have been completed before implementation of the tax and the re-valuation and then consideration given to some special taxation for business properties. The assessor's office should have been given more time to re-study documents. Property assessments must conform to zoning and permitted uses if the assessments are to be defended.

The grievances from the re-assessment were monumental in 1996, over 1,000 including actions in the Small Claims Court for a city with about 7,000 parcels. Preparing proper defenses for each took many hours. This was all confused with the work on the land value tax. Chiara emphasized that he thought the two rate tax was something that was ill conceived.

B. City Council Member, Gerard DeCusatis

First ward representative to the Common Council Gerard DeCusatis voted to repeal the two rate tax. He was not on the Common Council when it was approved. During his re-election to the Common Council in 1995, he said, he announced that he was opposed to the two rate tax. DeCusatis was usually credited with directing the repeal of the two rate tax.

DeCusatis' arguments expressed during the interview were that the tax was largely a sham. His argument was that there is no vacant property and it is not worth anything. He said the City just sold two vacant and buildable lots over on Park St. The high bid was \$150. The land is basically not worth anything.

You can not compare Pittsburgh to Amsterdam, DeCusatis said. The valuations on the land were pretty arbitrary, and the administrative difficulties were horrible. While no important people in the community had been opposed to adoption of the two rate tax some of the people at the state property tax office thought the idea did not make sense. Chiara,

the City property tax assessor, may have complained about the work necessary to implement the two rate tax, but he went along with what was asked of him.

The city, DeCusatis went on, has a very old population that likes vegetable gardens next to the house and does not see why the land should be taxed more because of the gardens. DeCusatis' taxes went down \$0.61 on his two family house. It meant nothing, he said. The two rate tax is a one solution fits all kind of thing, just old fashion patent medicine. He did not think that the 17 percent increase in sewer fees and smaller increases in school and city property taxes and City fees for water in the 1996 budget had any influence on the outcome. The two rate tax just does not belong in Amsterdam. It never did.

C. City Council Member, Mary Ann Smith

Fourth ward representative to the Council Mary Ann Smith voted to repeal the tax. She was elected to the Council after approval of the two rate tax. As a realtor and Small Claims hearing officer, she felt very qualified to discuss the property tax. She replaced Dan Kielbasa on the Council who had been a strong supporter of the two rate tax. Kielbasa had chosen to run for mayor and lost to Duchessi.

She indicated that too many of the re-valuations were unjustified. The process was very poorly done. Many buildings are sited on two lots that have been assessed separately. The assessment system was terrible. It should have been improved years ago. Mayor Villa trapped the City in getting approval for the two rate tax.

Smith received many complaints concerning the property tax and most of these touched upon the two rate tax. It is true that tax payers are apathetic and few came to the public hearings on the two rate tax. The re-valuation galvanized opposition to property taxation and to the two rate tax. Basically what is at fault is the property tax. It should not exist. Local governments need a different tax. Maybe an income tax or something like that, something that can be administered with fairness.

Smith said, the city is old and the building lots were not created for modern zoning or property tax assessment. There are side lots, useless for development, re-assessed as building lots. The two rate tax was seen as being very unfair to homeowners especially those with small side lots.

In her discussions with other assessors and small claims administrators, they suggested that the two rate tax was not appropriate for Amsterdam. She never found any professional property tax administrator who approved of the two rate tax. It was something imposed by outsiders.

Smith said that she was especially repelled by the two rate tax because its use prevented the city from using the homestead exemption provision, something that she would have liked to see Amsterdam begin to use. (The optional homestead provision, article 19 of the Real Property Tax Law, uses multiple rate taxation to preserve tax shares for different

classes of property after re-valuation occurs. Re-valuation commonly increases the proportion of tax revenue coming from residential properties).

D. Former Mayor, Mario Villa

Mayor Mario Villa was the mayor of Amsterdam when the two rate tax was enacted. He left office in 1995, after 12 years as mayor, and was replaced by John Duchessi. Villa worked very hard to get approval for the two rate tax.

