

COMMONWEALTH OF PENNSYLVANIA

HOUSE OF REPRESENTATIVES

LOCAL GOVERNMENT COMMITTEE

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PUBLIC HEARING

IN RE: HB 2018: TAX-EXEMPT PROPERTY

MUNICIPAL ASSISTANCE FUND

* * * * *

BEFORE: ROBERT L. FREEMAN, Chairman
Adam Harris and Bob Mensch, Members
Eddie Day Pashinski, Host
HEARING: Wednesday, February 20, 2008
Commencing at 10:20 a.m.
LOCATION: Wilkes-Barre City Hall
40 East Market Street
Wilkes-Barre, PA
WITNESSES: Christopher Doherty, Thomas Leighton,
Todd Vanderheid, David Ross

Reporter: Charles Leifer

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P R O C E E D I N G S

CHAIRMAN FREEMAN:

I guess we can get started. Good morning, everyone. I am State Representative Bob Freeman, Chairman of the House Local Government Committee, and what I'd like to start off is asking everyone to please identify themselves. We'll just work our way around the room.

MR. GRELL:

Don Grell, from the Republican staff of the committee.

REPRESENTATIVE HARRIS:

Adam Harris, I live in Juniata. I represent Juniata, Mifflin and Snyder Counties.

MS. RITTMEIER:

I'm Amy Rittmeier.

CHAIRMAN FREEMAN:

I'm state representative Bob Freeman, Chairman of the committee.

REPRESENTATIVE PASHINSKI:

State Representative Eddie Day Pashinski, 121st District.

CHAIRMAN FREEMAN:

We do anticipate other members arriving

1 periodically during the course of the hearing, so
2 they'll probably join us later. First, let me thank
3 the mayor and council for letting us use their
4 chambers today and also for this beautiful City Hall.
5 It's the first time I've been in Wilkes-Barre City
6 Hall. We appreciate your hospitality.

7 Today the hearing of the House Local
8 Government Committee will concentrate on House Bill
9 2018, my legislation to establish a Tax-exempt
10 Property Municipal Assistance Fund. This proposal
11 provides state funding to those municipalities in
12 Pennsylvania that have a significantly high proportion
13 of tax-exempt properties.

14 Across our Commonwealth communities large
15 and small, urban and rural, city, borough and
16 townships alike, contain a considerable percentage of
17 tax-exempt properties. While these tax-exempt
18 properties represent the presence of important
19 governmental institutions, institutions of higher
20 learning, and not-for-profit medical facilities, that
21 all contribute to the quality of life of the
22 community, they do not contribute to the tax base in
23 those communities because they are tax-exempt.

24 Practically all of our county seats, our
25 college towns, and communities with major not-for-

1 profit medical facilities have higher percentages of
2 tax-exempt properties than other communities, and this
3 deprives them of tax revenues. The vast majority of
4 these tax-exempt entities are regional assets and it's
5 the host community that is left with a reduced tax
6 base and strain on local services as a result of their
7 presence within these communities.

8 The fiscal distress that many of our
9 cities and boroughs find themselves in today is not
10 the result of poor fiscal management or lack of effort
11 on their part to try to lure new development into
12 their communities. Reports by both the Brookings
13 Institute institutions and the Pennsylvania Economy
14 League all point to increasing fiscal distress for our
15 cities, our boroughs and those inner ring suburbs, the
16 older suburbs of our communities.

17 The presence of significant numbers of
18 tax-exempt properties within their borders can greatly
19 contribute to this fiscal distress due to the limited
20 tax base it creates. One has only to look at the
21 communities that are listed under the Act 47 the
22 financially distressed municipality program, to
23 realize the truth. Most of the Act 47 communities
24 contain tax-exempt property levels of anywhere from 20
25 to 30 percent of their overall assessed value. No

1 wonder these communities are failing, when you have to
2 try and provide essential services from such an eroded
3 tax base. House Bill 2018 seeks to remedy the
4 situation by providing state funding to compensate
5 those communities that have 17 percent or more of
6 their total assessed value of property classified as
7 tax-exempt.

8 Under legislation the revenue for this
9 program would come from the dedication of the current
10 18 percent Johnstown Flood Act that is levied on the
11 sale of liquor and wine in Pennsylvania. It generates
12 approximately \$240 million a year. It should be noted
13 that no single municipality in this program will
14 receive more than ten percent of the revenue in order
15 to make sure that all the communities across
16 Pennsylvania that are grappling with this problem will
17 receive a decent bit of compensation for the tax-
18 exempt properties.

19 Here in the community of Wilkes-Barre
20 it's estimated that over 20 percent of the total
21 assessed value of property is tax-exempt, 20 percent.
22 One out of every five properties is tax-exempt. That
23 gives them a handicap trying to provide essential
24 public services. Without this infusion of much-needed
25 funds many of our state's high tax-exempt property

1 communities face the very real prospect of failing as
2 they fall deeper and deeper into financial distress
3 due to an eroded tax base.

