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SPECIAL INCENTIVES FOR ATTRACTING COMMERCIAL, INDUSTRIAL AND HOUSING INVESTMENTS INTO THE MISSOURI RIVERFRONT DEVELOPMENT PROJECT AREA

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TABLE OF CONTENTS

	Page
LIST OF TABLES	ii
LIST OF MAPS	iii
SECTION ONE: AN IDENTIFICATION OF SPECIAL INCENTIVES FOR ATTRACTING COMMERCIAL, INDUSTRIAL AND HOUSING INVESTMENT INTO THE RIVERFRONT DEVELOPMENT AREA Industrial, Commercial and Housing Investment Incentives	1
SECTION TWO: EVALUATION OF INDUSTRIAL, COMMERCIAL AND HOUSING INCENTIVES Cost-Benefit Analysis - State Use of Incentives - Regression Analysis - Tax Incentives as a Determinant of Industrial Location - Relative Importance of other Community Attributes in the Location Decision	20
SECTION THREE: NEED FOR SPECIAL INCENTIVES: DETERIORATION WITHIN THE RDP Measurement of the Cost of Housing Deterioration - Declining Commercial Activity	47
SECTION FOUR: RECOMMENDATIONS	54
BIBLIOGRAPHY	64

LIST OF TABLES

Table Page

I. Summary of Assistance and Services Provided by Nebraska and Iowa.......12

II. Tax Incentives for Industry Ranked by the Number of States Granting Specific Incentive, 1971 and 1973.......22

III. Financial Assistance for Industry Ranked by the Number of States Granting Specific Incentive, 1971 and 1973.......23

IV. Average Number of Incentives by General Type for High, Middle and Low Growth States, 1965-1970 and 1970-1972.......26

V. Summary of Results of Survey of Industrial Location Determinants: Location Preferences.......28

VI. Summary of Results of Survey of Industrial Location Determinants: Community Size Preferences.......29

VII. Summary of Results of Survey of Industrial Location Determinants: Plant Site Size Preferences.......30

VIII. Summary of Results of Survey of Industrial Location Determinants: Community Attributes Considered Critical and/or Significant Factors in the Plant Location Decision.......31

IX. Importance of Community Attributes for those Firms Expressing the Greatest Preference for Locating in a Community with a Population Between 250,000 and 500,000.......33

X. Importance of Community Attributes for those Firms Expressing the Greatest Preference for Locating in the Central City.......34

XI. Importance of Community Attributes for those Firms Expressing the Greatest Preference for Locating in a Community with a Population Under 25,000.......36

XII. Correlation Coefficients Between the Number of Firms Preferring to be Located in a Community of 250,000 and 500,000 and their Plant Site Size Preferences.......38

XIII. Correlation Coefficients Between the Number of Firms Preferring to be Located in a Community under 25,000 Population and their Plant Site Size Preferences.......39

XIV. Correlation Coefficients Between Tax Incentives and Plant Site Size Preferences.......40

LIST OF MAPS

Maps — Page

I. Change in Real Estate Property Values in Selected Eastern Omaha Tax Districts: 1960-1970 48

II. Change in Real Estate Property Values in Selected Eastern Omaha Tax Districts: 1970-1973 49

III. Percent of Housing Units Classified as Deteriorating and Dilapidated in Urban Census Tracts, Omaha SMSA: 1970 51

IV. Change in the Number of Retail Trade Stores by Area: 1970-1973 53

SECTION ONE

AN IDENTIFICATION OF SPECIAL INCENTIVES FOR ATTRACTING COMMERCIAL, INDUSTRIAL AND HOUSING INVESTMENT INTO THE RIVERFRONT DEVELOPMENT AREA

Introduction

This section presents a description of special incentives that could be used to attract commercial, industrial, and housing investment into the Riverfront Development area - particularly into the low income and deteriorated sections of the RDP. Special incentives in this paper refer to tax and non-tax inducements that may be used to reduce the cost and/or risk of commercial, industrial, and housing investment into the RDP. Specific recommendations are presented in Section Four.

Industrial and Commercial Incentives

Incentives used to encourage industrial and commercial investment into an area include: state industrial finance authorities, local industrial bond financing, private statewide development credit corporations, private and public local development corporations, regional economic development and industrial corporations, state industrial foundation authorities, tax base consolidation, tax increment financing, and tax exemptions and abatements. A discussion of land mark-downs and various give-aways related to industrial development concludes this section.

State Industrial Finance Authorities. Essentially, there are two distinct types of state finance authorities. One type provides a pool of state funds to "loan directly" to private firms at below market interest rates for the purpose of erecting industrial buildings and/or for purchasing land, machinery and equipment. The pool of funds may be provided from several sources such as: state appropriations, borrowing from conventional lenders, or borrowing from the state treasury by floating tax exempt general obligation or revenue bonds. Presently, neither Nebraska nor Iowa has this program in their statutes.

The second type of state finance authority uses state funds to "guarantee" industrial mortgages made by private lenders. Typically, the authority guarantees the repayment of first mortgage industrial loans to the lenders by pledging the states full faith and credit and by providing a reserve fund for claims in the event of default. For the guarantee, the firm pays a fee to the state authority of 3/4 of 1 percent of the outstanding mortgage balance. These revenues are used to replenish the reserve pool in the event that payments are made from the fund due to defaults.

It is possible, obviously, to set up a "regional" or "local" public finance authority which has the same capabilities as the state authority. Also, a hybrid could be established with state, regional, and local government contributions to the reserve fund and with the provision of second mortgage guarantees for carefully screened but higher risk smaller firms. Neither Nebraska nor Iowa presently has these types of public inducement programs.

Local Industrial Bond Financing. Generally speaking, local governments are authorized to construct industrial facilities and finance them by floating two distinct types of bonds. One type is the "general obligation" bond. These bonds are backed by the full faith and credit of the issuing government and are paid for from general tax revenues. The second type is the "revenue bond". These bonds are secured only by the property acquired with the proceeds of the bond sale and by the income stream the property produces under the terms of the lease contract. They do not have the backing of the full faith and credit of the issuing government and, therefore, require higher interest rates than general obligation bonds to compensate the purchaser for his increased risk.

County and city governments in Nebraska and Iowa are authorized to finance the construction of industrial facilities for the purpose of lease or sale to private firms by floating "revenue" bonds but not by floating "general obligation" bonds. Under this program, the aided firms pay rentals or monthly payments to the city or county which are just sufficient to cover the principal and interest of the bonds and the maintenance of the rental facilities. The revenue to redeem these bonds is limited solely to revenues paid by the benefiting firms. Industrial facilities which are leased to firms are not exempted from property taxation, despite the fact that they are publicly owned.

Private Statewide Development Credit Corporations. Private statewide development credit corporations are state chartered but "privately" owned and financed organizations. These corporations make loans to carefully screened, small, high risk firms that have previously been rejected by conventional commercial lenders. The loans are usually secured and are used to purchase plant, machinery and equipment and to provide working capital. The credit corporations' funds are provided from: 1) stock sales, 2) borrowing from conventional lenders, and 3) retained earnings.

The credit corporation usually borrows at a rate slightly above the prime rate and then loans the funds out at a rate sufficiently above this rate so as to realize a slight profit. However, the rate charged to the borrowing firm is about one half the rate that a commercial lender would require if the loan had been available. Thus the firm receives a subsidy in the form of a below market interest loan. Both Nebraska and Iowa statutes presently include the authorization to establish privately sponsored development credit corporations.

Private Local Development Corporations. Privately owned local development corporations are usually concentrated in non-industrialized areas and in industrialized areas with persistent unemployment. They are funded by: 1) donations, 2) borrowing, and 3) stock sales. These development corporations are organized as non-profit corporations, profit corporations, and a few are established as charitable trusts. They use their funds to finance construction of industrial plants to the specification of particular firms. The plants are then leased to the firm, frequently with an accompanying right to purchase option. Rental rates are usually set which enable the local development corporation to get back its investment and a moderate amount of interest over a ten to twenty-five year period. Local development corporations also engage in providing loans for working capital, plant construction, purchases of machinery and equipment, and purchases of land. Some corporations acquire existing vacant plants, modernize them, and sell or lease them to private firms. Others take out options to purchase on desirable industrial sites and sell them to manufacturers at cost or slightly above costs. Local development corporations have also been known to make outright gifts of industrial sites and to even purchase the stock of business concerns. Also, local development corporations frequently finance projects jointly with the federal authorities, and statewide development credit corporations. Presently, Nebraska and Iowa laws authorize this type of private development corporation.

Local Public Economic Development and Industrial Corporation. Experience in the State of Massachusetts indicated that private economic development corporations were unable to provide assemblies of land as were necessary for economic development. As a result, a 1972 legislative act now permits a city, or two or more municipalities to consolidate their economic development efforts by creating a public corporate body for economic development. The board of directors of the corporation are appointed by the municipalities and the corporations are permitted to purchase land, buildings and so forth, and plan, clear, develop and rehabilitate an area. The corporations may make and enter into contracts and receive federal, state, and local funds, as well as loans and gifts. They may issue revenue bonds to undertake their activity, and the property of the corporations is deemed public and is exempt from taxation. In Massachusetts, the corporations also provide advisory services and finance pollution control.

Regional Economic Development and Industrial Corporation. As deteriorated and low income areas that are zoned for industrial or manufacturing uses cross-over governmental jurisdictions, the need for a regional economic development plan often arises. A regional corporation could operate either as a private or public agency to promote economic growth throughout the deteriorated areas.

State Industrial Foundation Authority. These authorities use state funds to purchase industrial sites. They erect the capital improvements and lease them to private firms frequently with a right to purchase option. These are state owned and financed organizations.

Tax Base Consolidation. A major problem confronting many areas, including the RDP, is the fragmented structure of local governments that exist. Tax base consolidation which would tend to eliminate local competition for economic activity and attendant pressures on land use planning could be obtained through the establishment of a regional government empowered by Iowa and Nebraska to tax certain property in the RDP area. To regionalize a segment of the tax base would require the elimination of local taxes on some types of property (a frequent suggestion along these lines is for regional taxation of business property) and to levy property taxes on these types over a regional area, with the proceeds used for region-wide functions or distributed to local government units on the basis of some measure of need.

Tax Increment Financing. This provides those local governments engaging in revitalization activities a source of reimbursement for costs incurred. An area is delineated and at that date of official initiation of a project, all of the ad valorem property assessed values within the project are frozen. As time goes on, the activities of the governing body engaging in the development activity within the project area create private development which, in turn, increases the ad valorem base within the project. This increment of assessed value provides the means to finance governmental activity in the area. The millage rates of all taxing jurisdictions is applied from year to year against the increase, if any, in the assessed valuation of the project, and the result of such application is deposited in a special fund to repay the jurisdiction which has engaged in the project activities to reimburse its costs. Once all costs of the government have been reimbursed, the total assessed valuation of the completed project shall be applied against the separate millage rates in effect at that time. All taxing agencies shall share in the increased revenues. This type of financing can be used either as a repayment of advances in cash by the unit of government engaging in project activities or can be pledged as repayment for the issuance of bonds. Such bonds would be tax exempt.

Tax Exemptions and Abatements. Typically, new businesses are granted exemptions from certain local property taxes and some states expand these exemptions to cover existing firms that wish to expand. The exemptions may take a variety of forms including full or partial abatement of the property tax. The exemptions may be for: 1) all local property taxes, 2) all local property taxes except school taxes, 3) only municipal property taxes, 4) only taxes on plant and equipment, and 5) only taxes on plant.

For example, the states of Rhode Island, Vermont, and Maryland provide for either full or partial abatement of property taxes to new and expanding firms for periods of 5 to 10 years. Wilmington, Delaware employs a diminishing property tax exemption for new structures. In the first year, the city's statutes provide a 100% real estate tax exemption of the increase in assessed value of the property of which the structure is a part of and which is attributable to the new construction. What this amounts to is a freeze on the assessed value of the property to the level existing prior to erecting the structure. The exemption is then allowed to diminish at a rate of 10% per annum and at the end of 10 years the entire increment of assessed value increase is then taxed.

Tax concessions take many different forms, ranging from special assessments and various forms of tax freezes to straightout tax relief and abatement and reorganization of districts and authorities to provide special incentives. Most tax subsidy policies are designed to induce firms to open new plants in designated areas or expand existing ones by lowering the capital costs of doing so. Subsidies may be given on construction or on equipment. Tax relief may be similarly granted in various forms. For example, firms investing in poor areas may be exempted from income taxes, property taxes, property transfer taxes, or they may be granted specially favorable depreciation or loss carry-over privileges.