Mayor Mario Villa was a moderator at the Law School symposium on the two rate tax and advised the Albany Group about how to obtain local permission for the tax. He interceded to make sure that Chiara and others cooperated in obtaining the data to run the mock tax rolls and interpret the results. He made calls to the appropriate state legislators and to the governor's office. He solicited support from the mayors of other cities and the Conference of Mayors. Assembly member Paul Tonko participated in a public hearing on the two rate tax after a request from the mayor. Villa chose not to run again for mayor.

When Mayor Villa was interviewed, after repeal of the two rate tax in 1996, he suggested that repeal of the two rate tax was caused partly by persons who disliked him personally and partly by politics, that is, people who wanted to be elected to office, regardless.

Villa told of the present mayor, John Duchessi, having been a fire department captain when the fire department was being re-structured by Villa. Villa continued, you (Reeb) were the consultant on the fire department re-manning study, (one of a large set of studies undertaken by the author for Mayor Villa in the early 1980's, on cash management, general revenue sharing, state aid, highway support, fees for municipal services and related budget matters). Duchessi remembers all of that, said Villa. Your study, continued Villa, suggested a cutback in the fire department budget. Do you think Duchessi would forgive something like that, asked Villa?

Villa explained that when he left office in December, 1995, the City budget was in surplus. This was tough to accomplish, he explained, but it was done by belt-tightening, not by raising taxes and fees. That caused me many problems, but it was necessary. A surplus does not mean that the city is in good economic shape. It continues to lose population and businesses and jobs and that is why the two rate tax was absolutely necessary. We had to do something to bring jobs and people back to the city, said Villa.

According to Villa, the present mayor, Duchessi, became politically active and wanted to oppose the tax because Villa's fingerprints were all over the two rate tax. Council Member Gerard DeCusatis really was vexed. Lawyers (DeCusatis is a lawyer) should make suggestions for tax changes, not mayors and not economists or outsiders, was the feeling that Villa said DeCusatis often expressed. DeCusatis' opposition was unalterable. The two rate tax was going to be repealed, and that was inevitable when Villa left office.

The large paper products firm in Amsterdam, the local milk bottling plant and some other employers saw property tax decreases with the implementation of the two rate tax, the former mayor said, but they could not be induced to try to stop the repeal. He tried to get them to publicly support the two rate tax. They refused. Villa continued, you (Reeb) and Al (Hartheimer) were with me when we went to explain the two rate tax to the local businesses. They were interested, Villa said but not enough to fight the repeal of the two rate tax. Nor would the other businesses that saw their taxes go down.

Governor Cuomo supported the two rate tax, said Villa. During the signing Cuomo told Al Hartheimer that he thought the two rate tax was a great idea and then the Governor included it in his State of the State message, Villa continued. The repeal of the tax came with Duchessi. Villa said he would have won had he chosen to run again for mayor and the two rate tax would still be the law.

Villa noted, some state bureaucrats were opposed to the two rate tax, as was the City assessor. The state bureaucrats, at least some of the lawyers, wanted to derail the process.

Mary Ann Smith, a local realtor, voted against the two rate tax, the former mayor continued. Danny Kielbasa should have run again for his seat on the City Council and not run against Duchessi for mayor. Then, according to Villa, Kielbasa would have been re-elected and the Common Council would not have had the three votes needed to repeal the two rate tax.

Mayor Duchessi, according to Villa, could have vetoed it and the veto would have been sustained. With but five persons on the Common Council four votes would be necessary to over ride a veto and no way would Helgas or Martuscello (the two Council members who voted to retain the two rate tax) have ever voted to get rid of the two rate tax. They thought it was a great idea.

So this had to be engineered by Duchessi, according to Villa. Duchessi can deny it, said Villa, but Duchessi had to be the engineer for the repeal of the tax but somehow he got DeCusatis to take the lead.