4 In 1936 the legislature enacted the 18
5 percent Johnstown Flood Tax to provide a much needed
6 relief of revitalization to a community devastated by
7 a natural disaster. The revenues from that tax are
8 now needed to come to the assistance of the
9 communities across Pennsylvania that are overwhelmed
10 with flood of tax-exempt properties. With this
11 legislation we can stabilize hundreds of needy
12 communities across our Commonwealth and ensure their
13 success for many, many years to come.

14 So before we get into our testimony I
15 would like to turn to a legislator from Wilkes-Barre,
16 Representative Ed Pashinski.

17 REPRESENTATIVE PASHINSKI:

18 Thank you very much. I'd like to welcome
19 you and the members of the committee to our lovely
20 city. We're very proud of Wilkes-Barre and the good
21 work of the mayor and the council, what they have
22 done. And I think that Representative Freeman has a
23 very innovative way in order to try to help our cities
24 that have this tax base that is exempt. So it's our
25 pleasure to welcome you here, as well as the members

1 of the committee, and hopefully we'll have some others
2 joining us. I believe Minority Chairman Saylor has
3 had a problem getting here, so he's not coming, but I
4 think a couple of others will be here as well. In any
5 case, I thank those of you for coming out today and
6 offering your testimony. And then we need your
7 support to try to get the rest of the members of our
8 house on board with this.

9 So without further ado, let's move
10 forward.

11 CHAIRMAN FREEMAN:

12 Thanks everyone for their patience with
13 today's schedule. The first person to testify will be
14 the Mayor of Wilkes-Barre, Tom Leighton.

15 UNIDENTIFIED SPEAKER:

16 If it's okay, the Mayor had another
17 obligation.

18 CHAIRMAN FREEMAN:

19 I'd be happy to take the Mayor of
20 Scranton first. It's nice to see the two mayors from
21 the two cities of the region cooperate so nicely.

22 MAYOR DOHERTY:

23 Thank you very much, Representative
24 Freeman, Representative Pashinski, Representative
25 Harris. Welcome to northeastern Pennsylvania. This

1 is really an important issue for cities across the
2 state. I just spent the past year as president of
3 Pennsylvania League of Cities and Municipalities, and
4 on Monday this week we met with 12 mayors to discuss
5 the issues that we just talked about. Cities are the
6 core of any community, in any county and we obviously
7 observe not only our government offices, county
8 offices, federal offices in Scranton --- we have the
9 federal courthouse for this district. But we also
10 take care of the educational centers, University of
11 Scranton, the community college, and this is
12 duplicated everywhere throughout the state.

13 In the cities, we welcome those who are
14 the most disadvantaged, whether they're the immigrants
15 or whether they are people who do not have funds for
16 their own home and they look to have subsidized
17 housing, so they could get themselves back on their
18 feet. That's a cost we carry ourselves. More
19 importantly when you do those things you also incur
20 the costs of public safety, whether it's increase the
21 size of the fire department or police department,
22 things that are needed, that are necessary to make a
23 difference in people's lives, but more importantly
24 make a difference in the region's lives because
25 regions are defined by their cities.

1 Luzerne County is defined by Wilkes-
2 Barre, Lackawanna County is defined by Scranton, what
3 people think of that community, what they think of
4 that county. So as you said, over the years cities
5 have taken on a greater burden and they have less
6 funds to be able to meet those challenges.

7 I think this proposal, House Bill 2018,
8 is an example of how the state can share and spread
9 its resources to the betterment of the whole state.
10 Now, if you think of how this actually started, one
11 community in our state was severely challenged and the
12 state decided we were going to step up and help
13 Johnstown.

14 Obviously, we met that need, and over
15 time the tax has stayed but it hasn't been used for
16 other projects. Now we're saying, here's what we're
17 using for specific project and the project is our
18 city. I think you defined it perfectly. Cities, how
19 are they challenged? Well, one way to look at that is
20 to say, all right, what is your percentage of non-
21 taxable properties? And when you have a city like
22 Scranton, it's 35 percent non-taxable properties in
23 our downtown. What do we absorb with that? Well, you
24 know, University of Scranton has 7,000 kids who are at
25 the school. It's a phenomenal educational

1 institution. It brings great things to our city, but
2 when you have 7,000 kids and you're downtown you're
3 challenged with the police department on the weekends.
4 You're challenged with off-campus housing, which
5 usually is substandard. And your fire department is
6 called upon.

7 Looking at our Housing Authority, we have
8 7,000 units in the City of Scranton. What are the
9 challenges that come with that? Well, sometimes it's
10 public safety. It's through the challenges of the
11 people who live there or they come to visit and that's
12 more than you'll see out in the suburbs.

13 More importantly, you see challenges in
14 Children and Youth. Many people who live in
15 subsidized housing are not a two-parent household.
16 It's usually a mother with two or three children.
17 That's a tax on your communities, how you take care of
18 it, whether it's through your educational system.

19 This proposal you have would help us
20 address it. Would it solve our problems? No. But it
21 brings to the forefront the challenge we face every
22 day as citizens. You know, when Governor Rendell came
23 in five years ago, he talked about helping cities and
24 he has stepped up. He's really made great progress in
25 doing that, but if we are going to succeed as a state

1 we will need to be a state that has helped our cities
2 flourish. If you live out in the eastern half of
3 Pennsylvania you're seeing population growth. You see
4 it in Luzerne County. In Lackawanna County, for the
5 first time in 70 years our population has grown. This
6 is going to continue for the next 10 to 15 years
7 because New York is just spreading westward.