Less important, but sometimes employed, are exemptions from sales tax on purchases - or in some cases on sales of newly produced products. Special treatment may also be given to the shares of companies set up to invest in low income and deteriorating regions; exemptions from income tax or capital gains tax being examples. Similarly, gains reinvested in these areas may be exempted.

Another tax incentive to attract new industry or encourage expansion of existing industry is to provide "tax stabilization guarantees" to firms locating in the designated area. That is, the community guarantees the same property tax bill to a firm for some extended period, typically ten years. The guarantee creates an element of certainty with respect to one type of firm cost, allowing more efficient planning. The stabilization guarantee would obviously turn into a subsidy over time to new firms locating in an expanding market where property values are rising.

One of the most common types of property tax concessions provided in states which levy a tangible personal property tax on business, is to under-assess the value of machinery, equipment, and inventories or provide lower tax rates for firms locating in low income and deteriorating areas. This technique can be used to keep firms from leaving the CBD. Of course, an outright personal property tax exemption on machinery, equipment and inventories would be an even stronger inducement for firms to remain in the CBD if the subsidy could be restricted to that geographical area. Currently, Nebraska law provides for a 12 1/2 percent increase per annum in all inventory exemptions. Thus starting in 1974, 12 1/2 percent will be exempted, in 1975 this will increase to 25 percent, and in 1976 it will increase again to 37 1/2 percent. This will continue for five years at which time, 62 1/2 percent will be exempt. The county and local districts will be reimbursed by the state.

Another commonly practiced form of concession is taxing unused industrial land at a low rate. This practice began because many firms leave an existing site or pass up locating in an area due to limited space for expansion. The lower tax rate encourages firms to purchase sufficient land for future expansion so it will not later be forced to move. An interesting technique that is employed in one New England city is to vary the assessment from 35 to 45 percent of market value depending upon the number of employees. Another community taxes only the land until the new firm has had one full year of operation.

It should be noted that many of these concessions are extra-legal for in many states such tax deals are not permitted by state statute. In both Nebraska and Iowa a number of legally authorized tax concessions to new and existing industries have been granted by the state legislatures.

Further Ideas on Industrial Development. An example of a more imaginative and bold approach is the "give-away" which advocates the acquisition of land and the construction of a plant or plants to the specifications of the specific industrial enterprises sought, and the gift of these packages to the qualifying companies. The land acquisition costs plus the costs of preparing the land and constructing the buildings could be financed by any of the already existing techniques, such as conventional guaranteed financing at subsidized interest rates, general obligation bonds, or direct loans by appropriate government agencies. The repayment of these loans could be accomplished through the existing property tax structure over the entire community, a specific property tax imposed on those real properties surrounding the new improvements (properties whose values should increase as a result of these new industries), or by a payroll tax imposed on the employees of these new industries, or by a combination of these possibilities and others.

In addition to the gift of the land and plant to the qualified company, other incentives that could be provided include:

(1) Cash to cover move-in and set-up costs.

(2) Cash payments to offset differential costs of transportation of both the raw materials into the plant and the finished product out. (Differential costs of transportation equal that amount of extra cost incurred because of locating in Omaha versus a more efficient location alternative).

(3) Cash payments or state income tax credits for costs of educating and training employees for job placement.

(4) Cash payments to provide private transportation services to bring employees to work and take them home again. (For equipment, maintenance, insurance, and drivers).

(5) If employees pay through payroll tax, then a credit of this amount on their state income tax report could be provided. (Spreads the cost to the entire state).

(6) Cash for management relocation and settling.

(7) Cash for the establishment and maintenance of a child-care center and other educational services for the children of working mothers. (This is particularly aimed at AFDC recipients).

The immediate benefits of such a program would be training and jobs for eligible employees hopefully from the surrounding residential areas. This theme of a turn-key gift could be utilized in setting a plant (preferably a non-noxious industry) into the physical center of a deteriorated residential area where the residents there who would seek employment could literally "walk to work". The increased job activity would probably stimulate other peripheral beneficial activities such as home improvements and commercial and apartment rehabilitation, and new construction.

Utilizing the varied tax and finance incentives available under current Nebraska and Iowa as well as Federal laws, other innovative ideas that could be pursued include:

(1) Joint-Venture Industrial Development Partnerships

This approach would join the property owner or owners together with a lending institutions and a manufacturer in a partnership effort for mutual benefit. Incentives could be provided through: tax benefits including personal, property, and income taxes; reduced risk loans through guarantees by the appropriate government agency; low cost financing through revenue bonding; and other plausable subsidies.

(2) Employee Owned Manufacturing Companies

This approach would create a cooperative company structure where the employees would own their own company and be able to expand their earning opportunities beyond the normal salary. A variation of this theme could be a profit-sharing program in the other alternatives.

(3) New Product Companies

This approach would be designed to aid the developers and investors of new products through providing the required facilities and seed money necessary to start up a new company. Although risky, this approach lessens the "Beggar-thy-neighbor" impact of the other alternatives.

Any incentive program to attract industry into a specific area presupposes adequate utilities, access, transportation facilities, labor pools, and the other necessary elements to industrial location decision making. The sweeteners described above are designed to motivate interested industries to, first of all, move and secondly, to move into a low-income deteriorated area in the Nebraska-Iowa Riverfront Project.

Table I provides a summary of financial techniques and special services for industrial development. Services offered by Nebraska and Iowa are reported.

Commercial Development Incentives

The advocacy concept of existing property owners helping themselves is somewhat clearer in the suggestions for commercial development and redevelopment in the depressed areas of the Riverfront Project. This part includes a discussion of rehabilitation of obsolete structures as well as new construction. Also discussed is the utilization of a relatively new ownership concept, condominiums, to redesign existing shopping areas; an approach which might offer a solution to the Central Business District's loss of retail trade.

In all cases, the suggestions are based on maximizing the investor's bottom line return on his investment as the single most important attraction. It is presumed that all legal and possible tax and finance subsidies will be utilized to stimulate these investments.

The Condominium Concept. A fundamental input to the success of a commercial shopping area is unity of ownership. With single entity ownership, many of the conveniences of major shopping centers can be incorporated into existing CBD commercial areas. Besides other requirements, it is imperative to provide basic comforts for the shopper such as easy access, adequate and efficient park-

TABLE I

SUMMARY OF ASSISTANCE AND SERVICES PROVIDED BY NEBRASKA AND IOWA

Assistance	Nebraska	Iowa
State Providing Financial Assistance for Industry		
State, city or county incentive for establishing industrial plants in area of high unemployment................	No	No
State, city or county loan guarantees for equipment, machinery...................	No	No
State, city or county loan guarantees for building construction..................	No	No
State, city or county loans for equipment, machinery....	No	No
State, city or county loans for building construciton...	No	No
State, city, or county general obligation bond financing........................	No	No
State, city or county revenue bond financing..........	Yes	Yes
Privately sponsored development credit corporation..	Yes	Yes
State sponsored industrial development authority.......	Yes	No
State financing aid for existing plant expansions...	Yes	No
State matching funds for city and/or county industrial financing programs....	No	No
State loan guarantees for building construction.......	No	No
Tax Incentives for Industries and Other Pertinent Laws		
Accelerated depreciation of industrial equipment....	No	Yes
Corporate income tax exemption....................	No	Yes
Excise tax exemption.......	No	No
Tax incentive for compliance with pollution control laws......................	No	No
Inventory tax exemption on goods in transit (freeport)	Yes	Yes
Personal income tax exemption......................	No	No
Sales use tax exemption on new equipment.............	No	No
Tax exemption or moratorium on land, capital improvements................	No	No
Tax exemption or moratorium on equipment, machinery	No	No
Tax exemption on raw materials used in manufacturing.......................	Yes	No
Tax credits for use of specified state products...	No	No
Tax stabilization agreements for specified industries.................	No	No
Tax exemption to encourage research and development...	No	No
State right to work law....	Yes	Yes
State minimum wage law.....	Yes	No
State fair employment practice code.................	Yes	No

Assistance	Nebraska	Iowa	Assistance	Nebraska	Iowa
Statewide uniform property tax evaluation law........	Yes	Yes	State program to promote research and development...	Yes	No
Statewide air pollution control law..................	Yes	Yes	State program to increase export of products.........	Yes	Yes
Statewide water pollution control law................	Yes	Yes	University R and D facilities available to industry	Yes	Yes
Statewide industrial noise abatement law..............	No	No	State and/or University conduct feasibility studies to attract or assist new industry...............	Yes	Yes
Special Services to Encourage Industrial Development			State recruiting, screening of industrial employees........................	Yes	Yes
State, cities or counties provide free land for industry.....................	Yes	No	State supported training of industrial employees.......	Yes	Yes
State, city and/or county finance speculative building.......................	Yes	No	State supported training of hard-core unemployed....	No	Yes
State, city or county owned industrial park sites..	Yes	No	State incentive to industry to train hard-core unemployed....................	No	No
State funds for city and/or county development-related public works projects.....................	No	Yes	State help in bidding on Federal procurement contracts.....................	Yes	No
State funds for city and/or county master plans.....	Yes	Yes	State science and/or technology and advisory council	Yes	Yes
State funds for city and/or county recreational projects.....................	Yes	No			

ing, and ease of shopping between many diverse stores and products. Addressing the CBD of Council Bluffs, Iowa for a moment, the current shopping center redevelopment activity occurring there is somewhat indicative of the opportunity in this direction.

Utilizing the customer comfort concept, the owners of properties in an area would create a condominium regime. Each property owner would maintain the fee in his own property but would contract to join a corporate form of association to manage the common areas.

What common areas? This is the basis for the concept. The streets and alleys and sidewalks within the boundaries would be considered the common areas at the outset. Because controlled parking is so necessary to the successful shopping center, either existing parking facilities or new parking garages would be common areas. Likewise the parks, malls, fountains, museums, libraries, civic center, auditoriums, stadiums would be common areas, owned and managed by the association.

With agreement among the members of the association, streets could be converted into parks, and enclosed all-weather malls could be constructed linking all the stores to the controlled parking areas. Internal transportation systems could be evolved such as moving sidewalks, chairstreets or elevated trams to aid in transporting customers comfortably and safely together with their bundles. A bus terminal could be created to accommodate non-auto shoppers with comfort stations and lockers to protect their purchases.

Association members could be required to remodel their store buildings or lofts or warehouses to conform to safety standards. Funds for rehabilitation, remodeling, site acquisitions, new transportation concepts, new parking facilities and the myriad of amenities possible to enhance this effort could flow from the same sources as enumerated previously. The repayment could be made from a sales tax on merchandise sold in the area, an incremental property tax increase due to a rise in value, profits from the revenue portions of the common areas, taxes on the association members, or, if donations could be secured to support this enterprise at the outset, no repayment would be necessary.

Rehabilitating Existing Structures. On a smaller scale, providing funds for remodeling store buildings located in the low-income and deteriorated areas while freezing the assessed values at the pre-improvement rate could create incentives for the existing property owners to upgrade their units. New construction could be encouraged with tax concessions and inexpensive financing. Small store owners could be encouraged to get together and establish a common design identification, for instance, to install a wood-shingled western style facade and roof over the sidewalk with some hitching posts, Scottsdale, Arizona style, which would create a distinctive identification for even the smallest group of stores.

This theme could be repeated with a Venetian motif in another area, a street cafe umbrella - Brussels type - in another. Tax freezing and/or investment credit against state income taxes is necessary in each case in order not to discourage any remodeling or improvement effort. The condominium concept could be applied to these smaller areas, but since no substantial parking facility would be needed, it would not be efficient.

Housing Investment Incentives

If one looks at housing program effects instead of program intentions the evidence seems clear that past housing investment has not directly benefited many poor families. The poor appear to benefit only indirectly from new construction through the filtering process. The economics of housing and the quest for stability and security of investment opportunity has made low cost housing construction increasingly unattractive compared to other kinds of investment. It also seems clear that in order to attract private industry into the low cost housing field, the public sector must provide large financial incentives for research and development in housing construction technology. For the above reasons, considerable attention is given to determine what incentives, if any, are needed to improve the deteriorating stock of housing units in the low income RDP area - rather than new housing investment per se. It should be noted that many of the incentives that apply to industrial location can be extended to residential housing.