E. City Economic Development Officer, Karl Gustafson

Karl Gustafson, the economic development officer for the City of Amsterdam, had been with the local Chamber of Commerce as president during the writing of the legislation for the land value tax. He observed that there was no awareness of the tax by Chamber members. He does not remember that it was ever discussed by them. Gustafson could not imagine that any Chamber member either understood much about the two rate tax or knew what its implications might be for the city.

During interviews, Gustafson became fascinated with the economic development implications of land value taxation. It was clear from his questions that land value taxation was new to him. Gustafson became enthusiastic about the potential of the two rate tax.

He wanted to provide more information to the community. Gustafson talked about getting groups together after careful studies of its potential impact and seeing if the voters would support the two rate tax. He thought that possibly a think tank should be assembled to discuss the tax and it should include representatives of the school board and the county.

Gustafson noted that while mock tax rolls were distributed widely showing the effects of the two rate tax for each property owner, it could well have been that the issue was less important than the way in which the issue was presented. Mayors like Villa and Frank Duci, the former mayor of Schenectady, become lightning rods for many.

Arguments can be created to claim that the land value tax is not working like it was supposed to. Remember, Gustafson said, it was not the Common Council's idea. Then with Mayor Villa being out of the picture, the new Common Council voted it out. Different Council folks bring different expertise to the discussion and DeCusatis brings tax expertise to the Council. Gerard DeCusatis is a lawyer and is very proud of his tax knowledge and legal training. He was opposed to the two rate tax.

Soon after the second interview, Karl Gustafson left his position as economic development officer for the City and took a position with the Amsterdam downtown development group. He was no longer interested in the two rate tax.

F. Chamber of Commerce Director, Felix Catena

The former lawyer for the Amsterdam Common Council, Felix Catena, was the director of political affairs for the Amsterdam Chamber of Commerce at the time of the interview.

He said the Chamber was not involved. It did not play any role in the passage of the tax and it did not play any role in its repeal. Discussion of the tax did not occur in any Chamber meeting. He did not know of any Chamber member interested in talking about the two rate tax. The Chamber has not generally been active on local government issues in Amsterdam.

As the Common Council attorney when the two rate tax was approved, Catena had not seen the legislation, something that the attorney might have been asked to review and he did not know who had written it or reviewed it. It was not something with which his office had been involved. As far as he knows, no local businessman ever thought about the two rate tax. It was all mixed up with re-assessment, for most people.

Catena observed that the City's assessor was unalterably opposed to the land tax and that was well known. Chiara's opposition probably helped its repeal.

Catena expressed no interest in the idea of the two rate tax, seeing it as dead politically. In his view it was all Villa's doing. It was a waste of time. The two rate tax, according to Catena, has no chance of being brought back to life in Amsterdam.

G. Newspaper Editor, Tony Benjamin

Tony Benjamin was the Executive Editor of the daily local newspaper, the *Amsterdam Recorder* during the years of the two rate tax legislative development and its repeal. Benjamin was enthusiastic about the two rate tax from the first meeting in his office.

During the interview Tony Benjamin ventured that Amsterdam is probably the wrong place to try the tax. Amsterdam is too small and parochial. It has few persons interested in City government. Amsterdam is a community with a large number of first and second generation immigrants, Hispanics, Poles, Lithuanians and Italians. They give their attention to the school district, which is a separate government with its own taxes. The City Council is not the center of attention for very many Amsterdam residents.

Benjamin went on to point out that DeCusatis was the spearhead for opposition, though why he was opposed was never made clear in statements by DeCusatis. The suggestion that his lawyerly pride was damaged by not being consulted (though he was not a member of the City Common Council when the two rate tax was approved) was not accepted by Benjamin. Benjamin did venture that Amsterdam is not the place to try any experiment in city government. New ideas are not the common currency of Amsterdam politics, according to Benjamin.

H. City Council Member, Raymond Halgas

Raymond Halgas, a member of the Common Council when the law was passed and when the law was repealed, voted to implement the tax and voted against its repeal. Halgas was an out spoken supporter of the two rate tax.