8 Well, now is our time to grow. If we're
9 going to be successful and take advantage of it, we've
10 got to pave our streets; we've got to keep our streets
11 safe; we've got to take care of those who can't take
12 care of themselves because during this time of growth
13 we will define ourselves for the next 50 years. Are
14 you a city that's safe? Are you a city that takes
15 care of those who can't take care of themselves? And
16 the reason you do that isn't so much about today, it's
17 about 30 years from now.

18 Now, I've talked about this whole
19 immigration thing. If you treat people who are the
20 least fortunate in your community well and you allow
21 their children to become well educated, to become
22 successful, thirty (30) years from now the mayor of
23 Wilkes-Barre will probably not look like Mayor
24 Leighton or the Mayor of Scranton, like me. In all
25 likelihood he'll be Hispanic. They're going to

1 remember how they were treated, and the reason is not
2 because they will treat for retribution somehow but
3 because we want everyone to be treated well, because
4 in 30 years there'll be another wave of immigrants.
5 And we don't know who those people are, and we want
6 them to be treated well because we want their children
7 to become the next leaders of our community, and you
8 do that by having services and taking care of those
9 people, and that's why this bill is so important.

10 You know, we face challenges every day
11 here and we need --- the bottom line. If you look at
12 all the Act 47 cities, Scranton's been Act 47 since
13 1992. No, you get in, you never get out, and the
14 reason is because the tax base is diluted, and we're
15 living with things, contracts that were decided 30
16 years ago, pensions, health care, which we are
17 obligated to take care of and will take care of, but
18 as we go through this transitional period we need
19 help.

20 And I think this is very important and
21 this is a bill that would allow us to share. You're
22 sharing across the state so you're helping our
23 communities and the differential is how many tax-
24 exempt properties do you have? And based on that
25 percentage we'll help you out, so I think it's a

1 tremendous proposal. I'm in complete support of it.
2 I know the League is very supportive of it, having
3 spent this past year as president. We'll do
4 everything we can to see this come to fruition, and
5 anything you need from us, we will do, and I will do
6 personally.

7 CHAIRMAN FREEMAN:

8 Mayor Doherty, thank you for testimony.
9 Do you have time for a few questions, possibly?

10 MAYOR DOHERTY:

11 I'll be glad to take questions.

12 CHAIRMAN FREEMAN:

13 First, thank you for your testimony and
14 your support for the legislation and I think your
15 points are very well taken. I should note, too,
16 particularly for members of the press, although the
17 cities of our Commonwealth are the most acutely
18 affected by high tax-exempt properties, the
19 legislation actually would apply to any municipality,
20 whether it be a borough, a city, or a township that
21 has 17 percent or more of its tax base as tax-exempt.
22 So we really have tried to reach out with this
23 legislation to all the communities that are affected.

24 MAYOR DOHERTY:

25 And I think you bring up an interesting

1 point. Those communities that are the outer rim,
2 outside of the city, they're just trailing the cities
3 by ten years. So the problems we're experiencing
4 today they will see. So by addressing it now you
5 maybe can stop that process.

6 CHAIRMAN FREEMAN:

7 I did have one question. In our research
8 we were able to isolate the tax-exempts for many
9 municipalities, but Scranton was tough to find.

10 MAYOR DOHERTY:

11 Yeah. The League did come to us and we
12 did provide that information. It's 35 percent.

13 CHAIRMAN FREEMAN:

14 Thirty-five (35) percent. So a third of
15 your property is tax-exempt.

16 MAYOR DOHERTY:

17 We are obviously the county seat, but we
18 have the northeast federal district, so we have the
19 federal courthouse. As I said, we have three colleges
20 in our downtown, substantial housing that's
21 subsidized, and we have three hospitals in our hill
22 section, so just like everything else --- Scranton's
23 125 years old. Everything was established in this
24 city, so your education, your hospitals and your rule
25 of law is in your cities. Like I said, 35 percent in

1 Scranton.

2 CHAIRMAN FREEMAN:

3 Any other questions for the Mayor?

4 Representative Harris?

5 REPRESENTATIVE HARRIS:

6 Just very quickly. Do you assess the
7 city wage tax?

8 MAYOR DOHERTY:

9 Yes, we do.

10 REPRESENTATIVE HARRIS:

11 And how much is that?

12 MAYOR DOHERTY:

13 Two point four (2.4) percent and the
14 school district assesses one percent, so 3.4 percent
15 is what is charged to the residents of Scranton.

16 REPRESENTATIVE HARRIS:

17 Roughly how much does your 2.4 percent
18 bring?

19 MAYOR DOHERTY:

20 About \$19 million.

21 REPRESENTATIVE HARRIS:

22 Do you know off hand how much you would
23 get from this legislation?

24 MAYOR DOHERTY:

25 Actually in excess of a million dollars,

1 \$1.3, \$1.4.