Tax Policy. The most basic variable which accounts for variation in maintenance of deteriorating property is the factor of ownership. Accordingly, incentives might be directed towards boosting the proportion of resident owners and landlords. Tax policy could be directed toward aiding the resident owner and landlord, and penalizing those owners who do not properly maintain their properties. The current tax policy based on sales value has quite the opposite effect. Improvements are discouraged and underdevelopment is not penalized. Instead, it is encouraged. If home improvements were taxed at a lower rate (or not at all) investors would be encouraged to develop property intensively. As a result, the market would tend to automatically regenerate deteriorated areas. Reversing the emphasis from improvements to land in the assessment process and assessing on the basis of the property's highest and best use, has been shown to be a powerful development tool in Southfield, Michigan and Rosslyn, Virginia. These areas were transformed in a few years from run-down, moribund areas with little economic activity into booming commercial centers.

In New York to encourage rehabilitation of older housing occupied by lower income persons, the owner is allowed to recover 75 percent of the total cost of the improvement through tax reductions over a period of 9 years. In Wilmington, Delaware the property of which the improvement is a part is exempted from tax to the extent of 150 percent of the increase in assessed valuation attributable to the new construction. The exemption continues for five years after the improvement.[1]

In the long run it may very well pay the area to provide rebates to property owners in the low income and deteriorated areas - preferably only to resident owners. This could be coupled with a stipulation that the rebate be employed in the improvements of the parcel in question.

Financial Help. Given the dearth of available financing for those persons residing in deteriorated areas, provisions should be made to provide long term guaranteed mortgages for housing units purchased by residents. The term of the mortgage is much more significant from a cash flow point of view than are interest rates.

Advisory Services. Another incentive to boost resident ownership is through protecting frequently victimized low income resident buyers of home improvement services. Here, the local government should provide capable advisory services for new homeowners in deteriorated areas.

Municipal Services. Evidence indicates that municipal services required by deteriorated areas are higher than required in nondeteriorated equivalent areas. Yet the actual delivery level of these services appears to be reversed. In short, an adequate level of services should be provided to the low income and deteriorated areas, e.g., street lighting, repair, and garbage collection.

Building Codes. Code enforcement requires a more subjective approach than is the case. It must be updated to allow for use of new low cost construction techniques and materials. There should also be a more adequate definition of what the code should be. Plumbing that works, paint, and general cleanliness

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[1] If pending Senate bill 1255 is passed, the federal government will provide states with a subsidy of up to 50 percent of state program costs that relieve property taxes on the poor and the elderly.

may be more significant to the inhabitant than whether studs used in repair are 16 or 20 inches on center. This implies that a building which is completely satisfactory on the basis of existing codes may be completely unsatisfactory in terms of its effect upon occupants.

Other Incentives. Other housing incentives include:

(1) Give-Away. Abandoned and foreclosed deteriorated housing units could be given to qualified persons. A test of qualification might be that the person works at a new industrial operation in the area and that he improve the parcel of property in question.

(2) Prohibit Subsidy to Occupants of Substandard Units. If incentives are to be provided to those cooperating in housing maintenance and improvement there should be a prohibition on the use of public funds to subsidize occupancy of substandard units.

(3) Rent Certificates. A pilot program could be initiated in the low income and deteriorated areas of RDP. With improved property, market conditions will require an increase in rents. A program of rent certificates to assist low income families could be instituted. The low income families could be required to find their own housing on the private market.

(4) Stabilization Guarantee. If new housing investment is to be encouraged a stabilization of the assessed value of property could be guaranteed to those wishing to develop in the area.

(5) Zoning. Develop a philosophy of zoning geared to preserve older residential neighborhoods. More restrictive zoning could be initiated in some of the low income areas to preserve them as residential areas and allow for housing investments.

(6) Land Reutilization Authority. An authority could be established to ac-

quire land which is delinquent in taxes at public sale. The land could then be held in trust until such time as there would be parcels sufficient to package and market for sale to private builders.

(7) Others. For tenants occupying single-family rental housing, providing funds for the purchase of the unit and for its repair and maintenance would be an incentive to home ownership. The formation of condominium associations by apartment tenants, and the purchase by the tenants of their own apartments with funds provided for acquisition, repair and maintenance would also stimulate the move toward ownership.

Welfare recipients, including unmarried mothers receiving ADC, could be encouraged to purchase their rentals. Financing should be made available to these purchasers tailored to their needs. Whereas the aid now being disbursed includes an element for rent, so also could the element be for a mortgage payment. The mechanism now exists to provide low income persons with financial aid to maintain their properties. This could continue and be expanded.

Basically the best incentive to attract new residential investment into any area is to develop the demand with the ability to buy or rent at current prices. This would be the peripheral benefit of a successful industrial campaign.

SECTION TWO

EVALUATION OF INDUSTRIAL, COMMERCIAL AND HOUSING INCENTIVES

Introduction

This section of the report presents an overall review and evaluation of the effectiveness (measured by cost-benefit analysis), use and importance of incentives to attract industrial, commercial and housing investment to a given area. Although some of the evaluations are based on the experiences of geographical areas other than the RDP area, the information provided by these experiences has considerable relevance for identifying and isolating the types of incentives which will have an impact as instruments for attracting new and expanding existing investment in the RDP area.

Industrial and Commercial Incentives

One of the first and most thorough attempts to analyze the costs and benefits of subsidies to industries from the viewpoint of the community was provided by Professor James Rhinehart in a 1963 study entitled "Rates of Return on Municipal Subsidies to Industry." Rhinehart examined the results obtained in ten communities which secured industry by means of financial incentives. The incentives were in the form of direct outlays (e.g., cash), foregone income (e.g., tax exemptions) and the acceptance of elements of risk (e.g., providing credit at interest rates below the market rate). Benefits to the community were measured in monetary gains from factory payrolls which represented a new addition to community income and a local multiplier effect.

A total of 22 firms in the ten localities were analyzed to determine the financial success of each of the subsidy projects. For each firm a rate of return was calculated under three possible conditions.[2] First, it was assumed that the

[2] In each case, the aggregate quantity of the subsidy investment was determined and capitalized to present value. In like manner, the income benefits were estimated and discounted back to present worth. Then, the perpetual annual value of the income benefits was placed over the capitalized cost of the subsidy to arrive at the per annum rate of return on the subsidy investment.

payroll resulting from the subsidized firm would provide a perpetual income stream. Second, it was assumed that the subsidized firm would leave the area after a few years, and third, it was assumed that the firm would leave the area after its first year of operation.

Under the perpetual income stream assumption, the annual rates of return to the communities ranged from a low of 87 percent to a high of 8,195 percent. In case three, where the firm left after one year, the annual rates of return ranged from a low of 14 percent to a high of 375 percent.

As a result of his analysis, Rhinehart concluded that:

(1) In every community and for every firm, the rates of return were significantly above the six percent alternative rate of return assumed to be obtainable by the communities on alternative uses of the subsidy funds.

(2) Even on the basis of the worst alternative (one year of operation), industrial subsidies are still profitable from the point of view of the community providing them.

Rhinehart's conclusions are supported with evidence gathered by the Minneapolis Industrial Development Commission in 1971. Employing the questionnaire technique to determine reasons for and effects of the relocation decisions of 176 companies which moved from Minneapolis to outlying areas, the study concluded that those communities which had attracted the companies through various tax and non-tax inducements experienced dramatic increases in their employment and property tax bases. The statistics indicate that the total employment of these communities increased from $1,666,000 to $6,460,000. Manufacturing employment led the increase with warehousing, service, and commercial employment following in order.

Tax and Non-Tax Incentives - Relative Use and Importance. A first indication of the use and importance of tax and non-tax incentives can be gleaned from an examination of the number of states providing the various incentives (see Tables II and III). Ranked by frequency of state adoption, the leading incentives are: city and/or county revenue bond financing (43 states), tax exemptions on raw materials

TABLE II

TAX INCENTIVES FOR INDUSTRY RANKED
BY NUMBER OF STATES GRANTING SPECIFIC INCENTIVE
FOR 1971 AND 1973

Incentive	Number of States Granting 1971	Number of States Granting 1973	Change in Number of States Granting 1971-1973
Inventory Tax Exemption on Goods in Transit (Freeport)	40	40	0
Tax Exemption on Raw Materials Used in Manufacturing	40	42	+2
Tax Exemption on Manufacturing Inventories	29	29	0
Sales/Use Tax Exemption on New Equipment	25	26	+1
Tax Exemption or Moratorium on Equipment and Machinery	22	24	+2
Corporate Income Tax Exemption	19	19	0
Personal Income Tax Exemption	19	19	0
Accelerated Depreciation of Industrial Equipment	17	19	+2
Tax Exemption or Moratorium on Land, Capital Improvements	15	16	+1
Excise Tax Exemption	9	9	0
Tax Exemption to Encourage Research and Development	5	6	+1
Tax Stabilization Agreements for Specified Industries	3	3	0
Tax Credits for Use of Specified State Products	2	1	-1

TABLE III

FINANCIAL ASSISTANCE FOR INDUSTRY RANKED
BY NUMBER OF STATES GRANTING SPECIFIC INCENTIVE
FOR 1971 AND 1973

Incentive	Number of States Granting 1971	Number of States Granting 1973	Change in Number of States Granting 1971-1973
City and/or County Revenue Bond Financing	43	43	0
Privately Sponsored Development Credit Corporation	38	38	0
State Sponsored Industrial Development Authority	29	29	0
State Financing Aid for Existing Plan Expansions	25	25	0
State Authority or Agency Revenue Bond Financing	16	17	+1
State Loans for Building Construction	15	15	0
City and/or County General Obligation Bond Financing	14	14	0
State Loan for Machinery and Equipment	11	12	+1
State Loan Guarantee for Building Construction	11	13	+2
State Loan Guarantee for Machinery and Equipment	9	11	+2
State Incentives for Establishing Industrial Plants in Areas of High Unemployment	9	9	0
City and/or County Loans for Building Construction	6	6	0
City and/or County Loans for Machinery and Equipment	6	5	-1

Incentive	Number of States Granting 1971	Number of States Granting 1973	Change in Number of States Granting 1971-1973
State Matching Funds for City and/or County Industrial Financing Programs	7	7	0
State Authority or Agency General Obligation Bond Financing	5	7	+2
City and/or County Incentive for Establishing Industrial Plants in Areas of High Unemployment	4	4	0
City and/or County Loan Guarantees for Building Construction	0	0	0
City and/or County Loan Guarantees for Machinery and Equipment	0	0	0

used in manufacturing (42 states), inventory tax exemptions on goods in transit (40 states), and privately sponsored development credit corporations (38 states).

Multiple regression and correlation analyses were conducted to assess the importance and role of tax and financial incentives in increasing employment. Accordingly, percentage rates of growth in manufacturing employment for the 50 states were associated with the total number of tax and financial incentives adopted by each state. The analysis utilized a simple correlation technique to determine the association between the rate of growth in manufacturing employment and the total number of tax and financial incentives for two periods, 1965 to 1970 and 1970 to 1972. In addition, correlation analysis for absolute changes in the number employed in manufacturing over the same periods and for the two types of incentives were analyzed to determine the relationship between incentives and jobs.[3]

Results of the tests were inconclusive as most of the relationships were weak. Regarding changes in manufacturing employment, a negative and significant (although weak) association was found for both the tax and financial incentives when related to those states characterized by small increases in manufacturing employment and/or actual decreases in employment. Table IV presents the average number of tax and financial incentives adopted by high, middle and low growth states. Descriptively, two points stand out. First, low growth states have adopted more incentives, on the

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[3]The total number of tax incentives and financial inducements were determined for each state by assigning the state a "one" if the incentive was allowed by state statute and a "zero" if it was not. The total was then determined for each incentive type by summing up the assigned numbers. The technique assumes that if the incentive is allowed by state statute, it is of equal importance for each of the states that have adopted it. While a more appropriate procedure would have been to use the actual dollar figures granted for financial incentives or rate reductions granted for taxes by states, the information to do so was not readily obtainable. Each state was next ranked in accordance with the rates of growth in employment and the changes in the number of employed for the 1965-1970 and 1970-1972 periods. Then the states were broken down into three groups based upon the top 17 with the highest growth rates in employment, the 17 with middle growth rates and the 16 with the lowest growth rates. The same ranking technique was also applied for changes in employment.

