



# HOUSE COMMITTEE ON APPROPRIATIONS

## FISCAL NOTE

HOUSE BILL NO. 1177

PRINTERS NO. 3931

PRIME SPONSOR: Lucas

### COST / (SAVINGS)

FUND	FY 2014/15	FY 2015/16
General Fund	\$0	\$0
Allegheny County Airport Authority Funds	(\$200,000 to \$300,000)	(\$200,000 to \$300,000)
County Funds	See "Fiscal Impact"	See "Fiscal Impact"
Municipal Funds	\$0	\$0
School District of Philadelphia Funds	See "Fiscal Impact"	See "Fiscal Impact"

**SUMMARY:** Amends Title 53 (Municipalities Generally) regarding a referendum on formation of a local government study commission; allows Airport Authority Boards in a Second Class County to invest in commercial paper; authorizes an additional 2% hotel tax in York County; authorizes an additional 2% hotel tax in Schuylkill County; authorizes Washington County to impose an additional 2% room tax; creates an appeal process for the creation of charter schools in a first class school district; and authorizes the school board of a first class city to impose an optional local cigarette tax.

**ANALYSIS:** This legislation amends Title 53 regarding a referendum on formation of a local government study commission to study consolidation or merger of municipalities and how the study commission is to be funded; allows Airport Authority Boards in a Second Class County to invest in commercial paper; authorizes an additional 2% hotel tax in York County; authorizes an additional 2% hotel tax in Schuylkill County; authorizes Washington County to impose an additional 2% room tax; creates an appeal process for the creation of charter schools in a first class school district; and authorizes the school board of a first class city to impose an optional local cigarette tax.

**Consolidation/Merger of Municipalities:** The legislation clarifies that it must be determined in the affirmative by the majority of the whole of those voting in the municipalities impacted by the consolidation or merger. The legislation also clarifies that if the majority of the whole in the municipalities considering the question vote in the negative, the commission will not be formed.

This legislation also establishes that municipalities which do not vote in favor of the referendum shall not be liable for any costs of the study commission if the referendum is passed by a vote of the whole.

The legislation changes Section 735.1(a) of Title 53 to require that the estimated cost of the study commission shall be within the contents of the petition as well as the following statement: "Only municipalities voting in the affirmative on the question shall be held responsible for the costs of the study commission." The legislation also changes Section 735.1(d)(3) to clarify that the new statement

within Section 735.1(a) shall be submitted to the electors of each of the municipalities proposed to be consolidated or merged at the next election.

**Investments by Airport Authority:** This legislation amends the Municipality Authorities Act to expand the authorized types of investments available to authorities, by adding a new section that allows airport authorities in a second class county to invest in commercial paper rated in the highest rating category.

**Hotel Taxes:** The legislation amends specific local hotel room tax laws applying to three specific counties, in new sections as follows:

- Section 8722 allows York County to impose a 2% room tax. The section does not repeal the county's current 3% tax allowed under Section 1770.2 of the County Code, effectively authorizing a total room tax of 5% between the two sections.
- Section 8723 allows Schuylkill County to levy an additional 2% to its current 3% maximum hotel room tax authorized under Section 1770.6 of the County Code.
- Section 8724 allows Washington County to impose a 2% room tax.. This section does not repeal the county's current 3% tax allowed under Section 1770.6 of the County Code, effectively authorizing a total room tax of 5% between the two sections.

**Charter School Appeal Process:** The legislation was amended to create a new Section 303, "Appeal of Decision by Board of School Directors," which provides that, notwithstanding Section 696(i) of the Public School Code of 1949 or any other provision of law to the contrary, a charter school applicant may appeal a decision of a school reform commission to deny an application to establish a charter school in a school district of the first class to the charter school appeal board established under Section 1721-A of the School Code. Further, Section 303 provides that the following provisions of Section 1717-A of the School Code shall apply to an application to establish a charter school in a school district of the first class:

- Subsection (a), which sets forth who may establish a charter school.
- Subsection (c), which sets forth the deadline for submission of an application for an upcoming school year.
- Subsection (d), which provides when a public hearing must be held and the amount of time that must transpire between a public hearing and the final decision on an application.
- Subsection (e), which provides when an application must be granted or denied.
- Subsection (f), which allows the appeal of a denied application to the charter school appeal board.
- Subsection (g), which allows an appeal where no action has been taken on the underlying application.
- Subsection (h), which provides that the charter school appeal board's decision to grant a charter serves as a requirement that school district officials sign the charter.
- Subsection (i), which sets forth the procedural requirements for an appeal.

**Local Cigarette Tax Option:** This legislation would allow a local option cigarette tax in cities of the first class. This allows a school district, when authorized by the governing body of a first class city (Philadelphia) to impose and assess an excise tax on the sale or possession of cigarettes at the rate of \$0.10 per cigarette. This tax will only be assessed on cigarettes currently subject to a levy under Article XII of the Tax Reform Code of 1971.

The Department of Revenue (DOR) is to be responsible for the administration and enforcement of the provisions of this new section. To help administer this new section, DOR is permitted to keep a portion of the funds collected as long as they do not exceed the actual administration costs. DOR must notify the School District monthly as to how much is being retained to cover costs, and to give an annual estimate on such costs.

Funds collected by DOR are to be placed in a newly created Local Cigarette Tax Fund in the State Treasury, which will also be the custodian of the fund. The Treasury is to distribute funds on a monthly basis to the School District on or before the 10th of each month.

Lastly, Section 8726 provides that any increase in grants to a school district of the first class based on debt service to be paid as authorized in Section 201-B(F)(1) of the Tax Reform Code shall not require a comparable increase in grants by the city in subsequent years.

**FISCAL IMPACT:** This legislation would have the following fiscal impacts:

**Consolidation/Merger of Municipalities:** The legislation would ensure that municipalities that vote for a local government study commission bear the cost of the study. Municipalities that do not vote in favor of the referendum shall not be liable for any costs of the study commission if the referendum is passed by a vote of the whole.

**Investments by Airport Authority:** The Allegheny County Airport Authority estimates that it could generate interest income of \$200,000 to \$300,000 on an annual basis if it were allowed to invest in commercial paper. This additional income would allow the authority to reduce gate fees for the airlines at the Pittsburgh International Airport.

**County Hotel Taxes:** The optional increase in county hotel taxes would generate the following approximate additional amounts per year (based on 2012 actual data from DCED) if levied at the full amounts:

- York County: \$1.06 million
- Schuylkill County: \$152,000
- Washington County: \$1.01 million

**School District of Philadelphia Optional Cigarette Tax:** According to the City of Philadelphia, an additional \$2 per pack tax on cigarettes is estimated to generate between \$70 million and \$90 million per year for the school district. Currently, there are approximately 650 million packs of cigarettes subject to tax in the Commonwealth. A revenue estimate of \$70 million to \$90 million assumes that between 5% and 7% of all cigarette pack purchases in the Commonwealth occur in Philadelphia. Philadelphia represents 12% of the population of Pennsylvania.

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*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*