2 REPRESENTATIVE HARRIS:

3 Very good. Thanks for being here.

4 CHAIRMAN FREEMAN:

5 Representative Pashinski?

6 REPRESENTATIVE PASHINSKI:

7 Again, thank you, Mayor, for being here.

8 I'm just wondering since 35 percent is a very high
9 number of non-taxable properties, that obviously
10 played a major role in making you qualify for Act 47
11 status.

12 MAYOR DOHERTY:

13 Right.

14 REPRESENTATIVE PASHINSKI:

15 How long did that process take? Because
16 you said 1992.

17 MAYOR DOHERTY:

18 The city went distressed, yeah. I mean,
19 here's the challenge. We basically run a structural
20 deficit in the area of \$5 million a year and that's
21 based on --- 80 percent of our costs are employee
22 salary, health care --- and actually we pay more on
23 retiree health care than we do for the active
24 employees today So we're living with agreements that
25 were made in the previous administration, but I'm sure

1 that's duplicated throughout the state. My situation
2 isn't any different.

3 Our challenge is that we have limitations
4 that other cities do not have. I do not have
5 flexibility as to how many people can work in my fire
6 or police departments. I live under a contract from
7 before I became mayor. So that's how we're still in
8 recovery, in the recovery plan, and I think the
9 recovery plan is a whole other issue and I've
10 testified before the House before on that is that it
11 needs more teeth.

12 REPRESENTATIVE PASHINSKI:

13 If this were to pass ---

14 MAYOR DOHERTY:

15 Yes.

16 REPRESENTATIVE PASHINSKI:

17 --- would this help you get out of Act
18 47?

19 MAYOR DOHERTY:

20 It would and I'll tell you why. Because
21 we've structured three areas of costs. One is that we
22 will reduce our employees in the area of about \$2.4
23 million, but we also believe that we have to increase
24 what people pay so tax increase --- we just increase
25 taxes last year. Frankly I don't have a problem with

1 it. The cities aren't willing to invest in
2 themselves, why would anybody else? And it has worked
3 for us, but this would shore things up. Because it
4 isn't enough just to balance your books. As we all
5 know, you've got to pave the streets, you got to fix
6 the parks. You have to make your city attractive so
7 more people will move to your city, so you increase
8 your property values. You know it's all a domino
9 effect. You do that, your crime is reduced because
10 people are investing more and you see more people in
11 your downtown. You don't do it, the opposite occurs.
12 Your crime does increase, people --- you have flight,
13 there are less people in the community, so it would
14 make a major difference. And it also makes a
15 statement about the city. It says we are here to take
16 care to the best of our ability.

17 REPRESENTATIVE PASHINSKI:

18 Good. Thank you.

19 CHAIRMAN FREEMAN:

20 Just one last point before we let you go.
21 Yesterday we heard testimony from the Mayors of
22 Allentown and Bethlehem, and they are very grateful
23 for the help non-profits donate to capital projects
24 but capital projects don't necessarily help you in the
25 day-to-day operation of the police force, fire

1 protection, code enforcement, all the day-to-day
2 things that you need to do to keep your city safe,
3 clean, attractive and in a position to be able to
4 attract development to build up over time.

5 MAYOR DOHERTY:

6 Absolutely. And I think you've hit a
7 really key point. States or the federal government or
8 state government often give grants to cities for
9 capital projects. The challenge to the city is once
10 you invest those capital dollars you have to maintain
11 it. You know, we're doing an \$80 million flood
12 project in our city. It's going to cost us \$300,000 a
13 year to maintain the levies, and I went to our
14 representatives and our state senators and I said,
15 okay, you gave me \$80 million, don't you think you
16 want to give \$300,000 so I could make sure the levies
17 are taken care of for the next hundred years? Why
18 waste the investment? The same thing. You got money
19 for a park or a new police headquarters, you've up-
20 fronted x amount of dollars. Wouldn't you want to put
21 in ten percent or five percent to make sure it's
22 maintained so that investment that the taxpayers have
23 made is maintained for a long time, so it's not wasted
24 so that's another reason.

25 CHAIRMAN FREEMAN:

1 Don Grell from Republican staff has a
2 question.

3 MAYOR DOHERTY:

4 Sure.

5 MR. GRELL:

6 One of the things we heard yesterday was
7 the assessments on tax-exempt property aren't very
8 good, so it tends to understate the tax-exemptions.
9 You say 35 percent. Do you have a feel if that's
10 really kind of a soft number? Do you have a gut
11 feeling of whether that's ---?

12 MAYOR DOHERTY:

13 Oh, I'm sure it's a soft number. Our
14 county, like Luzerne County, hasn't done a
15 reassessment in 30 years, and in that time I'm sure
16 we've added --- well, the University of Scranton
17 probably has spread like six core blocks in that time
18 period. That's a good thing for us because obviously
19 it's a great school, but that's a lot of houses off
20 the market. Our federal courthouse has tripled in
21 size in the last ten years. The courthouse has taken
22 over a whole city downtown block. It's a nice thing.
23 People work there. But that's prime real estate.