TABLE IV

AVERAGE NUMBER OF INCENTIVES BY GENERAL TYPE
FOR HIGH, MIDDLE, AND LOW GROWTH STATES
1970-1972 AND 1965-1970[1]

	Average Number of Tax Incentives	Average Number of Financial Incentives	Average Number of Total Incentives
1970-72 Growth:			
High	4.5	3.9	8.4
Middle	5.1	4.7	9.8
Low	5.1	6.6	11.7
1965-70 Growth:			
High	4.9	5.0	9.9
Middle	4.5	4.1	8.7
Low	5.3	6.2	11.5
1970-72 Change (%):			
High	4.9	4.3	9.2
Middle	5.0	4.4	9.4
Low	4.8	6.2	11.1
1965-70 Change (%):			
High	4.9	5.3	10.2
Middle	4.7	4.1	8.7
Low	5.1	5.9	11.1

[1]Growth measured by changes (absolute and percentage) in manufacturing employment.

average, than faster growing states, and second, low growth states tend to rely more on financial incentives.

A second analysis of 209 metropolitan areas throughout the United States employed the same methodology used in the analysis of the states with the exception that the areas were not classified into high, middle, and low growth units. Results were similar with weak and negative associations between growth in manufacturing employment (1970-1972) and the total number of tax and financial incentives adopted. This can be interpreted as suggesting that the cities which adopted more tax and financial incentives were those experiencing lower rates of growth in manufacturing employment.

The success of the RDP will depend in part on the ability to identify and attract those industries with compatible locational requirements. To allow a more effective search for these industries, and to provide the most desirable and effective inducements, an overall plan for searching out those industries expressing a compatibility with the resource base of the RDP should be established. In this plan, the importance of various incentives (i.e., tax and non-tax) should be placed in proper perspective, and attention should be focused on those factors offering the greatest potential for attracting industry.

A statistical summary of the locational preferences and community attributes considered important in the location decision of manufacturing firms for the 1971-1975 period has recently been reported in a special survey conducted by the U.S. Bureau of the Census for the Economic Development Administration.

Tables V through VIII present a summary of the aggregate responses to the EDA questionnaire. Of the 2,604 firms responding, 689 (27 percent) expressed tentative plans to expand existing facilities or establish plants at new locations during the 1971-1975 period. Forty-five percent (1,162) indicated that if they were to move

TABLE V

SUMMARY OF RESULTS OF SURVEY OF INDUSTRIAL LOCATION DETERMINANTS: LOCATION PREFERENCES[1]

Item	Number of Firms		
	Yes	No	No Response
Location of New or Expanded Establishment[2], Geographic Preference:			
Central city of a metropolitan area	150	1,824	630
Metropolitan suburban area.........	1,162	942	500
Non-metropolitan area..............	1,272	842	490
Location of New or Expanded Establishment, Industrial Park Preference...	1,113	1,023	468
Firms with tentative plans to expand existing facilities or establish plants at new locations between 1971-1975.........................	689	1,815	100

[1]Computed from information provided by: U. S. Department of Commerce, Economic Development Administration, Industrial Location Determinants, 1971-1975.

[2]Respondent could select more than one preference.

TABLE VI

SUMMARY OF RESULTS OF SURVEY OF INDUSTRIAL LOCATION DETERMINANTS: COMMUNITY SIZE PREFERENCE[1]

Community Size Preference[2]	Firms Responding Number	Percentage
Under 25,000 population	514	19.7
25,000- 49,999	473	18.2
50,000- 99,999	461	17.7
100,000-249,999	438	16.8
250,000-499,999	218	8.4
500,000-999,999	169	6.5
1,000,000 or more	262	10.1
No Response	69	2.6

[1]Source: Ibid.

[2]Community includes city and surrounding areas.

TABLE VII

SUMMARY OF RESULTS OF SURVEY OF INDUSTRIAL LOCATION DETERMINANTS: PLANT SITE SIZE PREFERENCE[1]

Plant Site Size Preference[2]	Firms Responding	
	Number	Percentage
Less than one acre	37	1.4
1- 4 acres	424	16.3
5- 20 acres	1,383	53.1
21- 50 acres	416	16.0
51-100 acres	154	5.9
Over 100 acres	124	4.8
No Response	66	2.5

[1]Source: Ibid.

[2]Plant site includes total land area including physical facilities, parking, outside storage, etc.

TABLE VIII

SUMMARY OF RESULTS FROM SURVEY OF INDUSTRIAL LOCATION DETERMINANTS: COMMUNITY ATTRIBUTES CONSIDERED CRITICAL AND/OR SIGNIFICANT FACTORS IN PLANT LOCATION DECISION[1]

Community Attributes	Firms Number	Firms Percentage
Security (Police and Fire)	2,400	92.2
Labor Pool (Trained and Unskilled)	2,182	83.8
Contract Trucking	2,057	78.9
Tax Incentives or Tax Holidays	2,019	77.5
Lenient Industrial Zoning	2,011	77.2
Vocational Training Facilities	1,702	65.4
Air Passenger Service	1,650	63.3
Strict Industrial Zoning	1,604	61.1
Local Industrial Development Group	1,556	59.8
Higher Educational Facilities	1,475	56.6
Local Industrial Bonds	1,059	40.6
Public Warehousing	592	22.7
Refrigerated Warehousing	82	3.2

[1]Source: Ibid.

they would be willing to move into a metropolitan suburban area. However, only eight percent (218 firms) indicated a preference for a community size between 250,000 and 500,000. In contrast, over 45 percent expressed a community size of less than 100,000 as most preferable, with 20 percent preferring a community size smaller than 25,000. The preferences regarding community size are fairly strong as 83 percent (2,148 firms) listed community size as a critical or significant determinant of plant location.

Other general conclusions include:

(1) Only 150 firms (six percent) reported a willingness to move into the central city of a metropolitan area.

(2) Approximately 43 percent (1,113 firms) expressed a willingness to locate in an industrial park.

(3) More than 3/4 of the respondents indicated security, an adequate labor pool, contract trucking, tax incentives, and industrial zoning as critical or significant factors in the plant location decision.

(4) Over 50 percent indicated a need for a plant site size of 5 to 20 acres. Correlation analysis between this plant site size and the importance of tax incentives was positive and high, indicating that those expressing a preference for 5 to 20 acres also expressed tax incentives as being of critical or significant importance. The strength of this relationship did not exist for other plant site sizes.

(5) Only 41 percent indicated that financial incentives (i.e., industrial bonds) were of critical or significant importance in the location decision.

Responses from firms expressing: (1) the greatest preference for central city locations and (2) the greatest preference for a community size between 250,000 and 500,000 population are reported in Tables IX and X.

In general, tax incentives take on added significance to firms willing to locate in a community such as ours. For the aggregate (see Table VIII), tax incentives ranked fourth, and for the group expressing interest in a community the size of Omaha, they ranked second. The increase in percentage points is relatively small, increasing from 78 percent to 82 percent. For those expressing a preference for the central city, tax incentives were ranked second among

TABLE X

IMPORTANCE OF COMMUNITY ATTRIBUTES FOR THOSE FIRMS INDICATING THE GREATEST PREFERENCE FOR LOCATING IN THE CENTRAL CITY[1]

Ranking of Community Attributes Considered Critical or Significant in the Location Decision	Number of Firms	Percentage of Total
Total Number of Firms	55	100
Community Attributes:		
(1) Security (Fire and Police)	52[2]	95
(2) Tax Incentive or Tax Holiday	44	80
(3) Labor Pool (Trained and Unskilled)	40[3]	72
(4) Vocational Training Facilities	33	60
(5) Higher Education Facilities	32	58
(6) Contract Trucking	32	58
(7) Air Passenger Service	32	58
(8) Lenient Industrial Zoning	30	54
(9) Strict Industrial Zoning	28	51
(10) Local Industrial Development	27	49
(11) Local Industrial Bonds	18	33
(12) Public Warehousing	9	16
(13) Refrigerated Warehousing	0	0
Industrial Park Preference:	17	31
Plant Size (5-20 acres)	17	31

[1] Seven five-digit industry groups were used to compute the ranking of community attributes. These were (by product class name):

(1) Typesetting and typographic work (17 firms responding); (2) Other electrical measuring instruments and parts (10 firms responding); (3) Miscellaneous opthalmic goods (8 firms responding); (4) Jewelry, made of platinum metal or karat gold (8 firms responding); (5) Jewelry, made of precious metals, except platinum and karat gold (6 firms responding); (6) Vitamin, nutrient, and hematinic preparation (3 firms responding); and (7) Aluminum plate and sheet, including foil stock (3 firms responding).

[2] Fifty-one firms cited fire protection and 53 firms cited police protection.

[3] Forty-three firms cited trained labor pool and 36 firms cited unskilled labor pool.

TABLE IX

IMPORTANCE OF COMMUNITY ATTRIBUTES FOR THOSE FIRMS EXPRESSING THE GREATEST PREFERENCE FOR LOCATING IN A COMMUNITY WITH A POPULATION BETWEEN 250,000 AND 500,000[1]

Ranking of Community Attributes Considered Critical or Significant in the Location Decision	Number of Firms	Percentage of Total
Total Number of Firms	50	100
Community Attributes:		
(1) Security (Fire and Police)	47	94
(2) Tax Incentive or Tax Holiday	41	82
(3) Lenient Industrial Zoning	41	82
(4) Labor Pool (Trained and Unskilled)	40[2]	81
(5) Air Passenger Service	38	76
(6) Higher Educational Facilities	38	76
(7) Contract Trucking	37	74
(8) Strict Industrial Zoning	37	74
(9) Vocational Training Facilities	33	66
(10) Local Industrial Development	33	66
(11) Local Industrial Bonds	20	40
(12) Public Warehousing	14	28
(13) Refrigerated Warehousing	7	14
Industrial Park Preference	20	40
Plant Size (5-20 acres)	24	48

[1]Ten five-digit industry groups were used to compute the community attribute ranking. These were (by product class name):

(1) Still picture equipment (10 firms responding); (2) Heat treating of the metal for the trade (7 firms responding); (3) Pharmaceutical preparations acting on digestive system (6 firms responding); (4) Liquefied refinery gases-feedstock and other uses (6 firms responding); (5) Optical instruments and lenses-except sighting and fire-control equipment (6 firms responding); (6) Sighting and fire-control equipment made from lenses, prisms, etc. produced in this plant (5 firms responsing); (7) Vitamin, nutrient, and hematinic preparations (3 firms responding); (8) Pole-line and transmission hardware (3 firms responding); (9) Pharmaceutical preparations acting on the skin (2 firms responding); and (10) Typewriters and parts (including coded media typewriters (2 firms responding).

[2]Forty-six firms cited trained workers and 55 firms cited unskilled workers.

the community attributes with 80 percent of the firms indicating them to be of critical or significant importance.

As was noted earlier, financial incentives (i.e., industrial bonds) are relatively less important than tax incentives, and they become even less important when examining preferences of those citing a community the size of 250,000 to 500,000 or those indicating a willingness to locate in the central city.

Other noticeable changes include:

(1) The percentage indicating labor pool as critical or significant drops from 84 percent (for the aggregate) to 81 percent for those preferring a community the size of the Omaha metropolitan area, and to 72 percent for those preferring the central city.

(2) Similarly, contract trucking drops from 79 percent (for the aggregate) to 74 percent for those preferring a community the size of the Omaha metropolitan area, and to 58 percent for those preferring the central city.

(3) Higher education facilities become more important to those choosing the 250,000 to 500,000 population (increasing from 57 percent to 76 percent); but remains about the same (58 percent) for the central city.

(4) Lenient industrial zoning is relatively more important to firms preferring the 250,000 to 500,000 population (77 percent for the aggregate versus 82 percent). However, it is much less important to those choosing the central city (77 percent for the aggregate versus 54 percent).

Responses from firms expressing the greatest preference for small communities (under 25,000 population) are similar to those expressing the greatest preference for communities of 250,000 to 500,000 persons. The large majority (80 percent) indicated that tax incentives are significant or critical community attributes. An ample pool of workers ranked behind security, lenient zoning, and tax incentives as the most important community attributes. Both higher education facilities and air passenger service are somewhat less important. There is also less preference for an industrial park location. Table XI presents the community attributes preferred by those indicating an interest in communities under 25,000 population.

