



The Pennsylvania League of Cities and Municipalities



*A Century of Commitment*

Pennsylvania League of Cities and Municipalities

Testimony on Senate Resolution 363

Before the

Legislative Budget and Finance Committee

Presented by:

The Honorable Rick Vilello, Mayor, City of Lock Haven  
PLCM Legislative Committee Co-chair

May 6, 2009

Good morning Chairman Pippy and members of the Legislative Budget and Finance Committee. I am Rick Vilello, Mayor of the City of Lock Haven and a Co-chair of PLCM's Legislative Committee. On behalf of the Board of Directors and membership of PLCM, thank you for the invitation to comment on the findings of Senate Resolution 363. I would also like to thank the Committee staff for the time and effort that went into completing this study.

Last July, PLCM asked Senator Mellow to introduce Senate Resolution 363. This was at the height of the budget debate and our work on Representative Freeman's bill, House Bill 2018, was not proving successful. We thought that perhaps a study of the tax-exempt issue would help to solidify our argument for Commonwealth assistance in offsetting the burden of a concentration of tax-exempt properties within our members' borders. As you recall, Representative Freeman's proposal would have used the tax revenue from the Johnstown Flood Tax, approximately \$240 million per year, to provide reimbursement to communities with the highest percentage of tax-exempt property. This proposal was so attractive to our members because of its promise of a reliable infusion of funds for local government based on the percentage of tax-exempt property. These funds would be stable and used as needed within a community. Unfortunately, Representative Freeman's proposal, no matter how beneficial to local needs, could not be accomplished given the budgetary demands faced by the Commonwealth.

As you are aware, the Commonwealth is not the only level of government faced with mounting budget concerns. Local governments are also dealing with a severe financial crisis. Bankruptcy is not a far fetched outcome for a number of our cities and older boroughs if action is not taken at the state level in the near future. In requesting this study, we were not blaming tax-exempt entities for the local financial crisis. The impact of tax-exempt entities is just one of a number of factors contributing to what we believe is a structural defect in the way local government is to operate. Some of the other factors contributing to distress are limited taxing options and shrinking tax base, increased personnel and pension costs, and increased service costs.

Before commenting on the study, there are a few general points regarding tax-exempt entities and municipal taxes that I believe are important to make. All tax-exempt entities – universities, churches, hospitals, cultural and educational venues are an important part of the make-up of our communities. No city or borough wants to see their hospital, university, or museum move to another municipality. The importance of these entities combined with their tax status is an issue because municipalities are so reliant on the property tax to pay for public services. This reliance means that municipalities have little choice but to place more of the burden on the owners of taxable property to make up lost revenue. In our urban centers, the burden is particularly great because the majority of residents are those that can least afford it – senior citizens and/or low-income families.

Getting back to the study, we would like to share our perspective on several of the findings. The first is the initial conclusion that there is no reliable, comparable data on tax-exempt properties and their value. This outcome is disappointing, but certainly not surprising. With 67 counties

operating under a different set of rules for assessing tax-exempt property – if assessing it at all – reliable data is just not available. This fact makes it very difficult to apply a formula based on the percentage of tax-exempt property on a statewide or even countywide basis. Not knowing the true value of a tax-exempt property prevents us from knowing what a tax-exempt property would have to pay in taxes, if it were taxable. In other words, within our current property assessment structure, we cannot with confidence extrapolate just how much property tax revenue is being lost. Without some idea of this number, we are unable to compare the amount of payments and contributions made by tax-exempt entities to the amount of tax that would be owed. We believe that this is a valid comparison that should be made if data were available. This outcome narrowed the scope of the study to a great extent.

Another finding that is noteworthy from our perspective is that the majority of tax-exempt properties are held by government or religious organizations. This conclusion does not lessen the fact that municipal services are needed for government building and employees and for religious entities and their parishioners. A school district, its students, parents and teachers look to the host municipality for services. A county seat provides services to the courthouse and other users of county services. State and Federal buildings and their employees are also beneficiaries of municipal services. If anything, this finding bolsters our argument for additional revenue options.