24 CHAIRMAN FREEMAN:

25 That's a good point. In fact, it was

1 made about Lafayette College in the City of Easton.

2 MAYOR DOHERTY:

3 Yeah.

4 CHAIRMAN FREEMAN:

5 A lot of money in physical clean-up of
6 the campus. I think they probably invested \$20 million
7 over the course of the last couple years just a
8 handful of buildings are getting total assessed value
9 and it's probably minimal compared to what it should
10 be as far as accurate assessed value.

11 MAYOR DOHERTY:

12 Yeah, I think it's really important
13 because we would then get an understanding of what
14 burdens the cities are carrying, you know. We're the
15 home for everybody. If you're in trouble you got to
16 go to the court system. You need Children and Youth.
17 If you want an education you're going to the
18 university, not outside the city, and if you're sick
19 you're going to the hospital, so you're in the city.

20 CHAIRMAN FREEMAN:

21 They're all great assets, they're really
22 regional assets.

23 MAYOR DOHERTY:

24 Exactly. Yeah, exactly.

25 CHAIRMAN FREEMAN:

1 And for regional assets the host
2 community shouldn't have to shoulder all the burden of
3 maintaining and so on. Thank you, sir. Any other
4 testimony or questions?

5 MAYOR DOHERTY:

6 Thank you for allowing me to speak.
7 Mayor Leighton, tell him to check his e-mail.

8 CHAIRMAN FREEMAN:

9 Our next testifier is Mayor Tom Leighton
10 of Wilkes-Barre. Thank you for your hospitality here
11 today.

12 MAYOR LEIGHTON:

13 Thank you for your time today. As the
14 Mayor of the City of Wilkes-Barre I believe that this
15 new bill, and the subsequent creation of the Tax-
16 Exempt Property Municipal Assistance Act, will benefit
17 our community through the generation of additional
18 funds. Over 20 percent of the assessed parcels in the
19 City of Wilkes-Barre are not taxable, the key word
20 there assessed parcels that are not taxable. The
21 unfortunate part is over 50 percent, actually 54
22 percent, of the total number of parcels in Wilkes-
23 Barre, which include government buildings like the one
24 we're sitting in here today, churches, synagogues,
25 parking garages, just to name a few, are tax-exempt.

1 This high percentage puts us at a financial
2 disadvantage. While properties are not generating
3 revenues for the City of Wilkes-Barre, they bring
4 people into our city, and we are expected to provide
5 services such as fire, police, ambulance to those
6 people and also maintain infrastructure in
7 neighborhoods where these non-taxable properties are
8 located.

9 Since taking office maintaining fiscal
10 responsibility has been a cornerstone of my
11 administration. You may not be aware of this, but
12 when I took office in 2004, I inherited \$10.8 million
13 of unpaid bills that were due to many different
14 vendors of all sizes, large vendors, small vendors,
15 many that were basically on the verge of bankruptcy
16 because of the money that the City of Wilkes-Barre had
17 owed them.

18 We immediately went out and sought
19 unfunded debt, and paid the debts off and are
20 currently paying down a ten-year note of that unfunded
21 debt. Without a solid financial foundation the City
22 of Wilkes-Barre's future would be unsteady. Each year
23 we are committed to creating a balanced budget so that
24 we can continue on a positive path for the future. And
25 I must add, each year becomes more and more difficult

1 as we are continuing to rise at a pace that the
2 revenue does not keep up with.

3 Like many other mid-sized cities
4 nationwide our financial climate has been difficult
5 and is a continuous battle every day. The additional
6 funds we could receive as a result of this
7 legislation, estimated upwards of \$100,000 based on
8 that 20 percent number, would be very beneficial. We
9 could use that to support existing city services,
10 expand the infrastructure and upgrades which has been
11 deteriorating over the years and also develop new
12 projects through the City of Wilkes-Barre.

13 A lot has been accomplished over the last
14 couple of years as a result of the state aid that we
15 discussed previously with Mayor Doherty. The Governor
16 in the state House has been extremely helpful with our
17 capital projects.

18 I'd like to take a moment to acknowledge
19 the generosity of our non-profits who contribute
20 payment in lieu of taxes. I don't want that going out
21 there saying that non-profits don't cooperate. We've
22 had tremendous support from our non-profits, not all
23 of them, but the bigger ones. Upon taking office in
24 2004 I paid a polite visit to the CEOs and presidents
25 to the non-profits such as two local hospitals, our

1 two local colleges, King's College and Wilkes
2 University, and explained to them the need for them to
3 step up to the plate to help us help them with their
4 employees, you know, the City of Wilkes-Barre. Not
5 one of them turned me down. They all either increased
6 or doubled their PILOTs, payment in lieu of taxes. So
7 I want that on the record that we've had great
8 support. While we can use more, they stepped right up
9 to help me move the city forward, and they definitely
10 saw --- they definitely saw a difference in the last
11 four years.

12 With Wilkes-Barre's progress over the
13 last four years people have a renewed interest in the
14 city and the innovative opportunities it presents.
15 There was just an article either yesterday or in
16 Monday's paper. I'm not sure if you saw that, but of
17 all the surrounding communities in this area, Wilkes-
18 Barre was the only city that saw an increase in their
19 housing prices. Wilkes-Barre has just experienced an
20 eight percent increase in property values, which
21 that's something that I and the administration are
22 very proud of.