Correlation analysis between plant site size preferences and community size and the importance of tax incentives yielded the following conclusions. First,

TABLE XI

IMPORTANCE OF COMMUNITY ATTRIBUTES FOR THOSE FIRMS EXPRESSING THE GREATEST PREFERENCE FOR LOCATING IN A COMMUNITY WITH A POPULATION UNDER 25,000[1]

Ranking of Community Attributes Considered Critical or significant in the Location Decision	Number of Firms	Percentage of Total
Total Number of Firms	102	100
Community Attributes:		
(1) Security (Fire and Police)	92[2]	90
(2) Lenient Industrial Zoning	85	83
(3) Tax Incentive or Tax Holidays	82	80
(4) Labor Pool (Trained and Unskilled)	80[3]	78
(5) Contract Trucking	78	76
(6) Local Industrial Development	70	69
(7) Air Passenger Service	62	61
(8) Vocational Training Facilities	61	60
(9) Higher Education Facilities	53	52
(10) Strict Industrial Zoning	49	48
(11) Local Industrial Bonds	44	43
(12) Public Warehousing	27	26
(13) Refrigerated Warehousing	5	5
Industrial Park Preference	35	34
Plant Size (5-20 acres)	45	44

[1]Fourteen five-digit industry groups were used to compute the ranking of community attributes. These were (by product class name): (1) Compressors and compressor units, all refrigerants(2 firms responding); (2) Unbleached kraft packaging and industrial converting paper (6 firms responding); (3) Stamped and spun aluminum cooking and kitchen utensils (4 firms responding); (4) Metal Powders and paste (3 firms responding); (5) Synthetic organic dyes (cyclic dyes) (5 firms responding; (6) Table, kitchen, art and novelty glassware (10 firms responding); (7) Synthetic ammonia, nitric acid and ammonium compounds (11 firms responding); (8) Softwood plywood, exterior type (17 firms responding); (9) Glass fiber, textile type fiber (2 firms responding); (10) Steel investment castings (all grades) (10 firms responding); (11) Gasoline engines, under 11 horsepower (2 firms responding); (12) Taper (except thrust) roller bearing, complete (2 firms responding); (13) High frequency induction and dielectric heating equipment and parts (4 firms responding); (14) Trailer coaches (housing type) (24 firms responding).

[2]Number of firms is the average of firms preferring fire and those preferring police protection.

[3]Number of firms is the average of firms preferring trained and those preferring unskilled workers.

those firms preferring communities between 250,000 and 500,000 persons or communities under 25,000 persons also prefer a plant site size of 5 to 20 acres. Second, of those preferring 5 to 20 acres, tax incentives are considered, almost unanimously, to be of significant or critical importance. Tables XII and XIII provide the results of the correlation analysis between community size and plant site size preferences, and Table XIV provides the correlation results for plant site size preferences and tax incentives.

The extent of industrialization in the RDP area depends on the relative advantage that the area has over other areas. Some of the advantages are natural (e.g., proximity to markets and availability of raw materials), but other advantages depend on the policies (e.g., tax and non-tax incentives) used to attract industrial investment. The importance of taxes in the overall investment climate of a location may initially be overshadowed by other more important considerations such as natural advantages. In these cases, high taxes may be a small price to pay for an otherwise advantageous location. However, to the extent that the firm has considerable location flexibility, the tax climate (tax incentives and tax holidays) appears to be of critical to significant and/or average value in final location decisions.

Housing Incentives

The incentives listed in Section One can be treated in two broad categories; those designed to create a stock of housing and those designed to expand the capacity of low income families to take advantage of the existing and/or newly created housing stock. With regard to the latter, both short and long options are available. In the short run, the following alternatives can be availed upon:

(1) Provision of rent subsidies or certificates.

(2) Provision of housing subsidies.

(3) Provision of personal income subsidies.

TABLE XII

CORRELATION COEFFICIENTS BETWEEN NUMBER OF FIRMS PREFERRING TO BE LOCATED IN A COMMUNITY OF 250,000 to 500,000 AND THEIR PLANT SIZE PREFERENCES

Industrial Groups	Plant Site Size					
	Less than 1 Acre	1-4 Acres	5-20 Acres	21-50 Acres	51-100 Acres	Over 100 Acres
20,000-22,000	---[1]	0.87	0.97	0.74	0.68	-0.46
24,000-25,000	---	0.55	0.90	0.00	-0.05	---
26,000	---	0.70	0.81	0.63	-0.37	-0.17
27,000	0.04	0.37	0.60	0.14	-0.44	-0.06
28,000	---	0.70	0.74	0.10	0.27	-0.29
29,000	---	---	-1.00	---	1.00	1.00
30,000	0.30	0.45	0.54	-0.82	0.52	-0.64
32,000	---	0.00	0.17	0.92	0.17	0.58
33,000	0.43	0.61	0.62	0.56	0.66	0.48
34,000	0.20	0.30	0.83	0.65	0.25	0.04
35,000	0.02	0.34	0.58	0.15	0.15	-0.07
36,000	0.62	0.51	0.56	-0.13	-0.08	-0.15
37,000	---	-0.37	-0.17	0.35	0.35	0.30
38,000	-0.28	-0.24	0.37	-0.19	0.51	0.02
39,000	---	---	---	---	---	---
All Groups	0.15	0.39	0.67	0.22	0.14	0.02
Significance Level:	(0.011)	(0.001)	(0.001)	(0.001)	(0.016)	(0.359)

[1] Correlation Coefficients can not be computed because the sample size is too small.

TABLE XIII

CORRELATION COEFFICIENTS BETWEEN NUMBER OF FIRMS PREFERRING SMALL COMMUNITY UNDER 25,000 POPULATION AND THEIR PLANT SITE SIZE PREFERENCE

Industrial Groups	Plant Site Size: Less than 1 Acre	1-4 Acres	5-20 Acres	21-50 Acres	51-100 Acres	Over 100 Acres
20,000-22,000	---[1]	0.70	0.31	0.74	0.83	-0.46
24,000-25,000	---	-0.13	0.27	0.91	0.90	---
26,000	---	0.04	0.23	0.05	-0.07	0.71
27,000	-0.21	0.51	0.71	-0.01	-0.33	-0.18
28,000	---	-0.07	-0.01	0.20	0.65	0.66
29,000	---	---	---	---	---	---
30,000	0.46	0.78	0.93	-0.05	0.97	-0.51
32,000	---	0.96	0.99	0.57	-0.43	-0.24
33,000	0.94	0.77	0.90	0.93	0.74	0.84
34,000	0.57	0.56	0.36	0.01	0.28	0.13
35,000	0.22	0.47	0.49	0.03	-0.03	0.21
36,000	0.69	0.80	0.65	0.27	0.10	0.09
37,000	---	0.85	0.93	0.18	-0.21	-0.01
38,000	-0.02	0.61	0.50	0.35	0.71	0.45
39,000	-0.50	1.00	0.99	0.99	1.00	---
All Groups	0.21	0.47	0.60	0.28	0.23	0.22
Significance Level	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)

[1]Correlation Coefficients can not be computed because the sample size is too small.

TABLE XIV

CORRELATION COEFFICIENTS BETWEEN TAX INCENTIVES AND PLANT SITE SIZE PREFERENCES

(SIC) Industrial Groups	Plant Site Size					
	Less than 1 Acre	1-4 Acres	5-20 Acres	21-50 Acres	51-100 Acres	Over 100 Acres
20,000-22,000	---[1]	0.94	0.98	0.90	0.87	-0.64
24,000-25,000	---	0.64	0.98	0.37	0.31	---
26,000	---	0.54	0.93	0.35	-0.21	0.06
27,000	0.16	0.60	0.78	-0.23	-0.27	0.13
28,000	---	0.52	0.63	0.29	0.84	0.40
29,000	---	---	---	---	1.00	1.00
30,000	0.87	0.99	0.96	0.09	0.91	-0.14
32,000	---	0.52	0.66	0.98	-0.02	0.21
33,000	0.82	0.81	0.96	0.93	0.83	0.85
34,000	0.46	0.61	0.93	0.57	0.09	-0.11
35,000	0.27	0.62	0.79	0.20	0.03	0.13
36,000	0.53	0.81	0.90	0.37	0.09	0.17
37,000	---	0.87	0.98	0.00	-0.35	0.07
38,000	0.35	0.34	0.91	0.76	0.82	0.49
39,000	0.43	0.99	0.99	0.99	0.99	---
All Groups	0.24	0.67	0.91	0.37	0.23	0.11
Significance Level	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.046)

[1]Correlation Coefficients can not be computed because the sample size is too small.

(4) Provision of financial subsidies (to borrowers, lenders, builders, or to all three).

(5) Orienting families to the advantages of owning rather than renting.

(6) Redirecting all federal housing programs exclusively to be for low income families.[4]

In the long run, expanding the capacity to participate in the market process (i.e., increased earning power) through education, improved job skills, improved employment potential, freer access to markets, and so forth should be provided. Such goals are easily accepted by all, but are definitely long run in nature and most difficult to attain. In the interim, solutions centering on the provision of short term financial capacity and improvements in and expansion of the housing stock are the most reasonable alternatives to continued deterioration. Further narrowing of alternatives occurs when the focus is placed upon incentives that state and/or local governments are capable of providing rather than the federal government. Examples of this include the suggestion that financial incentives for research and development in housing construction technology be provided; or that factory built industrialized housing units be utilized; and similarly that there be changes in union rules, codes and measurements of labor productivity.

Acknowledging the need for long run improvement in the financial capacity of low income families and for changes in the input of the federal government, the incentives mentioned in Section One were confined to those which might be options open to local and/or state governments.

Incentives and Deteriorating and Blighted Neighborhoods. The question of what special incentives to use raises a series of issues. Incentives directed toward buyers and renters of new housing obviously have as their purpose raising the level of demand for new construction, i.e., increasing the size of the group

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[4]An excellent discussion of the short and long run methods of improving housing conditions is presented in: Frederick E. Case (ed.), Inner-City Housing and Private Enterprise (New York: Praeger Publishers, 1972).

itself. If new construction which is to be fostered contributes to the elimination of the blight rather than merely shifting it from one location to another, it must open up markets which formerly did not exist. In the deteriorated areas of Omaha there is evidence that the residents themselves constitute what may be a rather considerable market for new housing if it is constructed in the same general area. Some people may want and can afford a new home, but do not want to move from a familiar environment to obtain it. As compared with luxury type structures designed to attract upper-income families back to the inner city, new lower-cost dwelling units have two advantages as they are: (1) more likely to increase total expenditures for housing and (2) more likely to indirectly bring better living accommodations to the families which they have displaced.

Should incentives be provided to encourage owner-occupants to undertake extensive modernization, or would their housing needs as well as those of the total community be better served in some instances if they invested instead in a more expensive new or used home elsewhere? Is it true, that the price of renovation or rehabilitation in an area of deteriorated housing causes a housing shortage for low-income groups? The erection of new dwelling units does create a potential flow of housing to, and reduced prices for, lower income groups, and it is true that rehabilitation can have precisely the opposite effect. The question, however, hangs on whether rehabilitation and new construction are complementary. It is assumed that in the deteriorated areas where a large proportion of the families would prefer to remain where they are, rehabilitation should be encouraged and that any potential adverse effects on either the rate of new construction or the housing situation of lower income groups must be minimized through other housing programs.

A second question is, whether incentives should be directed toward renters of housing in the standing stock? It must be recognized that this is a group comprised largely of families who either do not have the means to acquire better housing or do not have the desire to do so. For some, the answer may be an opportunity for owner occupancy through more liberal mortgage financing, or lease-purchase plans for used homes. It is in the rental sector where most of the substandard accommodations are to be found. Here is where incentives, if employed successfully, have the greatest potential for improving the quality and minimizing the public burden by shifting some of the cost to individual private owners.

A large number of low-income families who live in inadequate quarters must do so because government has neither forced nor encouraged landlords to pursue a socially responsible maintenance policy nor created a market environment in which it would be profitable to do so. Compulsion, i.e., code enforcement, encouragement, i.e., allowing improvements to deteriorated property to be made without the penalty of a tax increase, and the creation of a different market environment are all necessary and each would yield tangible results. An indirect goal of a program of special incentives should be to boost the proportion of resident landlords. Good maintenance typically is a function of resident ownership. No oneshot wave of maintenance, paint-up, and sweep-up campaign, can provide the day-to-day maintenance which is required in the deteriorated areas of the RDP. Resident landlords are typically the best landlords, and provide the hope for better maintenance in the future. Policy should be directed towards aiding the good landlord and penalizing those owners who do not properly maintain their properties. A most basic variable which accounts for variation in maintenance of deteriorating property is the factor of ownership. The extension of the opportunity for home ownership to lower income groups in the deteriorated areas should prove to be beneficial not only to them, but to the housing inventory as well. By making it feasible for more residents to become owners, we further encourage the development of local leadership which is so sorely needed in the area. The role of resident owners as guides and creators of life patterns for the youth of the deteriorated and blighted areas of the RDP to follow is clearly evident. The key to improving and/or maintaining the housing stock from a "people" point of view is the creation of a responsible middle class within those areas.

