

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 581

PRINTER NO. 2900

AMOUNT

See Fiscal Impact

FUND

Local Funds

DATE INTRODUCED

February 22, 2021

PRIME SPONSOR

Representative Solomon

DESCRIPTION

House Bill 581 establishes the freestanding Affordable Housing Unit Tax Exemption Act (act). The act provides local governments with the option to abate property taxes in order to encourage the development of affordable housing.

The legislation is divided into distinct chapters that authorize options for local taxing authorities to provide a property tax abatement according to specific uniformity exemptions enumerated in Article VIII (Taxation and Finance) of the Pennsylvania Constitution.

Chapter 1 – General Provisions

The bill defines terms necessary to implement the optional property tax exemptions, including the following key terms:

- “Affordable housing unit” - this term includes both multi-family and single-family dwellings.
 - For multi-family dwellings, this term is defined as a unit that is rent-restricted and occupied by an individual or family whose income is not more than 60% of area median income; and
 - For single family dwellings, this term is defined as a dwelling that is subject to deed restrictions and occupied by an individual or family whose income is no more than 60% of area median income.
- “Low-income taxpayer” - the bill defines a low-income taxpayer as a taxpayer whose income does not exceed the maximum annual income allowable for an eligible claimant to participate in the Commonwealth’s PACENET program.
- “Rent-restricted” - is defined as being the maximum rent an owner may charge for a unit that does not exceed 30% of the adjusted income of a family or taxpayer whose annual income is less than or equal to 60% of the area median gross income.

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Chapter 2 - Special Tax Provisions for Impoverished Pennsylvanians

Chapter 2 authorizes local taxing authorities to pass an ordinance or resolution that grants a refund or forgiveness of the real property tax liability of low-income families for that incremental part of a property tax liability resulting from a rate increase or an increase in the assessed value of a low-income family homestead after the effective date of an ordinance or resolution. Furthermore, Chapter 2 allows local taxing authorities to limit the maximum amount of real estate taxes that may be refunded or forgiven. This chapter implements section 2(b)(ii) of Article VIII of the state Constitution.

Chapter 3 - Creating and Improving Affordable Housing Units in Deteriorated Areas

Chapter 3 allows local taxing authorities to provide for property tax exemption incentives for new construction for, and improvements to, deteriorated areas of the Commonwealth for the purpose of creating and improving affordable housing units. This chapter implements section 2(b)(iii) of Article VIII of the state Constitution and is very similar to Act 61 of 2020.

Under the legislation, a local taxing authority may by ordinance or resolution exempt from real property taxation the assessed valuation of improvements to blighted properties for the creation of, or improvements to, affordable housing units and the assessed valuation of new construction within a deteriorated area, subject to certain conditions, limitations, previously affixed boundaries and at least one public hearing. Two or more municipalities may join together for the purposes of determining the boundaries of a deteriorated area and implementing the program.

Chapter 3 requires a local taxing authority granting a tax exemption under the legislation to provide for the exemption either on the assessment attributable to the actual cost of new construction or improvements or up to a maximum cost uniformly established by the municipality, in accordance with one of the following schedules:

- 1) 100% of improvements exempted in year one, 90% in year two and a reduction of 10% each year until the exemption is phased out after year 10;
- 2) 100% of improvements exempted in year one, 80% exempted in year two, and a reduction of 20% each year until the exemption is phased out after year five;
- 3) 100% of improvements exempted for three years, and then terminating; or
- 4) 100% of improvements exempted for 10 years, and then terminating.

Chapter 3 also contains provisions governing tax exemptions where there is a sale or exchange of property, requirements for repayment of the exemptions in instances where a taxpayer violates certain conditions, and eligibility criteria for applicants where local taxing authorities implement this program option.

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Chapter 4 – Creating and Improving Affordable Housing Units

Chapter 4 allows local taxing authorities to provide for tax exemption incentives related to an increase in value of real estate resulting from construction of affordable housing units or improvements to existing affordable housing units. This chapter implements section 2(b)(iv) of Article VIII of the state Constitution.

This chapter requires a local taxing authority granting a tax exemption under the legislation to provide for the exemption either on the assessment attributable to the actual cost of new construction or improvements for affordable housing units or up to a maximum cost uniformly established by the municipality, in accordance with one of the following schedules:

- 1) 100% exemption for year one and year two, then terminating; or
- 2) 100% exemption for year one, and 50% exemption for year two, then terminating.

Chapter 4 contains the same provisions as Chapter 3 with regard to a sale or exchange of property, repayment of the exemptions in instances where a taxpayer violates certain conditions, and eligibility criteria for applicants where local taxing authorities implement this program option.

This act shall take effect in 60 days.

FISCAL IMPACT:

House Bill 581 will have no fiscal impact on Commonwealth funds.

The legislation provides a process whereby local taxing authorities may exempt from real property taxation blighted properties that are significantly improved or new construction that occurs in deteriorated areas, thereby returning these properties to a higher or more productive use. Therefore, House Bill 581 provides an opportunity for communities to modernize, revitalize and grow, which may provide increased local tax revenues in future years by improving the local economy and moving blighted property and deteriorated areas back onto the tax rolls.

The Department of Community and Economic Development (DCED) has identified 208 municipalities that currently participate in either the LERTA program (Act 76 of 1977) or the Improvement of Deteriorating Real Property or Areas Tax Exemption Act (Act 34 of 1971), which are similar to the program established by House Bill 581. However, DCED does not capture data regarding the fiscal impact of the existing programs at the local level.