23 If you read about our past, people were
24 leaving the city. Our population was decreasing,
25 which ultimately affects our federal funding. People

1 now are moving back into the City of Wilkes-Barre.
2 They have a renewed interest in relocating in the City
3 of Wilkes-Barre. As a result of hard work by City
4 Council, my administration, who I think very, very
5 highly of, we've made some very difficult decisions
6 over the last four years.

7 With the help of the former EMS tax, now
8 local service tax, we were able to hire 21 new police
9 officers to fight the battle of crime. That is a
10 substantial amount. We went from 72 to 93 in two
11 years, 2005 and 2006. In fact, it was not easy.
12 Difficult decisions had to be made. We went from five
13 firehouses down to three, but while doing that we
14 improved the fire department by purchasing \$1 million
15 of new equipment. Three new engines, two new
16 ambulances, building a firehouse which replaced one
17 that we had closed. So we sat down, we strategized
18 how we could have better fire protection while
19 reducing staffing and reducing fire stations, and we
20 strategically placed the new firehouse in an area ---
21 we placed two, but that was not a popular decision as
22 you can imagine and ---.

23 While it was not the popular thing to do
24 it was the right thing to do and we had to do it
25 financially, but at no time did I ever feel that I, as

1 the Mayor, was jeopardizing the public safety. So we
2 cut staffing in City Hall and that has allowed us to
3 hire 21 new police officers.

4 Also, through the Governor's fight on
5 crime, he provided us with a \$200,000 grant, which
6 allowed me to hire additional police officers. In
7 order to keep up with that grant, the rules and regs
8 that come with that grant, within the next several
9 weeks we'll be hiring four new police officers to
10 replace those who had retired. So it's not a matter
11 of the mayor and the city hiring 21 new officers over
12 a two- or three-year period and now it's going to go
13 back down. We're going to maintain that level of
14 staffing until we win the war on crime and drugs that
15 has infiltrated through our city, and I can't say
16 enough about the professional services.

17 On the flip side, we have over 100,000
18 people, the fourth largest downtown workforce in the
19 state of Pennsylvania come into our city 9:00 a.m. to
20 5:00 p.m. Monday through Friday. Those people expect
21 professional services. Those people want an ambulance
22 if they need it. Those people want a police officer
23 and their employers want a police officer in our
24 downtown walking the beat, which we have reinstituted
25 since I became mayor.

1 I must also mention we have made an
2 improvement this year, which allows us to have two
3 police officers on top of the people, the officers
4 that are walking the beat in the City of Wilkes-Barre.
5 The presence of police officers has enabled us to go
6 out and market our town. I can honestly say in 2004,
7 I was knocking on people's door asking them to open a
8 business. I was asking people to invest in downtown.
9 People now are coming to the City of Wilkes-Barre and
10 knocking on our door and knocking on the Chamber's
11 door because they know what's going on in the City of
12 Wilkes-Barre.

13 It's just like the stock market, you buy
14 low, you sell high. In 2004 there was many, many
15 properties for sale. For sale signs were all over
16 downtown Wilkes-Barre. Now it's harder to find
17 property because out of town investors saw what
18 happened, came in and bought the properties. Now,
19 local investors are coming in and investing in
20 downtown Wilkes-Barre.

21 With that said, there's a cost to
22 providing security. There's a cost of providing
23 ambulance services. There's a cost to providing
24 infrastructure, and that is what --- that's where
25 we're struggling. As I stated earlier our expenses

1 are going up. Our revenues are straight, and every
2 penny that we can get in would be help.

3 I had an opportunity just last week to
4 testify before a congressional subcommittee hearing in
5 Washington on the bond insurance debacle. The bond
6 insurance market is a mess. I don't know if you
7 follow that or if you know what's going on, but
8 projects are ongoing money going down to the City of
9 Wilkes-Barre that we worked on up until three years
10 ago. Projects we're working on now for the future
11 will have --- could be adversely affected because of
12 the cost of obtaining bond insurance and more
13 importantly getting that credit rating.

14 Without a good credit rating you pay
15 higher interest rates. Without a good credit rating
16 you pay higher bond insurance. The basis points on
17 our first bond was 300 base points, which is a lot.
18 Well, if your closing costs or your fees are
19 increased, you're going to have to scale back on the
20 project.

21 So we're being hit from all sides. I
22 mean, four years ago we did not have a bond rating.
23 We did not have a credit rating. Now, we have a
24 triple B credit rating on the bonds. That can be
25 affected because our insurer, AMBAC, is on the verge

1 of bankruptcy, and they're struggling now because of
2 what happened in the sub prime market.

3 So what people don't understand is that
4 trickles down to the guy watching the six o'clock news
5 with his family after dinner. Because if we can't do
6 these projects like the \$25 million intermodal
7 transportation garage that's being built a hundred
8 yards from here, That takes away your construction
9 workers. They're not going to have work to do. It
10 takes away your architects, your engineers, your
11 utilities.