A recent study on property taxes and urban blight for the Department of Housing and Urban Development deals extensively with the problems of deteriorating and blighted neighborhoods (including an analysis of such factors as property tax reform, code enforcement, sources and problems of financing, and various suggestions to stimulate changes in housing conditions).[5] The report, entitled "A Study of Property Taxes and Urban Blight", is based on interviews with 228 property owners and data on 420 individual properties in ten cities (Atlanta, Baltimore, Chicago, Detroit, Nashville, Oklahoma City, Philadelphia, Portland, Providence, and San Francisco.) Regarding blighted and deteriorating neighborhoods, some findings were:

A. Blighted Neighborhoods (property values steady at low level or sinking toward zero)

   (1) Many long-term absentee landlords, unable or unwilling to adjust to changing neighborhood conditions, want desperately to sell their properties but are unwilling to accept the large capital losses implied by actual offers. These investors characterize themselves as "trapped" and are unwilling to invest further in their properties.

   (2) In many cities, the high level of property taxes, resulting from inequitable assessment practices, lessens the opportunity for transfer to more activist owner/managers who would improve properties in blighted neighborhoods.

B. Transitional Downward Neighborhoods (property values declining)

   (1) While overall property values are declining in these neighborhoods, homeowners and owner-occupants tend to maintain their properties

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[5] Department of Housing and Urban Development, <u>A Study of Property Taxes and Urban Blight</u> (Washington, D.C.: Government Printing Office, January, 1973).

at consistent quality, a fact which keeps the downward spiral from accelerating.

(2) Many homeowners and small investors feel that most rehabilitation expenditures will result in a reassessment of their property. While these apprehensions usually are unwarranted, given actual assessment practices, there is considerable misinformation among small owners as to how the assessment system functions.

(3) The failure to reassess properties downward, in line with depreciating capital values, undermines the ability of current owner-occupants to retain ownership, thereby placing considerable financial pressure on the areas' most stable households.

(4) The lack of government assistance, (such as subsidizing loans for rehabilitation) during the periods of racial succession, makes the stabilization of downward transitional neighborhoods more difficult.

The three most important obstacles to rehabilitation were found to be the difficulty of obtaining financing, neighborhood deterioration, and inability to raise rents. Regarding the latter and code enforcement, most low income families cannot pay enough to cover the costs of good housing. When property owners are forced to supply only standard housing, their rates of return in blighted areas cannot compete with alternative investment opportunities and eventually the properties are abandoned. Evidence from the survey indicated that owners of properties about to be abandoned, without exception, cited as a contributory cause the need to meet housing code standards; the cost of which they were unable to pass on to tenants because of the lack of effective demand for the features which housing codes demand.

The study also concludes that prospects for arresting the downward transition of the quality of housing will be aided by keeping the small owners committed to his property as they keep property at a higher quality level and spend more on rehabilitation than absentee owners. Further, since the primary cause of urban blight and deterioration is an insufficiency of income, changes in the property tax alone will not eliminate blight. However, modification of the property tax can improve the welfare of low income tenants and stimulate some improvement in housing conditions.

Whether one is evaluating methods of increasing the short run financial capacity of families or methods of increasing the housing stock, the ultimate cost of ignoring the deteriorating areas must be measured in terms of expanded blight and the associated financial and social costs of further deterioration of the housing stock. No single incentive will correct the trend, but a combination of incentives such as financial assistance through loan guarantees and rehabilitation assistance through tax abatement programs can create a proper atmosphere for improvements in housing conditions. Increased communication among local governments, financial institutions, real estate firms, construction industry personnel, and residents of deteriorated areas will facilitate the process.

If the decision is made to commit resources to improve housing conditions any attempt to expand financial incentives, encourage rehabilitation and construction, encourage home ownership and pride in an area, and provide for the involvement of private interests is a step in the right direction. A combination of incentives is even more potent.

SECTION THREE

NEED FOR SPECIAL INCENTIVES: DETERIORATION WITHIN THE RDP

Introduction

Although the major urban areas of the RDP (i.e., Omaha-Council Bluffs) have experienced substantial growth and general increases in prosperity during the past decade, some subareas have been characterized by deterioration and/or stagnation with a movement away from the Missouri River area. The rapidity of this change provides ample evidence that if not stopped, the future of many of these subareas is indeed bleak.

Real Estate Values and Deterioration

Maps I and II illustrate the extent of urban deterioration in the Omaha area by comparing real estate property tax districts in East Omaha (approximately the area east of 42nd Street) and changes in real estate property values over the 1960-1970 period (Map I) and the 1970-1973 period (Map II). During the 1960-1970 period, a total of eight, fairly scattered tax districts had real estate property values that either remained constant or declined. Conditions changed substantially over the 1970-1973 period with 23 of the 34 tax districts characterized by either declining or constant tax values. For the declining areas, the total property value loss exceeded 25 million dollars.

A Measure of Cost: 1970-1973. A comparison of real estate assessments and changes in assessed values over time provides one measure of the cost of a deteriorating area.[6] For example, from 1970 to 1973, real estate property values in the eastern section of Omaha increased from $625,203,860 to $649,245,690. This represented a rate of growth of 3.84 percent. Total real estate property values for all other sections of Omaha grew from $1,155,017,395 to $1,483,270,455, re-

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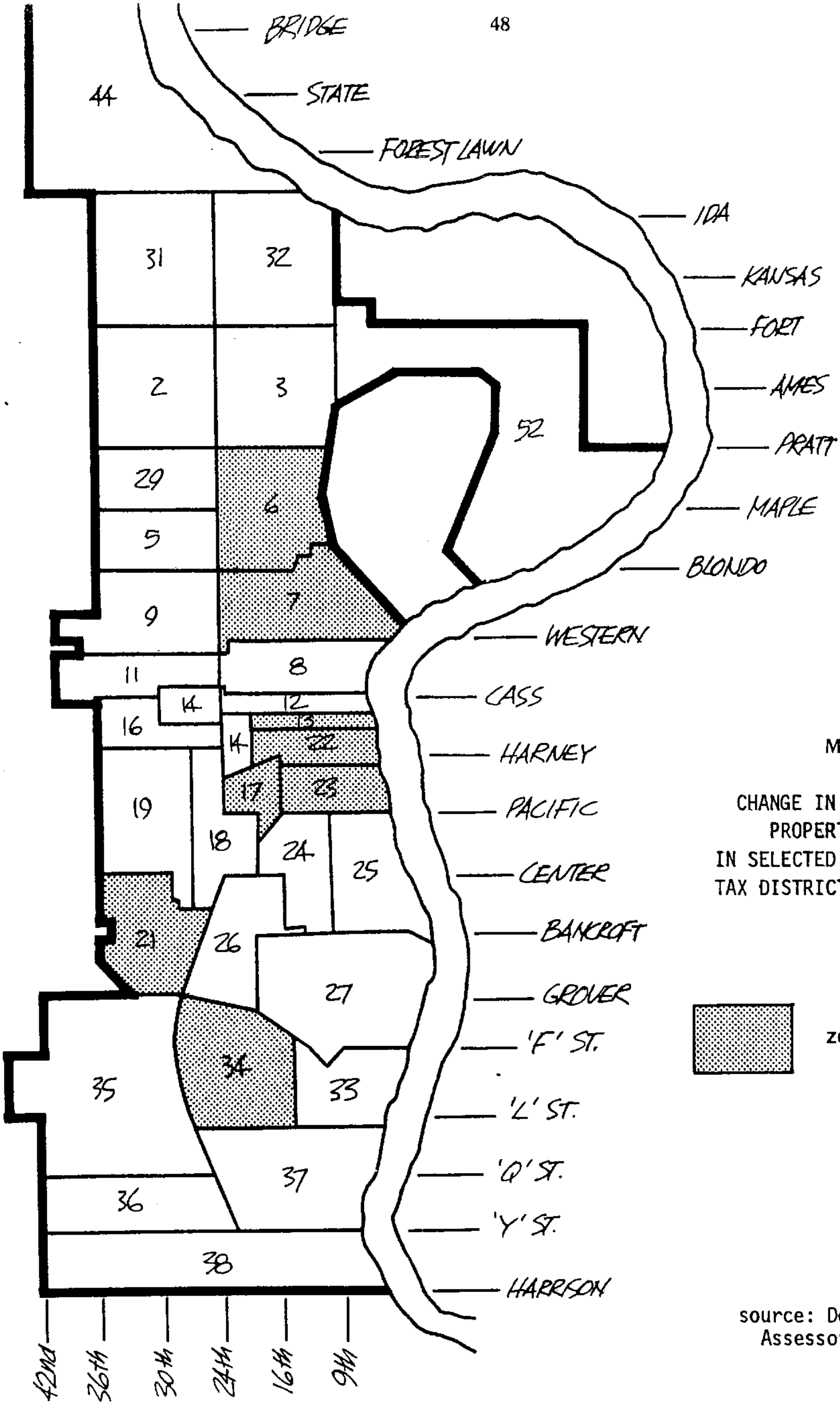
[6]The reader is cautioned that property value comparisons are based on assessed values, which may or may not agree with actual values. Further, all references to property value refer to real estate property value.

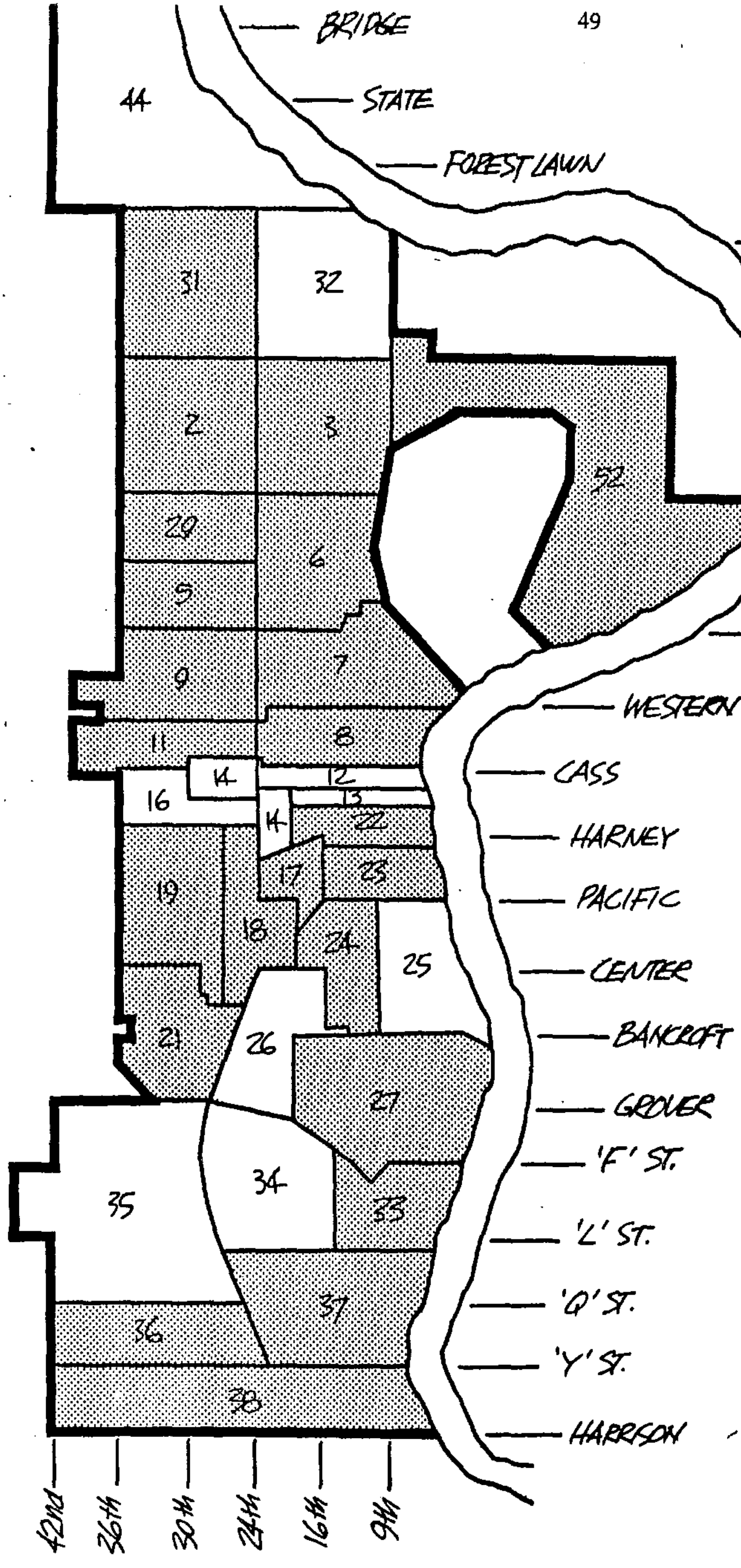


MAP I

CHANGE IN REAL ESTATE
PROPERTY VALUES
IN SELECTED EASTERN OMAHA
TAX DISTRICTS: 1960-1970

zero or negative

source: Douglas County
Assessor's records



MAP II

CHANGE IN REAL ESTATE
PROPERTY VALUES
IN SELECTED EASTERN OMAHA
TAX DISTRICTS: 1970-1973

zero or negative

source: Douglas County
Assessor's records

presenting a growth rate of 28.41 percent. Had the property values in the eastern section grown at the rate for the remainder of Omaha, another 5.2 million dollars in tax revenue would have been generated over the three year period.[7] In other words, the slow growth in the eastern section is costing approximately 1.7 million dollars in lost revenue each year.

