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Senate of Pennsylvania

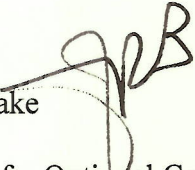
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CAPITOL PRESERVATION COMMITTEE
LOCAL GOVERNMENT COMMISSION

TO: All Senators

DATE: January 25, 2012

FROM: Senator John P. Blake 

SUBJECT: Property Tax Relief – Optional County Sales Tax

I will soon be introducing a bill intended to **reduce local reliance on property taxes by diversifying local sources of tax revenue; to mitigate the prospect for significant, property tax increases** in many of our counties and municipalities; and to provide incentive in the deployment of local public **funding for municipal collaboration and functional consolidation**. Counties will have the **option** of increasing the sales, use and occupancy tax by 1%, from the current 6% to 7%. Any and all incremental sales tax revenue generated as a result of this 1% increase will be apportioned to municipalities within said counties according to a specific revenue-sharing formula. Should an eligible county opt not to levy an increase, the sales tax increase may still be levied in said county if local municipal governments representing 60% of the county's population adopt ordinances that petition the county to levy the sales tax increase. In this latter case, only those municipalities that, by ordinance, petition the county for a sales tax levy are eligible for a share of the incremental tax revenue generated by the increase.

First and second class counties are excluded from the bill as state law **already permits Allegheny County** to levy an additional 1% and Philadelphia to levy an additional 2% sales tax for use within those jurisdictions.

Any incremental sales tax funds resulting from counties opting to levy it would be collected by the Department of Revenue and re-distributed by the Treasurer back to these counties -- and to the participating municipalities therein -- according to the following formula:

- 50% of proceeds are to be distributed to the county levying the sales tax;
- 40% of proceeds are to be distributed to qualified municipalities within the county (half based on tax effort and half based on relative population); and,
- 10% of proceeds shall be deposited into a Municipal Collaborative Efforts Fund within the county.

Each participating county must use a minimum of 60% of the sales tax revenues they receive for property tax relief and the elimination of nuisance taxes; and no more than 40% of the incremental sales tax revenue may be used for general fund purposes. Municipalities must also use a minimum of 60% of the revenues for property tax relief or tax-exempt property offsets; and no more than 40% may be used for general fund purposes.

The legislation also directs a percentage of total revenues to the Municipal Collaborative Efforts Fund. The fund would be governed by a Municipal Collaborative Efforts Board consisting of elected municipal officials from throughout the county. The Board will distribute the money by providing grants for multi-municipal collaborative initiatives such as sharing of equipment, road maintenance, joint purchasing, joint fire or police protection, uniform construction code enforcement, flood control, storm water management, emergency management services or snow removal.

The impetus for this legislation is clear: too many of our counties and municipalities are in serious fiscal distress and they are too reliant on property taxes to meet the rising costs of providing basic services to their citizens. Conservative legislators and interest groups have for many years touted the outright elimination of property taxes in favor of a sales tax to support public education. While my proposed legislation does not relate to school districts and while I do not support such a radical change regarding the manner in which we fund public education, the tax base for our counties, cities and municipalities is in common with our local school districts and increases in property taxes by any of these taxing authorities is punitive to the fixed income property owners who comprise that same tax base. My legislation will address property tax relief for two of these three taxing authorities – county and municipal. There is ample evidence that heavy property tax burdens throughout the state threaten the quality of life for our seniors and undermine the economic vitality of our small cities. We do a tremendous disservice to local taxpayers by failing to change the current, obsolete constraints on local governments that prevent them from diversifying local revenue streams.

Local governments at the county and at the municipal level have appealed to the General Assembly for years that they be permitted to transition to tax revenues based upon one's ability to pay or based upon consumer spending decisions. The City of Pittsburgh and the City of Philadelphia have already been permitted to levy local sales taxes and these local revenues have contributed significantly to an improved fiscal status of these cities. Further, there is little evidence that these local sales tax levies have had significant adverse impact on consumer spending tendencies or on private investment in these cities. It certainly raises questions of fairness when our two largest cities are permitted to diversify their tax revenues and benefit from a reasonable predictability of fiscal performance relating to that revenue diversity when the balance of the state – and particularly counties with struggling third class cities -- cannot do the same.

Within the past few months joint hearings have been held by the Senate and House Local Government Committees; the Senate Community, Economic and Recreational Development Committee and the House Urban Affairs Committee on Act 47 and fiscally distressed counties and municipalities. A review of the testimony at these hearings reveals broad consensus and near unanimous support for greater diversification of local government tax revenues not only from local government officials and their respective professional associations but from labor, academia, as well as from independent legal and private business interests.

These joint hearings also revealed the attributes of our third class cities throughout the state that have contributed to their current fiscal distress -- such as the preponderance of 30 to 40 percent tax exempt property within their municipal borders. Reliance on property taxes only perpetuates municipal fiscal distress by imposing a greater tax burden on those least able to absorb property tax increases while stifling private investment and commercial/industrial development in our core business districts.

Based upon the most recent data from DCED there are at least seventeen counties statewide with an Act 47 fiscally distressed community or with communities participating in the Early Intervention Program – communities trying to stave off fiscal distress. There is little question that this number will increase going forward and the urgency to bring local taxation methods into the 21st century to enable struggling counties and municipalities to deal with 21st century fiscal challenges is greater than ever. What is paramount however is the fiscal distress experienced by our local taxpayers who are trapped in an antiquated system of revenue generation that relies almost entirely on property taxes.

Finally, and again following from the testimony of the joint Senate-House Committee hearings, we know that there is considerable room for improvement as well as considerable savings that can be had for local taxpayers if our local governments collaborate across municipal borders and work to omit duplication or redundancy in the provision of essential municipal functions. We know that services to citizens, including basic public safety, can be improved and can be more responsive to the needs of citizens across several municipalities or entire regions, while a local tax base has fixed borders. Local governments need the proper incentive to plan together and to formally commit to and to join in mutually beneficial, multi-municipal or regional partnerships in the delivery of services to their citizens. As such, my legislation will enable communities that commit to such cost saving collaborations to be rewarded for those efforts through a Municipal Collaborative Efforts Fund.

If you have questions or wish to co-sponsor this legislation, please contact Kyle Mullins of my staff at 717-787-6481 or kmullins@pasenate.com. Thank you for your consideration.