12 You know, the public does not understand
13 what's going on in New York City on Wall Street.
14 Ultimately it's going to have a trickle-down effect
15 into the City of Wilkes-Barre, the City of Scranton
16 and all of the cities that we represent because work
17 will not be there on the construction side. So we're
18 getting hit all over and anything --- any help that
19 you could give us is greatly appreciated.

20 I must also mention that part of the non-
21 profits that are not in that 20 percent of the
22 assessed parcels are also doing great things. We have
23 two hospitals in the City of Wilkes-Barre. Not many
24 cities like Wilkes-Barre have two hospitals, Wyoming
25 Valley Healthcare, which is better known as Wilkes-

1 Barre General Hospital is undergoing a \$90 million
2 trauma center investment.

3 On the flipside they had to take a lot of
4 property just like Chris had mentioned. When you
5 expand, you take properties off the tax rolls. So
6 they're doing a \$90 million expansion, which is a
7 phenomenal project that they're doing in the City of
8 Wilkes-Barre.

9 Geisinger, which is a smaller one ---
10 they bought Mercy Hospital, they're doing a \$15
11 million expansion, but in doing so they're buying
12 properties and they're taking them off of the tax
13 roll. King's and Wilkes, two great schools, two great
14 four-year --- I'm a graduate of King's, so I have to
15 mention that --- they're expanding. Wilkes has gone
16 down South Main Street and has taken over our former
17 call center. They invested \$15 million but in doing
18 so they also bought a 14-story luxury apartment
19 complex across the street that had high rent tenants,
20 senior citizens, business people living there. Their
21 ultimate goal now is that that become a dormitory.
22 That's a \$40,000 hit on the city side in property
23 taxes. So while they're expanding on Main Street,
24 which is great, and I commend them, but we lost
25 \$40,000, which is a substantial hit to the tax base.

1 On top of that you have the Blue Cross or Red Cross,
2 the Salvation Army. I could go on with the non-
3 profits that are getting great assets to the City of
4 Wilkes-Barre, but they're not contributing to the tax
5 base. So that's the end of my presentation. If you
6 have any questions, fire away. Anything I can do to
7 help you on this bill ---.

8 CHAIRMAN FREEMAN:

9 Thank you. Your support is appreciated.

10 MAYOR LEIGHTON:

11 I was down in Harrisburg lobbying for
12 service tax because we desperately needed it in the
13 past. I'm not happy with the new rule, but that's for
14 another day.

15 CHAIRMAN FREEMAN:

16 But thank you for your testimony and
17 support for the legislation. Are there questions from
18 the members?

19 REPRESENTATIVE HARRIS:

20 Sure. The last thing you mentioned, the
21 local services tax, how much does that additionally
22 bring in for you?

23 MAYOR LEIGHTON:

24 About \$1.3.

25 REPRESENTATIVE HARRIS:

1 You have a similar wage tax?

2 MAYOR LEIGHTON:

3 The total wage tax is 2.85. However, we
4 get \$2.35 out of that, which generates approximately
5 \$10 million a year. And quite honestly, my main
6 profession is a real estate insurance broker and my
7 office is on the other side of Public Square, so I
8 moved from one side of Public Square, and I saw in my
9 real estate profession why people were not coming to
10 the City of Wilkes-Barre. This is before I was the
11 mayor, a three-term councilman. They point to that
12 2.85 wage tax and in the surrounding communities one
13 to two percent, Kingston is two percent, Ashley one,
14 and I firmly believe as a lifelong resident that that
15 2.85 tax helps us provide professional services such
16 as the ambulance with great regard, and we have to
17 educate the public and I would never say anything
18 negatively about any volunteer services because they
19 do a great job.

20 I don't know if in your community if you
21 have volunteers or have a paid full time fire
22 department, paramedic service like we do. You know,
23 the chief is always e-mailing me. We just bought two
24 new machines, which just last week saved the life of a
25 50-year-old man who suffered a heart attack. Without

1 that machine the man would be dead. Not to say that
2 he wouldn't survive in one of our surrounding
3 communities, but our guys just do a fabulous job.

4 To me, paying that extra 2.85 or in place
5 of paying one percent or two percent, unless you're
6 making a couple hundred thousand dollars a year it
7 comes down to pennies, and you really have to educate
8 the public about that. But the bulk of that wage tax
9 goes to provide for our professional services, which
10 each year would cost more, along with the healthcare
11 benefits. It's getting to the point where is it and
12 how are we going to afford it?

13 CHAIRMAN FREEMAN:

14 And it should be noted in most
15 municipalities in Pennsylvania have real estate taxes.
16 Wage tax helps to supplement that, that in case of
17 wage tax the amount levied goes back to the person's
18 place of residence.

19 MAYOR LEIGHTON:

20 That's correct.

21 CHAIRMAN FREEMAN:

22 So, you know, a lot of facilities that
23 are non-profit such as the hospitals you mentioned and
24 the colleges, the people who work at those facilities
25 but live in surrounding townships, you're not

1 realizing that wage tax money. That's going to those
2 other townships.