Further evidence of the extent of deterioration is presented in Map III. Here, those areas (by census tract) which have ten percent or more of the housing units classified as either deteriorated or dilapidated are defined.[8] Housing conditions are far below the norm for most of the eastern subareas in Omaha and most of the western subareas in Council Bluffs.

Regarding the deteriorated areas along the riverfront, it is difficult to concieve of an internally generated reversal in housing conditions. Internal forces are simply not strong enough to offset the nature of the market now in operation. The economics of the housing market and the quest for stability and security of investment opportunities makes either new construction or renovation increasingly unattractive as compared to other kinds of investment. The Riverfront Development Program should promote a more favorable climate for change and can be considered the focal point for the housing effort.

<u>Changes in Commercial Activity</u>

The westward migration of Omaha's population and effective buying power has been accompanied by a similar movement in commercial activity. Evidence of these changes can be otained by examining the rapidity of retail store movements since

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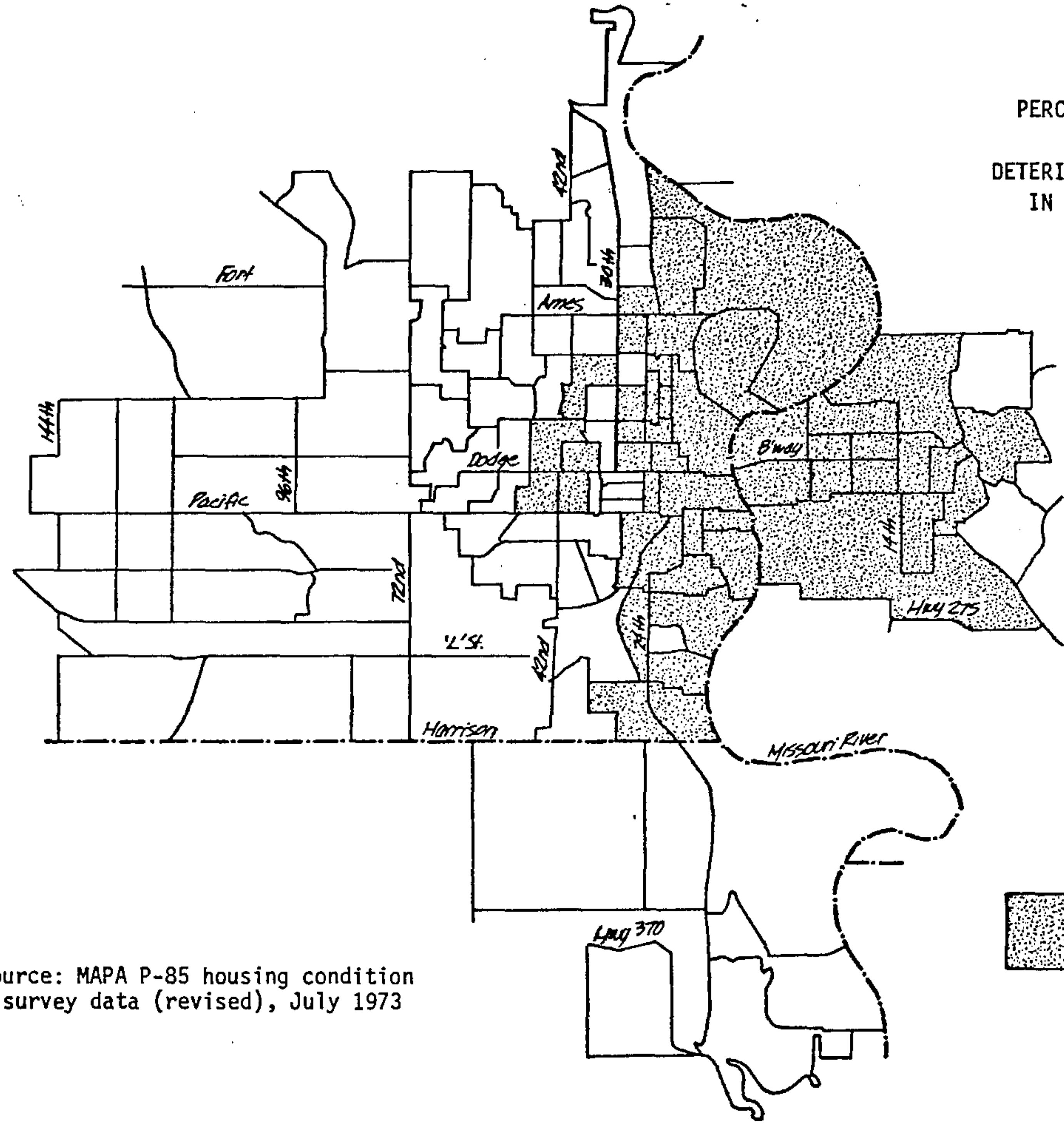
[7]Calculated by multiplying the 1970 East Omaha total value (land plus improved value) by the difference in growth rates (24.57 percent) to obtain the dollar value not realized. The total $153,643,849 was then multiplied by .35 (the statutory assessment rate), divided by $1,000 and then multiplied by the average millage rate (1970-1973) of $96.41.

[8]A 1960-1970 comparison of the extent of deteriorated and dilapidated housing units was limited by methodological differences between the two surveys. However, a substantial amount of deterioration was also evidenced in 1960 - with the inner portion of the urban area being the primary area of deterioration.

MAP III

PERCENT OF HOUSING UNITS
CLASSIFIED AS
DETERIORATING AND DILAPIDATED
IN URBAN CENSUS TRACTS,
OMAHA SMSA: 1970



10 percent and over

source: MAPA P-85 housing condition
survey data (revised), July 1973

1970. Sixty-one percent of all retail stores in Omaha were located east of 42nd Street in 1970. By 1973, this had declined to 51 percent. Map IV presents these changes by six subareas.

Southeast Omaha has suffered the highest mortality rate; particularly in the Central Business District and in the major retailing center in South Omaha (bounded by: "K" Street, 23rd Street, "Q" Street, and South 25th Street). For the 1970-1973 period, Southeast Omaha was characterized by a net reduction of 109 retailing establishments (i.e., 36 per year). The only other section losing establishments was Northeast Omaha (62 for the three year period). On the basis of the average dollar sales per store over the period, the loss of 171 firms is equivalent to $57,000,000 per year in lost sales that could have been generated under favorable market conditions.

Summary

The deteriorating sections of the RDP have typically been well-defined with most sections of eastern Omaha and western Council Bluffs either classified as potential areas of blight or blighted. Old housing units, high vacancy rates, a relatively high incidence of deteriorated and dilapidated units, and an overall weak economic base have all been associated with these areas. In both social and financial terms, there are strong arguments for undertaking substantial public investment (e.g., through the provision of special incentives) to attract housing, commercial, and industrial investment back to the declining areas of the RDP.

SECTION FOUR
RECOMMENDATIONS

Need for Fundamental Property Tax Reform

All acknowledge the need to replace obsolete and decaying buildings and equipment. Yet current tax provisions in both Nebraska and Iowa tend to have the opposite effect and impede progress in the replacement of older buildings and equipment. If the intention of local laws is to encourage obsolete structures while penalizing the new, our current tax system is well-suited to the purpose. Whether or not the tax system was designed with this purpose in mind, both Nebraska and Iowa tax machinery and, further, both place higher taxes on newer and better buildings and equipment. In addition, the individual who would seek to shift from a poorer to a better quality house or business property cannot do so without paying more towards the cost of government. The tax on buildings discourages maintenance and modernization; partly because of the realities of assessments as made and partly because of what people believe the assessor will do with respect to future assessments.

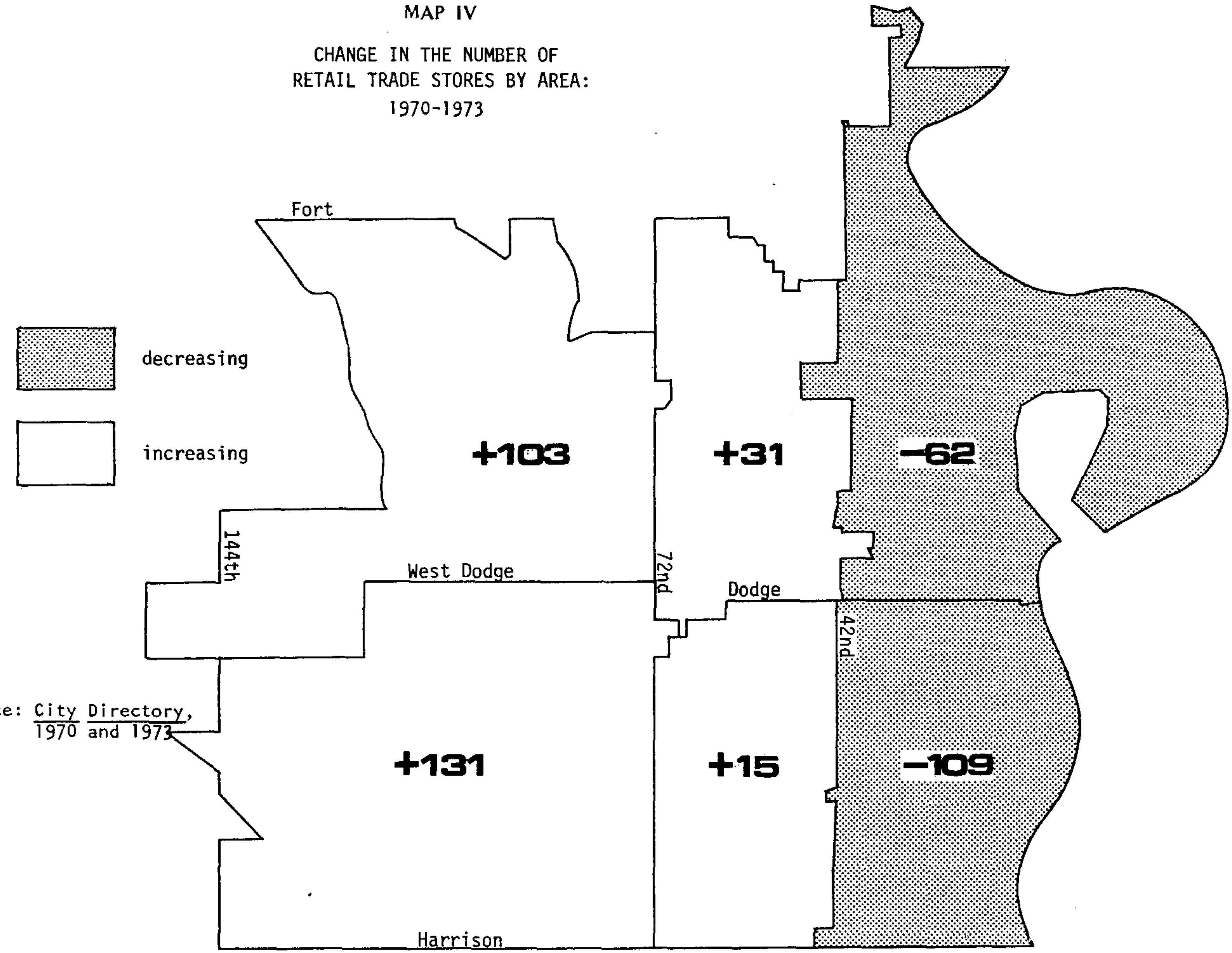
Not only does the tax system discourage improvements, it also favors horizontal over vertical growth within the community. The resulting land use then imposes higher costs on the whole community. These costs can be measured in: time and money spent traveling greater distances from home to work, recreational and educational facilities; larger expenditures associated with supplying water, sewer, and utility services; and, overall, reductions in the economic and social benefits of a concentrated population.