Halgas ventured the opinion that the two rate tax was not well understood. Though there were call-in radio talk shows devoted to the tax, the mock tax roll was produced and made available at several sites in the city before the tax was implemented, five public hearings were held on the tax in the City Council chambers, and much newspaper coverage occurred, the tax was a confusion to most.

The move to full value assessment, which was done during discussion of the two rate tax, added to the confusion. Most people, Halgas said, thought the two were connected. The increase in school taxes and City fees for services like water and sewer rates and the increase in county property taxes also confused discussions on the two rate tax. The real cause, though, was DeCusatis. His re-election was the basic cause for the repeal.

The tax roll was not in good condition. It was not accurate. Vacant land that was not usable was assessed as if it was. Small parking lots were assessed as if they were usable as modern building lots. Remember, said Halgas, the tax roll had not been updated for decades and had not been adjusted for changes in zoning requirements.

Amsterdam is a place of two and three family houses. Many people are not involved in

directly paying property taxes. The owner of three or four or five rental properties may form an opinion about the tax based upon the one property that had a tax increase, Halgas said.

Halgas went on to note that Gerard DeCusatis was opposed to the two rate tax. When DeCusatis was elected along with Smith and Iannuzzi, there was little chance that the two rate tax would not be repealed regardless of the merits of the tax.

DeCusatis and Mayor Duchessi are close enough that the plans for the repeal must have been discussed and coordinated by them. Mayor Duchessi saw the two rate tax as something that was important to DeCusatis and therefore did not veto the Common Council action. A veto by the mayor would not have been over ridden by the Common Council. But a veto by the mayor was not part of their plan.

I. Mayor John Duchessi

When Mayor John Duchessi was interviewed he indicated that he had no intention to repeal the Common Council veto though he acknowledged that his veto would likely have been sustained. He noted that the tax had many problems.

Chiara, the City assessor, found the two rate tax hard to administer. The tax needed constant attention. The people coming in to complain to the assessor about their taxes seemed to find this portion of the tax very confusing and could not quite grasp what was being discussed. The two rate tax seemed absurd to many. The land tax required too much work for the assessor.

Repeal may not have occurred if not for full value assessment, according to the Mayor. The state ordered re-assessment and this raised in everyone the question about property taxes. The two rate tax was seen to be burdensome to tax payers, not the tax but the time it took to understand it. The Mayor was unsure if the state insisted on re-valuation to defeat the two rate tax, but he was positive that the state was not an enthusiastic supporter of the two rate tax. It is quite clear to the Mayor, he said, that the tax was accepted by the Legislature and opposed by some in the state property tax office.

The Mayor said that former Mayor Villa would likely argue that the repeal of the tax was a personal rebuff. Possibly to some it was personal, but Duchessi did not believe a dislike of Villa was the reason that the majority of the Council voted for repeal.

The failure of the two rate tax, according to the Mayor, largely was determined by the state insisting that the City re-value its property. This created just too many problems. The result was anger towards the two rate tax. Mayor Duchessi thought that the two rate tax would not again be an issue in Amsterdam. It was a failure.

There were other elements in the repeal of the two rate tax, according to Mayor Duchessi. These included a poorly designed two rate tax. The two rate tax should have been for a

much larger amount, with land yielding maybe fifty percent of property tax revenues. With land values yielding just twenty-five percent of the revenue from the property tax, the effort to create and understand the tax was more than the savings to homeowners.

The Mayor went on to suggest that the lack of understanding of the tax was a major flaw. The people selling the idea of the tax just never did reach the community and get them to understand the two rate tax.

The final but terribly important reason for the failure of the tax was that the form of the tax is not the problem in Amsterdam or other communities. People pay taxes in many forms and they pay fees for water and sewer, also. The focus has to be on the package of costs.

The property tax base is just too small for the amount of services that need be provided in Amsterdam. The property tax yield for Amsterdam is about \$3 million, not even enough to pay the salaries of all city employees. Revenue and economic development are needed, not property tax reform. This will always be the major drawback for the two rate tax. It is just a tax scheme, not a method to create revenue and jobs.

