



HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 712

PRINTER'S NO: 3953

PRIME SPONSOR: J. Taylor

FISCAL IMPACT SUMMARY	FY 2009/10	FY 2010/11
Estimated Expenditure Increase/(Decrease):		
General Fund	\$0	\$0
Local government ¹ funds	\$0	\$0
Estimated Revenue Increase/(Decrease):		
General Fund	\$0	\$0
Local government ¹ funds	\$0	\$0

¹See Overview for details on which local governments are eligible.

OVERVIEW:

This free-standing bill enables certain local governments to create corporate entities known as land banks for the purpose of acquiring vacant and tax delinquent properties and turning the properties into productive uses, which may involve improvements, demolition, construction, rehabilitation, and selling the properties on the market.

Land banks may be created by the following:

- counties or cities as defined by the Urban Redevelopment Law (1945, P.L. 991, No. 385), as amended, which includes, by definition in the Urban Redevelopment Law, all cities and any borough with a population large enough for the borough to qualify for a charter as a city pursuant to §201 of The Third Class City Code (1931, P.L. P.L.932, No.317), as amended. The Third Class City Code enables boroughs with populations 10,000 or over, according to the last United States Census, to recharter as a third class city.
- Intergovernmental Cooperative Agreements among counties, cities, and boroughs with populations of 10,000 or more.
- Intergovernmental Cooperative Agreements between a county, city, or boroughs with populations of 10,000 and any one or more municipalities.

There are 67 counties, 56 cities, and 958 boroughs in Pennsylvania, according to data from the Department of Community and Economic Development. The Pennsylvania Manual lists 33 boroughs with populations 10,000 or more, based on the last published U.S. Census (2000): Baldwin (Allegheny), Berwick (Columbia), Bethel Park (Allegheny), Brentwood (Allegheny), Carlisle (Cumberland), Chambersburg (Franklin), Columbia (Lancaster), Darby (Delaware), Dunmore (Lackawanna), Elizabethtown (Lancaster), Emmaus (Lehigh), Ephrata (Lancaster), Franklin (Allegheny), Hanover (York), Indiana (Indiana), Kingston (Luzerne), Lansdale (Montgomery), Lansdowne (Delaware), Monroeville (Allegheny), Morrisville (Bucks), Munhall (Allegheny), Murrysville (Westmoreland), Norristown (Montgomery), Phoenixville (Chester), Plum (Allegheny), Pottstown (Montgomery), State College (Centre), West Chester (Chester), West Mifflin (Allegheny), Whitehall (Allegheny), Wilksburg (Allegheny), Wyomissing (Berks), and Yeadon (Delaware).

If a qualifying local government, as defined above, on its own or as part of an intergovernmental cooperative agreement, chooses to establish a land bank, the bill further sets parameters for its board, staffing, powers, finances, borrowing, public records, meetings, etc. The actual membership of boards will depend upon how each qualifying municipality decides to structure the board within the parameters of the bill, which requires an odd number of members but no less than five or more than eleven. Board members are prohibited from receiving compensation but may be reimbursed for expenses.

In order to incorporate, the governing body of the land bank must pass an ordinance or resolution creating such a land bank, and a certified copy of the local ordinance or resolution must be filed with the Department of State and the Department of Community and Economic Development (DCED), and the Secretary of the Commonwealth must issue a certificate of incorporation provided the ordinance or resolution contains the information enumerated in the bill.

Land banks are limited to operate within the jurisdictional borders of the local governments that created them, and county land banks may not operate within the jurisdictional boundaries of a land bank of a municipality within the county.

Land banks may generate their own revenue through acquisition and selling of properties, accepting funding from public and private entities, renting properties, fixing fees and other charges for use of their properties and services, and generally investing in securities, properties, or other instruments determined proper by the board. It may accept the transfer or donation of properties from the Tax Claim Bureau, other entities, or persons

The bill gives land banks the power of issuing bonds, and investor income from the bonds is tax exempt.

The bill further provides that school districts may participate in a land bank pursuant to an intergovernmental cooperative agreement, and delinquent tax claims against a property can only be extinguished with the permission of the school district.

Other than the exception for school districts, the bill establishes procedures for land banks to discharge property taxes owed and claims against properties acquired by the land bank. The bill also establishes procedures relative to acquisition of properties pursuant to the Real Estate Tax Sale Law (1947, P.L. 1368, No. 542) and the Municipal Claim and Tax Lien Law (1923, P.L.207, No. 153). Furthermore, local governments may grant up to five years and fifty percent of the property tax revenue from properties improved and conveyed by the land bank to a third party. School districts may also grant the same.

The bill provides for an expedited procedure for the land bank to quiet titles of properties, requiring the court to schedule a hearing within ninety days and to render a decision within 120 days of the filing of the complaint by the land bank.