The heart of the study concentrated on public and private universities and non-profit hospitals and the payments and contributions they make to their host communities. The conclusion that universities and hospitals have developed a variety of approaches to help their host communities,

while clearly true from the amount of examples does require a couple comments from the municipal perspective. First, many of these payments are voluntary based on the entity and its desire to make monetary or in-kind contributions. Such payments cannot be relied upon as a revenue source. One could argue that some of the contributions also benefit the university or hospital. For example, support for economic development and revitalization initiatives not only help the community, but also help in recruiting perspective students and employees. Second, many payments and contributions are for regional projects. These projects are beneficial to the region served by the tax-exempt entity, but are not a direct revenue payment to the host municipality. Third, we think that it is necessary to set aside the examples of payments that are also made by citizens and businesses of a municipality. Real estate taxes on taxable property, water and sewer fees, building permits, trash collection fees, and other payments should not be part of the mix for this discussion because tax-exempt entities are required to make such payments right along side other residents. So while there are many examples of non-profit payments or contributions, they are voluntary and cannot be considered a reliable source of revenue.

Finally, the study spends a good deal of time listing different sources of municipal revenue including Act 511 taxes and payments received from the Commonwealth. The first point I would like to make is that the Act 511 taxing structure is by-in-large our biggest problem. The taxes that local government is allowed to levy under Act 511 are outdated and inflexible. They do not reflect the vast differences in local governments across the Commonwealth. It's a one size fits all approach that may have worked in 1965 when Act 511 was enacted, but it does not work for today's local governments or its citizens that expect a certain level of municipal service.

Another important point needs to be made regarding revenue payments from the Commonwealth. Revenue from various programs is important, but it is for the most part dedicated to a very specific purpose. The liquid fuels funds, foreign fire insurance taxes for pension aid, recycling grants, property tax relief through gaming revenue, and the property tax or rent rebate program are examples of such payments listed in the study. Again, these payments, while relied upon by local government do not provide and are not meant to provide municipalities with revenue to offset the loss of revenue from tax-exempt properties. Moreover, liquid fuels payments, pension aid payments and recycling grants have decreased over time because revenue formulas have not been revised to reflect inflation or there has been an increase in the number of municipalities eligible to receive these funds.

In recognizing the need to stabilize municipalities in fiscal distress, the study concludes with several possible solutions – mandating PILOTs; distributing state revenue to municipalities; mandating a service fee payment for services; and sharing regional revenue from a local sales tax. Given the budget crisis at the state level, redirecting state revenue to municipalities is not a viable solution. Mandating payments either in the form of a PILOT or service fee from non-profits is a last resort solution for PLCM. We would much rather have the non-profit community as an ally in helping to turn our communities around. Requiring such payments would detrimental to such a relationship. The final solution, a regional sales tax, is a viable solution that PLCM has been working on with the four other municipal associations since the end of last year.

The proposal that we developed in partnership with the County Commissioners Association, the State Association of Township Supervisors, the State Association of Boroughs and the State Association of Township Commissioners was based on the work of the Lehigh Valley model mentioned in this study. Our proposal takes the idea of an optional county sales tax statewide and provides revenue for county and municipal general funds, as well as for property tax reduction and regional shared services.

The key component of the plan is enabling legislation that would permit counties to levy a one percent sales and use tax, on the same base as the state sales tax. Fifty percent of the proceeds from the tax would be distributed to the county, 40 percent of the proceeds would be distributed to qualified municipalities in the county by a formula based on tax effort and relative population, and the final 10 percent of the proceeds would be deposited in a Municipal Collaborative Efforts Fund in the county.

In the first year, counties would be required to use at least 60 percent of the sales tax proceeds for property tax reductions and offsets. Municipalities would also be required, in the first year, to use least 60 percent of the sales tax proceeds for property tax reductions and offsets. For both counties and municipalities, the first dollar of property tax reductions would be through the homestead exclusion, giving the most immediate and most direct benefit to our homeowners.

The funds deposited in the Municipal Collaborative Efforts Fund would provide a dedicated, stable and direct source of funding for collaborative service delivery at the local level. The Fund would be governed by a board comprised of municipal officials in the county, which would administer the funds through an annual grant process. Eligible projects and services are those

organized under an Intergovernmental Cooperation Act agreement or other multi-municipal contract.

All five associations are putting forth a concerted lobbying effort this spring with the goal of having this proposal included in the budget package this summer.

In conclusion, it is important for me to point out again that the amount of tax-exempt property in a municipality is only one of several factors inhibiting fiscal stability. From PLCM's perspective, new revenue options at the local level must be part of the solution to dealing with the structural defect that is undermining financial security. Of the options for municipal revenue presented in the study, the regional one percent sales tax is most promising. It regionalizes the tax base and redistributes revenue on an equitable formula; it is a minimal tax that would be paid by residents and non-residents alike who choose to purchase goods; it makes a significant reduction in county and municipal property taxes and provides a substantial and reliable source of funding for municipalities and encourages the option of sharing services through municipal grants.

Thank you again for this opportunity. I will be happy to answer your questions.