J. City School Finance Director, Roger Seward

Roger Seward, is the Amsterdam City School District director of finance and business affairs for the nearly contiguous but fiscally independent school system. He knew about the two rate tax. However he did not see any relationship between school taxes and the two rate City property tax. He did not think that the two rate tax was ever discussed at a school board meeting or by any officer of the school system. It was a non-event as far as the school district and its finances were concerned. He does remember that there was discussion in the city neighborhoods about the taxation of vacant land under the two rate tax and confusion concerning the definition of a side lot and a building lot. However he thought that most of the criticism was focused on the re-valuation, not the two rate tax.

When asked about the school tax rate, Seward noted that the school property tax rate did rise in the 1995 tax year that includes part of 1996, but then it fell in the succeeding two years. The tax payment dates for the City and school tax are not identical. He doubted that the rise or the fall of the school tax had anything to do with the repeal of the two rate property tax.

K. Five Community Organizations

Amsterdam's community organizations include those usually found in smaller cities in America. These are the YMCA, Chamber of Commerce, Jaycees, Zonata, National Association of Business and Professional Women's Clubs, Kiwanis, Lions, Knights of Columbus, American Legion, Elks, Masons, the organizations related to specific age groups (senior citizens, youths), and those related to neighborhoods, churches and synagogues. It has community organizations based on ethnic heritage, such as Centro

Civico, the Polish National Alliance and the Lithuanian Club.

Appearing as the guest speaker at five community organization meetings, the general question was asked concerning the reasons that the two rate tax was repealed in Amsterdam. Between ten and fifty persons attended each meeting. There appeared to be no audience member who was in attendance at more than one of the meetings though there is likely to be overlapping membership in community organizations. Several of the organizations demanded anonymity for their organization and members and both privileges were extended to all.

The land tax concept, that property taxes can be eliminated from buildings and placed entirely upon the land, tended to be enthusiastically accepted by each community group. This is to say, the audience had never heard much about the meaning of the two rate tax proposal and did not know that the elimination of building taxes was the follow-on proposal to the two rate tax. Few knew whether the two rate tax in Amsterdam caused their property taxes to rise or to fall though all seemed to believe that their property taxes had been rising uninterruptedly for as long as they could remember.

The side lot garden comment, it has been referred to earlier, was often offered as the reason for complaints the audience encountered about the two rate tax. Audience members had the impression that side lots were being re-assessed at values that were commensurate with their use as building lots even though they were not large enough to meet zoning requirements for building lots. Back lots and land locked parcels were mentioned by several as being re-assessed as building lots, also. The assessors office was offered by audience members as the source for the explanation that side and back lots had to be assessed as building lots. At each meeting there was a swirling discussion by audience members of the determinants of assessed values, the two rate tax and the re-valuation.

That commercial development could be encouraged through property tax policy was sometimes doubted by audience members. The statement that high taxes have repelled local development was accepted without question when that conclusion was offered by audience members, however. Interestingly, few knew when the re-valuation occurred or how long the two rate tax had been in effect in Amsterdam. No one referenced the public meetings, the radio call-in shows, the *Amsterdam Recorder* pieces concerning the experience of the two rate tax in Pittsburgh and other Pennsylvania communities or the enormous amount of other information distributed concerning the two rate tax.

Doubts were widespread that the two rate tax was repealed for any economic reason. How could it be, said one member, when it in was used for just a few months. Dislike of Mario Villa by various elected City officials was probably the most often suggested reason for the repeal, after the over assessed small side lot issue. The repeal was not connected to the re-valuation by audience members, possibly because they never ceased to respond as if the two were the same.

None of the audiences were willing to suggest that the two rate tax would again be used in

Amsterdam. No politician in Amsterdam would ever give the two rate tax another chance, one younger person offered, not that the people would be opposed to it if it was brought back.