Recommendation: Make land the base for more of the property tax.

Several benefits would result from shifting the tax burden away from improvements and machinery and towards land. First the tax element of housing costs would drop most notably on newer and better quality buildings. The

MAP IV

CHANGE IN THE NUMBER OF
RETAIL TRADE STORES BY AREA:
1970-1973



source: City Directory, 1970 and 1973

relief for deteriorating and obsolete buildings and production equipment would be slight. Lowering the tax on improvements would increase the attractiveness of such investments, and market processes would operate to accelerate the process of renewal. Certainly, modernization of existing facilities would become more attractive.

The proposed change would hit those landowners who have sacrificed other investment alternatives particularly hard. Therefore, it is recommended that a transition period of five to ten years be instituted to permit a gradual adjustment. As for the future, the tax on land values above their present levels would carry little extra burden, except owners of land and their heirs would receive less "unearned increment" from rising land values.

The heavier tax would force owners to make more effective use of land. The speculator would face new conditions, generally increasing the inducement to put land to a use more nearly approaching that which market demand suggests as most productive. Overall, heavier taxation of land coupled with lower taxes on improvements would reduce "urban sprawl". New possibilities of, and incentives for, compactness would appear throughout the area, and one could expect more intensive use of the central area of the city. In attracting new capital, the first communities to shift have the advantage over those acting later. As more localities offer the better attractions, less of each year's net new saving would be potentially available to any given locality.

A basic change of a major institution takes time, but useful short run changes can be made.

<u>Recommendation: Raise assessments on land to the level currently placed on improvements.</u>

This is a condition which according to the laws of Iowa and Nebraska should already exist. Enforcement of these laws would correct some existing inequities and encourage a more productive use of land, especially in the inner city.

Specific Industrial and Commercial Incentives

Of all state and local taxes, the personal property tax on business is acknowledged to be the most discriminatory. Not only is it difficult to administer because much of its base is mobile, but it bears no identifiable relationship to either the taxpaying ability of a business firm or to the benefit it derives from governmental services. Deemphasizing the personal property tax is perhaps the most significant step that can be taken to improve both the business tax climate and business tax structure in Nebraska and Iowa.

Recommendation: The personal property tax on machinery, equipment, and inventories should be eliminated.

Presently, Nebraska law (LB-1241) provides for the gradual exemption of 62 1/2 percent of the actual value by January, 1977 for the following classes of property:

(1) agricultural income-producing machinery and equipment

(2) business inventory

(3) livestock

(4) feed, fertilizer, and farm inventory

(5) grain and seed

(6) poultry, fish, honey bees, and furbearing animals.

Iowa law presently provides an exemption of the first $2,700 of assessed taxable value of machinery and equipment and manufacturer's inventories. Both states presently provide a freeport tax exemption on goods in transit.

The Iowa senate has recently passed a plan to eliminate the personal property tax completely. The bill provides for a 10 percent annual reduction in personal property tax levies for each year that the state's growth in revenue exceeds 5.5 percent. The 5.5 percent revenue growth constraint was added to allow the state treasury to absorb the lost revenue. The passage and signature of this bill by the governor of Iowa, and the adoption of a similar plan by Nebraska would strengthen both the business tax climate and business tax structure in each state.

Recommendation: Allow a sales/use tax exemption on new industrial machinery and equipment.

The present law in both states imposes a relatively heavy burden, especially upon capital intensive firms, during the initial set-up period. There are several objections to levying the sales/use tax on machinery and equipment. (1) When goods used in production are taxes as well as the final product, an element of multiple taxation of the same consumer expenditure is introduced. The tax does not constitute a uniform percentage of consumer expenditures, since some goods require more taxable producers goods than others, per dollar of sales. (2) The tax affects the choice among various methods of production, since the tax liability is not uniform with all methods, therefore causing loss of efficiency in the production processes. Replacement of old equipment will be delayed. Taxation of such equipment, in effect, places a tax penalty on investment. Virtually all earlier state sales/use taxes were applied to industrial machinery and equipment. The noticeable trend, however, has been to exempt such machinery, The adoption of this tax exemption would make the RDP area competitive with 26 other states in attracting industrial investment.

Recommendations with Emphasis on Low-Income Areas. The following two recommendations are offered as methods of facilitating industrial investment in the low income and deteriorating areas of the RDP.

Recommendation: Establish a state or local Loan "Guarantee" Program.

A government Loan "Guarantee" Program would provide many small firms, especially minority owned, an opportunity to begin operations in underdeveloped areas. At the current time, neither state nor local governments in Iowa or Nebraska have incentives for establishing industrial plants in high-unemployment and deteriorated areas. Neither do they have loan guarantees for equipment, machinery or building construction.

If locally operated, the finance authority would use local funds to guarantee industrial and commercial mortgages made by private lenders. For the guarantee the firms would pay a fee (e.g., 3/4 of one percent of the outstanding mortgage balance) to the local finance authority. These revenues would be used to replenish the reserve pool in the event that payments are made from the fund due to defaults.

Recommendation: Assemble parcels of property (LB-73) and make such land available at no charge to suitable industrial firms willing to locate plants in the low-income and deteriorated areas of the RDP.

Since few of the firms expressing plans to expand during the 1971-1975 period indicated a willingness to locate in the central city, special incentives such as free land offers will add to the attractiveness of inner-city sites in the low income and deteriorated urban areas of the RDP and, at the same time, provide a better utilization of urban land.

Commercial Investment and the Condominium Concept. Regarding the condominium concept, the current shopping center redevelopment activity occurring in the CBD of Council Bluffs, Iowa is somewhat indicative of the opportunity in this direction. There is need for a bolder approach in the Omaha CBD. With its fractured ownership, very little has been and can be accomplished in the way of innovative rehabilitation.

Recommendation: Rehabilitate existing commercial structures by using the condominium concept.

To facilitate commercial investment property owners in the deteriorating and low-income areas can be joined together into nonprofit organizations to provide such things as off-street parking areas and to remodel their group of stores towards a single theme, e.g., wood shingle facade Western-Motif. It is also recommended that through (LB-73), property for shopping sites be acquired for joint venture development with the city, contractors, and tenants.

Housing Recommendations

The following recommendations are based on the primary objective of increasing the amount of housing investment into the RDP area - particularly the low-income and deteriorated areas of the RDP. To achieve long-run success, not only should better housing for low-income families be provided, but incentives should be aimed at attracting middle and upper income individuals and families back to the deteriorating areas of the RDP. Regarding the latter, interest in the deteriorating portions of the RDP, particularly the inner city area, will best be stimulated by successful riverfront development activities. A recent study by the Urban Land Institute concludes that interest among middle and upper income residents in living in the central city is two to three times greater after a successful downtown renewal project.

Securing Financial Support from the Private Sector. Since most housing purchases are financed by long-term loans secured by mortgages, it is imperative that a source of funds be available to low-income (i.e., high credit risk) families. Local financial institutions have no apparent economic incentives to provide funds to low income families.[9] On the federal level, the FHA mortgage insurance and Veteran's loan guarantee programs have operated to aid many middle income families in obtaining low down payments and longer terms on mortgages but,

[9]See: J. L. Carrica, The Mortgage Lending Practices of Financial Institutions in Douglas County, Nebraska (Omaha, Nebraska: College of Business Administration, Creighton University, 1972).

to date, this has not directly helped many low-income families. Evidence of this can be found in the limited financial support that local financial institutions are currently providing low-income families. The following four recommendations are based on the premise that local financial institutions should be given greater incentives to provide financial assistance to low-income families in both the purchasing and repair of homes.

Recommendation: Local governments should examine a program of purchasing CD's from banks which agree to use such funds on an interim basis to provide housing and repair loans to low income families.

Recommendation: Provide a tax credit against the state income tax on incomes earned by financial institutions in providing housing loans to low-income families or exempt income from the state income tax earned in connection with making housing loans to low-income families.

Recommendation: Expand the Loan "Guarantee" Program (see industry recommendation) to guarantee loans provided by financial institutions to low-income families.

Recommendation: Local governments should investigate the feasibility of providing a pool of funds that would be made available at low rates of interest to non-profit organizations such as the Urban Housing Foundation making loans to low-income families.

Until basic changes are made in the property tax structure, there is need for providing the necessary stimulus for encouraging development and improvement of the deteriorating areas, as well as for attracting middle and upper income families to rent and purchase in the area.

Recommendation: Residential real estate values on improvements in the deteriorating areas of the RDP should be frozen to encourage improvements in the existing housing stock.

Prior to a tax freeze, there should be a reassessment of all properties located in the low-income and deteriorated areas of the RDP. The failure to reassess property downward, in line with depreciating capital values, undermines the ability of owner-occupants to retain ownership; and consequently places financial pressure on the areas' most stable households. The inequality of tax levels among the neighborhoods[10] may contribute significantly to deterioration and blight.[11] In those areas where property taxes account for a large percentage of gross income, the chance to generate a substantial positive cash flow from properties has been effectively destroyed. As a result, there are no purchasers of property in these neighborhoods, except at prices which approach 1 to 1.5 times annual gross rents. Existing owners are unwilling to absorb the capital loss that sales at these prices imply, and the investor is reluctant to invest further in the property.

Recommendation: For developers who will agree to construct apartment complexes in the designated areas, local governments should consider the feasibility of a tax abatement program.

One such program would be where the builder would pay no taxes during the project's first two years (i.e., construction period) and then would pay taxes in increments of 20 percent every two years thereafter until he is paying the full 100 percent of the tax assessment on the project ten years after the building is completed. In return for this substantial tax break (estimated to account for about 30 percent of the rent dollar in the early years), the builder must agree to pass along the tax savings in the form of lower rent to the tenants.

Pilot Programs and LB-73. With the recent passage of LB-73 (Land Reutilization Act), there is a starting point for a renewed attack on Omaha's deteriorating areas.

Recommendation: Provide contiguous parcels of property to private developers for the development of low and middle income condominium apartments.

Recommendation: Provide vacant lots at no cost to interested persons who have the ability, financial capacity, and expressed willingness to contract to build a new home on the property.

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[10] For a discussion of inequality of taxes in Omaha, see: Ralph H. Todd, An Analysis of Effective Property Tax Rates in the City of Omaha, (Omaha, Nebraska: University of Nebraska at Omaha, Center for Applied Urban Research, 1972).

[11] See: Department of Housing and Urban Development, A Study of Property Taxes and Urban Blight, (Washington, D. C.: Government Printing Office, 1973).

The recipient must pledge to occupy the house for a period of two to three years at which time he would be given an unconditional title to the land.

Recommendation: Allow vacant and abandoned housing structures to be sold for a minimum amount (e.g., $1.00), with a pledge that the buyer rehabilitates and occupies the house for a period of five years.

At the end of the five year period, the buyer would be given an unconditional deed and the house would be returned to the tax rolls. This experiment, currently being carried out in Philadelphia and Wilmington, Delaware can be thought of as an urban version of the Homestead Act, designed to resettle the the inner-city by attracting families to abandoned houses.

General Revenue Sharing. General revenue sharing funds provides the means for greater public investment in housing in the low-income and deteriorated areas of the RDP.

Recommendation: Local government should use general revenue sharing funds to help operate, maintain and expand the amount of available public housing.

The appropriation of revenue sharing funds to be used for the improvement of housing conditions of the poor and the elderly is both encouraged and is permissible under the GRS Act.[12]

Recommendation: The Omaha Housing Authority should pursue the ownership concept by studying the feasibility of converting rental apartment units to condominium units.

As previously stated in this paper the most basic variable which accounts for variation in maintenance of deteriorating property is the factor of ownership. If financial assistance is made available through GRS funds, some low-income families can be given both the opportunity and responsibility of home ownership.

Outreach Programs. Efforts to improve the housing stock in the deteriorating areas of the RDP will be facilitated by increased communications with those most in need.

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[12] ReveNews, (Washington, D.c.: Department of the Treasury, Office of Revenue Sharing, August, 1973).

Recommendation: Local governments should establish outreach programs. Specifically, a failure to inform potential recipients of available subsidies, pilot projects, and new sources of financial aid will retard development efforts. Educating low income persons on the benefits of home-ownership should also be a goal of the outreach program.

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