

October 5, 1990

Recognizing the duty and responsibilities of City Council to establish the city tax structure and to set millage for that structure, I also recognize my duty and responsibility as Mayor and Chief Administrator of this city to implement and administer this structure.

It is with this knowledge and in this spirit that I send this notification to City Council of my decision to veto City Ordinance #63-1990 establishing the two tier tax structure commonly known as the Land Value Tax. I do so for the following reasons and with the following concerns:

1. While this ordinance establishes a new tax structure as of October 16th, the millage will not be established until after acceptance of the budget. This will occur in December of this year. Tax statements must be mailed to the community by the third week in January, 1991. While a model or simulation was provided for study purposes, a property-by-property review must be done for accurate tax statements. In my best judgment, I do not believe that this can be successfully accomplished within this time frame. Failure to promptly issue accurate tax statements would result in serious cash flow problems as well as a series of inquiries and corrections that could result, at best, in a critical loss of man-hours and, at worst, disturb the intent of Council and the system to have a revenue neutral system.

2. This Administration is presently working on next year's budget to present to Council. There must be a relative certainty of the revenues available for the coming year. The present real estate or property tax system provides an experience base for revenue anticipation. The Land Value Tax ordinance would treat all taxable land in the city on a common basis. In Council's discussions and deliberations, undevelopable lands would or could be considered as exempt from the tax structure. This poses several areas of concern. What would be the criteria for exemption? Would this be on a case-by-case basis, and if so, what would be the process and what would the exemption mean to the remaining tax base? There would need to be an adjustment on the remaining eligible land-holders, meaning increases to make up the difference of lost tax dollars from approved exemptions. Could this be done in a timely fashion to insure the revenues or cash flow needed to keep the city and its operations afloat, and equally as important, would this be a more equitable system which is what City Council is seeking?
3. The collection of taxes at as close to the rate set is essential. Presently, we have a history of our ability to collect tax revenues. Under a new system there is a lack of certainty. While cities contacted did not have evidence that this was a problem, Dr. Cord indicated to me that a study has never been done on this matter. In viewing the only experience we have to measure this possible effect, we can only gauge this effect against the collections on the new Refuse Collection Fee. All indications to date suggest a short-fall of approximately 10%. This gives rise to the concern for this Administration that a new, first year program could result in a similar effect.

This also poses a crucial concern because of uncertainty in administering and managing a 1991 budget.

This year, several actions were taken to meet shortfalls in revenues. There is serious question on the part of this Administration as to whether further actions could be taken in 1991 without negatively affecting city services.

4. The present Land Value Tax ordinance requires a five year phase-in period. While understanding the intent of Council, there are areas of concern. Can this system truly be phased-in? Once a two tier system is established, regardless of the ratio of land to improvement, it is still a two tier system which is established from the time it becomes law. What would be changed yearly would be the ratios. This would mean yearly adjustments and without sound public education this could create community confusion. This confusion would again generate inquiries, corrections and adjustments with the possible resultant effect being interruptions in and uncertainty of cash flow.
5. While one of the desired effects of the Land Value Tax is the spurring of development within the city, Erie presently has in effect a LERTA ordinance which covers a substantial portion of the city and was passed by City Council to achieve the same ends. There is a point of concern here. Would these two separate ordinances be in conflict with one another, thus bringing the opposite of the desired effect?

I have addressed my concerns from the Administrative position as this branch of government must administer the ordinances passed by City Council. After lengthy study and long deliberation, I have concluded that these are sufficient concerns to prompt my vetoing this ordinance.

By this veto, I do not intend to suggest that the Land Value Tax has no merit. I believe that it is worthy of further study and consideration. But I do strongly feel that there are many unanswered questions on the issue of equity and many serious concerns on the part of this Administration regarding the administering of this Land Value Tax ordinance.