Many audience members asked related questions about the re-valuation, why it occurred, do other communities do this, how does a person grieve their taxes and other questions concerning property taxes. Nearly as popular were questions concerning the economic future of Amsterdam. The desire to see property taxes reduced and Amsterdam develop was repeated by each audience.

Several audience members indicated that they owned valuable vacant land and concluded they might have been induced to develop or sell the land had the two rate tax stayed in effect. That elected City officers owned valuable vacant land was yet another comment made at several of the meetings. Others then connected the repeal of the tax to this information.

V. Conclusion

The Albany Group showed that a two rate tax law could be created, approved by the state and used in a state other than Pennsylvania. Reasonable evidence indicated the two rate tax would provide property tax reductions for homes, reduce the negative effects from the general property tax, promote the construction of new buildings and encourage the birth of new firms. Amsterdam, New York would have likely received these benefits had they continued their use of the two rate tax.

What was the cause for the repeal of the two rate tax in Amsterdam?

According to some people, mostly those voting to repeal the tax, the cause was the state, not the locally elected City officials. The coincidence of re-valuation put increased stress on the voters and the elected officers of the City as did the necessity for the re-writing of the computer codes involved in computation of the tax levy. The change-over to the two rate tax and the re-valuation was confusing and burdensome.

An alternative explanation focused on Mayor Duchessi and Common Council member DeCusatis. The decision of Mayor Villa to leave office, along with three of the five members of the Common Council, permitted Duchessi and DeCusatis to control the two rate tax. Those supporting the two rate tax thought that repeal of the tax was due to the results of the local elections when Arbige was replaced by DeCusatis, Kielbasa was replaced by Smith, Natoli was replaced by Iannuzzi. and Mayor Villa was replaced by Mayor Duchessi. (DeCusatis has since left the Council).

Both sides, those voting for and against repeal, and the others interviewed agree that few persons understood the two rate tax. Given the complex amendments to the property tax law, that can not be surprising. Nearly all of those interviewed volunteered that they did

not understand very much about the two rate tax. They were interested only its effects, administrative for some, economic for others.

The election of three new City Council members including one dedicated to the repeal of the two rate tax, DeCusatis, was the penultimate act in the repeal. The decision of the new mayor, John Duchessi, not to veto the repeal was the concluding statement on the two rate tax in Amsterdam.

The lack of a well-financed local property tax office was mentioned but infrequently as a cause for the repeal of the two rate tax. The role of outdated information concerning property in Amsterdam along with an under equipped and under staffed assessment office was not emphasized by most of those interviewed.

There are other causes. The Albany Group was much concerned at the outset that the two rate tax might not produce savings for homeowners. Homeowner savings became the core for selling the two rate tax. Mayor Villa, as it happened, was far more interested in the economic development effects. It was the homeowners who focused on their tax bill savings or lack thereof. The Albany Group, moreover, never focused its responses on the much repeated side lot garden issue, that is, the lack of sufficiently accurate information to aid improved assessment and re-valuation.

After the City voted in 1993 to implement the two rate tax, property tax assessment data on land values and buildings was obtained by the author for sixty-one cities in the state, not inclusive of New York City for 1991. Analysis indicates that the implementation of the two rate tax would reduce property taxes for homeowners and re-direct tax payments towards non-residential owners in eighty percent of the cities. Nearly any city in New York could provide tax relief to their homeowners through use of the two rate tax. The Albany Group might have selected several additional cities to use the two rate tax though this may have required more effort than a small band of unpaid volunteers could have sustained.

That the Chamber of Commerce members, the City Economic Development Office and community organizations knew little about the two rate tax owes much to the failure of the Albany Group to educate them and to their own lack of civic interest.

Other than one Council member, Anthony Natoli, and the assessor, Michael Chiara, no City leader voiced significant doubts concerning the two rate tax during its development and inauguration. It appeared that no threat to the two rate tax would occur until after eight years when, as required by state law, an evaluation of the two rate tax in Amsterdam was to be completed. The Albany Group was confident that the two rate tax was safe for eight years and that the data would then demonstrate a significant increase in building permits and other benefits, as was found in Pittsburgh.