Properties owned by the land bank are exempt from all taxation of the Commonwealth and its political subdivisions except for those properties held for more than five years and leased to a private third party.

Land banks are subject to Chapter 65, Title 7, Pa.C.S. (relating to open meetings), and the Right-to-Know Law (2009, P.L.6, No.3).

Land banks are prohibited from exercising the power of eminent domain.

The effective date is immediately.

ANALYSIS:

The provisions of this bill only become activated if a qualifying jurisdiction chooses to exercise the option of creating a land bank. If no municipality or county decides to exercise this option, then there is no impact to this bill. A school district cannot by itself create a land bank but may participate in a land bank through an intergovernmental agreement.

Assuming some jurisdictions exercise their option to create land banks, the fiscal cost to state government is minimal. Filing with the Department of State has only minimal costs, and the Department will likely charge a \$125 filing fee for the certification of incorporation pursuant to §618-A of the Administration Code (1929, Act No. 175) and authorized by §153(c), Title 15 (Corporations and Unincorporated Associations), Pa.C.S. It is anticipated that the fee will more than adequately cover its cost of issuing the certificate.

Likewise, filing with the Department of Community and Economic Development has minimal costs. Unlike the Department of State, DCED does not need to issue a certificate and has, therefore, only filing costs, which will easily be absorbed by its current resources.

The bill specifies courts may be required to hold hearings to quiet titles in an expedited process. The courts will charge filing fees pursuant to authority given to the courts as follows: §1725, Title 42 (Judiciary and Judicial Procedures), Pa.C.S., for Philadelphia, Act 85 of 1982 for Allegheny County, and for the remaining counties, Act 203 of 1982 and Act 164 of 1998. The cost for Philadelphia County is \$321.48, for Allegheny County, \$128.50 plus \$11 per defendant, and it varies for the other counties. In Dauphin County, for example, the fee would be \$145.50 or \$38.50 for the Commonwealth, and in Cumberland County, the fee is \$92. It is unlikely that the fee revenue for each county would cover the cost to the court, but the courts are supported by appropriations from the Commonwealth for their operations and this new procedure is just one of many proceedings the courts are charged with dispensing. Counties also appropriate funds for the courts.

Because this bill is optional, it would only impact those counties, municipalities, and school districts who voluntarily implement the provision of the bill to create a land bank. Any cost to the municipality would consist of normal expenses for running public meetings, printing and adopting resolutions or ordinances. The \$125 filing fee with the Department of State will presumably be paid by the county or municipality filing the paperwork for incorporation, but this is a relatively small one-time expense. Most or all expenses by the land bank will be paid for by the revenue received from the operations of the land bank and from donations and grants. Municipalities and counties may need to provide start-up funds to the land bank, or it may receive grants from other public or private entities to provide those start-up costs.

Local governments that do create land banks stand to benefit from additional property tax revenue if and when land banks can successfully convert dilapidated, non-revenue-generating properties into revenue generating properties. Furthermore, if a land bank is very successful in reversing urban decline in neighborhoods, enhanced property values may attract further investments and subsequently positively impact property and income tax revenue. These potential revenue benefits are speculative and unquantifiable.

Pursuant to provisions of the bill, local governments, including school districts, are at a very low risk at losing delinquent tax revenue. The intent of the bill is that land banks acquire the worst properties that private investors do not want. Because local governments are not receiving tax revenue from these properties, there is little lost by discharging taxes owed on the property. School districts, however, must approve any discharging of property taxes owed.

If the land bank is successful in turning a property to productive use, and the local government grants a sharing of the property tax revenue for five years, this agreement would be voluntarily entered into by the local governments. School districts may also choose to enter such an arrangement. In both cases, the revenue being shared is new revenue from a property that previous to the acquisition by the land bank had not produced any tax revenue.

In summation, this bill provides an option to counties, cities, and boroughs with a population of 10,000 or more, and those municipalities and school districts that elect to enter into intergovernmental cooperative agreements with them. If the option is exercised, the cost to the Commonwealth and its political subdivisions would be minimal. The bill, however, has the potential of providing a tool for local governments to increase their revenue bases by converting blighted, non-revenue-generating properties into improved and revenue-generating properties. It is not possible, however, to quantify the potential new revenue.

The following sources were used in the preparation of this fiscal note: the Department of Community and Economic Development, the Department of State, the House Committee on Urban Affairs, the Administrative Office of Pennsylvania Courts, the Legislative Reference Bureau, and the Courts of Common Pleas of Allegheny, Cumberland, Dauphin, and Philadelphia counties.

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General Note and Disclaimer: *This Fiscal Note was prepared pursuant to House Rule 19(a), and the elements considered and reported above are required by Section 5 of the rule. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*