Another problem was in misjudging the lack of appeal of the two rate tax. Tax payers had seen many amendments to the property tax law. They were told repeatedly that that there

would be community and economic development benefits and homeowner savings. Implementation of the two rate tax was not seen by tax payers to be fundamental to the economic development of the city. In 1996 even as the two rate tax was being repealed, the Amsterdam Common Council was voting funds for the Main Street Alliance, an organization to promote rebuilding of Amsterdam's downtown.

Historically the state and its local governments have chosen to promote economic development piecemeal through property tax amendments. The state was able to embrace one more amendment, land taxation, without great opposition. The Albany Group found it difficult to educate Amsterdam residents and their elected officials that this amendment, the two rate tax, was unique. It had a solid basis in economic theory. Like a personal investment or personal savings, and unlike a lottery ticket, it would pay dividends slowly and year after year after year.

The Albany Group failed in yet another way. Not being residents of Amsterdam, it was not aware of the close working relationship that developed in the 1995 election campaign between Mayor John Duchessi and City Common Council member Gerard DeCusatis. Having lost daily or at least weekly contact with the community when Mario Villa left office, the Group did not foresee the political forces working toward repeal during the election.

DeCusatis in seeking re-election and Duchessi in seeking election as mayor found some mutual interest to bring them together. DeCusatis made a campaign issue to repeal the two rate tax. The issue may have been born from the confusion within the very complex property tax, the tax increases for some caused by the upcoming but not yet realized re-valuation, the overextended assessor's office or just the need to intrude. The two rate property tax became dispensable before its effects could begin to be seen.

VI. After Word

In Pennsylvania there are only two cities that implemented and then repealed the two rate tax, Hazelton (population about 29,000) and Uniontown (population about 15,000). The more than a dozen other Pennsylvania cities with the two rate tax have seen challenges mounted from time to time but they have been able to keep their two rate tax and increase its significance by raising the tax on land and lowering it on buildings incrementally. Both Hazelton and Uniontown had the tax for just one year, 1992, before repeal. Interviews were conducted in the two communities in 1997 with interesting results.

James Ferry, City council member in Hazelton, a northeastern Pennsylvania city, reported that, like Amsterdam, the opposition came from another City council member, Evelyn Graham. Graham had earned much goodwill with the tax payers. She was well known as a supporter of the local college and other not-for-profit organizations. Ferry speculated that part of the opposition came from one of Graham's constituents, an important owner of real estate in the city. The constituent, a Philadelphia organization, owns approximately 400

acres in the City of Hazelton.

Opposition first came through a court challenge to the law. The courts upheld the graded tax law. The attacks then shifted to debates in the City Council, where the law was repealed. This occurred even though 48 percent of the homeowners received tax reductions from the two rate tax.

The tax never gained a wide base of support. Few persons came to the public meetings, though Ferry feels people did understand the tax. Its expected effects were well discussed in the local media.

There continues to be much opposition to the two rate tax and Ferry does not foresee a clear opportunity to again implement the tax in Hazelton.

Ferry expressed hope for a re-organization of local governments. Hazelton, in his opinion, needs a reorganized local government that includes a larger area than just the present city. Property taxes to finance the schools need to become part of the debate. He is working to make this happen and then the debate on the two rate property tax may again occur.

In Uniontown, a City in the Pittsburgh area, Stephanie King, Director of Economic Development for the city, said that its two rate tax problems were most unusual. The tax roll was in terrible shape, dating from the 1950's. The two rate tax that was implemented was significant for most property owners, as it yielded about forty percent of the tax revenue from land. The land portion yield had previously been less than fifteen percent.

In Uniontown, the opposition was led by the Chamber of Commerce. It argued against the tax by claiming it would further weaken the central business district that was already failing. Previously, the vacant downtown buildings had almost no assessed value. The two rate tax increased the land taxes in the central business district sizably. The Chamber of Commerce used this argument to repeal the tax. The Chamber and downtown building owners, speculators who were most often nonresidents, further claimed that any development would require them to sell their parking lots. Re-assessment was needed, claimed the opponents. Repeal of the two rate tax soon followed.

The major lesson from this study is that the two rate tax can be implemented outside Pennsylvania, its major residence for seven decades. Secondly, the land tax creates a coherent local tax based on economic theory and analysis. This is terribly important. The two rate tax delivers for all tax payers what a century of haphazard special interest property tax amendments have promised for but a few. (Whether these piecemeal amendments actually promote development and at what cost is generally unknown and possibly unknowable). Ultimately elections and politics rules the property tax is the third important lesson gained from this study of Amsterdam, Hazelton and Uniontown.

Pittsburgh with its two rate tax is a high profile success. The documentation of its success was of great help to the Albany Group. However it is obvious, following the work of the

Albany Group to implement the two rate tax in Amsterdam, that to do likewise in communities throughout the nation several actions need be taken.

A two rate law needs to be drafted for the peculiarities of each state's general property tax law. Computer codes for property tax bill calculations need be rewritten. Active lobbying need be undertaken and community based workers need be found if the two rate property tax and the land tax is to become the basic form of the property tax.

Another high profile success like that documented by Oates and Schwab for Pittsburgh may create the impetus to bring forth these actions. Luckily, some smaller successes are at hand.

There are the fifteen communities in Pennsylvania in addition to Pittsburgh that use the two rate tax. Careful studies of the effects in each can supply the information needed to appeal to the widest group of property tax payers to remove buildings from the property tax base and put into effect the Henry George proposal to have land as the base for the property tax. That these Pennsylvania have been able to retain their two rate taxes for some years should provide other useful lessons for communities interested in reconstruction of the property tax.

Endnotes

1. The 19th century commissions are discussed in the co-authored paper by myself and Tomson (1985).
2. A newer discussion on the history of the property tax can be found in Howe and Reeb (1997).
3. The paper had circulated as a discussion paper for some time but is now available in the *National Tax Journal*, 1997.
4. The manuscript copy is not paginated.

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Table 1: Taxes of State and Local Governments As a Percent of Revenues, 1902, 1942 and 1993*

Years	State Sales and Incomes Taxes As a Percent of State Tax Revenues	State Property Taxes As a Percent of State Tax Revenues	Local Nontax Revenue As a Percent of All Local Revenues	Local Property Taxes As a Percent of Local Tax Revenues
1902	17.9	52.6	23.0	88.6
1942	70.1	6.8	43.0	92.4
1993	88.1	2.2	64.5	75.6

* Data are from the Statistical Abstract of the United States, various years, and the U.S. Bureau of the Census, Historical Statistics of the United States.

Table 2: Effects of the Two-Rate Tax, Amsterdam, New York, 1992 Tax Roll*

Type of Parcel	Taxable Parcels		City Taxes Payable in Percent Shares		Sum Of The Differences		Net Change	Average Parcel Change
	Number	Percent	Before	After	Increase	Decrease	Increase (Decrease)	Increase (Decrease)
One Family	2713	40.2	42.0	41.3	\$19,164	\$42,057	(\$22,894)	(\$8.43)
Multi Family	2566	38.0	31.1	29.9	\$8,002	\$53,994	(\$45,992)	(\$17.92)
Manufacturing	47	0.7	8.0	7.9	\$14,651	\$16,453	(\$1,802)	(\$38.43)
Commercial	437	6.5	17.4	18.4	\$49,675	\$15,859	\$33,816	\$77.33
Vacant	985	14.6	1.5	2.5	\$33,739	\$0	\$33,739	\$34.25
Total	6748	100.00	\$3,507,936		\$125,731		XXXXXX	

Presumes no change in yield. Amsterdam's property tax limit is 1.0 percent and is at its tax limit. The land tax would impose a near doubling of the tax from land values, from about 13 percent under the 1992 roll to 25 percent with the two rate tax.