3 MAYOR LEIGHTON:

4 We do not get anything out of the people
5 that live a hundred yards on the other side of the
6 bridge, and I pointed this out.

7 CHAIRMAN FREEMAN:

8 They work here but they pay out there.

9 MAYOR LEIGHTON:

10 I was heavily criticized because we were
11 trying to rebuild downtown, and downtown was just a
12 ghost town. No lights, no businesses, empty
13 storefronts, office space.

14 We had to try to make the people start to
15 believe in the City of Wilkes-Barre, and we had to try
16 to make improvements and invest in the city. But what
17 you mentioned is absolutely true when it comes to the
18 business community. I was heavily criticized because
19 we were trying to rebuild the town and recruit
20 businesses, companies to move into these offices
21 surrounding Public Square and recruit restaurants and
22 delis, and when we instituted ---. We were the first
23 community in the state because we acted on it right
24 away because we needed it desperately. We presented
25 it to city council and we had a hundred percent

1 support there and we got --- I believe we were the
2 first city to pass the wage tax, the first in the
3 state.

4 But I was criticized and I had an
5 opportunity to speak to many business groups at
6 lunches, and just like I'm sitting here in front of
7 you, I told them point blank, you spend more time
8 awake in the City of Wilkes-Barre because you're
9 working here and you're spending a minimum of 40 hours
10 working here. And take into consideration the time
11 you spend before you get here to the time after and
12 you add up the hours that you're in your home. Your
13 best chance of survival if you get ill, have a heart
14 attack is for it to happen while you're working.

15 And again, I'm not degrading the
16 volunteers because most of this community that work in
17 the downtown live in suburban and rural areas that do
18 not have full-time services. Your best chance of
19 survival having a heart attack is to have it while
20 you're at work. I've seen it first hand; I've seen
21 the ambulance work on people that had heart attacks in
22 the downtown and they save a tremendous amount of
23 people. I have nothing but the highest respect for
24 their services.

25 Once I painted that picture, they thought

1 a dollar a week isn't so bad, and has not adversely
2 affected the marketing of downtown. And our occupancy
3 rate --- what's the occupancy rate of 84 or 85
4 compared to a large amount of vacant space just three
5 or four years ago.

6 REPRESENTATIVE HARRIS:

7 If I could just follow up quickly. You
8 mentioned you were very successful at the payment in
9 lieu of taxes, but that's completely voluntarily;
10 correct?

11 MAYOR LEIGHTON:

12 Voluntarily.

13 REPRESENTATIVE HARRIS:

14 So they can discontinue that?

15 MAYOR LEIGHTON:

16 Discontinue, yes. But they want --- when
17 I convince them or talk to them about it they want a
18 commitment from me that I'm going to be fiscally
19 responsible. And I told them back in 2004 my goal, my
20 vision was to hire more police officers, clean our
21 streets better and make sure that their employees felt
22 safe. One of the things that they were concerned with
23 --- and I even spoke with a CEO back in 2003 even
24 before I became Mayor. They were very concerned
25 because their employees come to work at this time of

1 year in the dark and they leave in the dark, and a lot
2 of them were afraid to go out on their lunch hour,
3 which meant they spent whole work days without getting
4 a breath of fresh air and be productive in the
5 afternoon.

6 So they were very concerned and now those
7 people walk around Public Square. I don't know what
8 kind of towns you live in or you patronize. Four
9 years ago there was nobody walking around, and now
10 people are walking our streets, movie theaters,
11 restaurants. There are now things for people to do
12 and see.

13 CHAIRMAN FREEMAN:

14 I just want to recognize that we've been
15 joined by Representative Mensch.

16 MAYOR LEIGHTON:

17 Nice to meet you. Thank you for coming
18 in and welcome.

19 CHAIRMAN FREEMAN:

20 Don, do you have any questions?

21 MR. GRELL:

22 Sure, if you don't mind. I think what
23 we've heard from Mayor Doherty and I think what you're
24 saying is you have easier access to capital money than
25 operating money, so if you had this revenue from this

1 tax how would you use the money?

2 MAYOR LEIGHTON:

3 Basically to continue in --- I would say
4 apply it to our infrastructure maintenance and to
5 continue to provide the service that we are at the
6 level. People never want to see something taken away
7 from them, so it's getting harder and harder to clean
8 the streets, to pave the streets, to provide police
9 and fire protection and ambulance protection. It
10 would just continue, and as I said our revenue is a
11 straight line, but our expenses keep growing. And
12 that's why I testified at the congressional
13 subcommittee last week is that increase doing capital
14 projects, cleaning the streets. So this would allow
15 us to continue to provide the services, continue to
16 maintain the infrastructure, while not passing that on
17 to taxpayers.

18 And he mentioned, too, about the wage tax
19 of some people here that work in the city and live
20 outside of the city and don't contribute. We have a
21 large elderly population that we get nothing out of it
22 as far as wage taxes. They're retired and they want
23 to be able to enjoy their properties the way they
24 enjoyed it while they were working. So again, it gets
25 tougher and tougher each year.

1 CHAIRMAN FREEMAN:

2 Representative Pashinski?

3 REPRESENTATIVE PASHINSKI:

4 Yeah. For the record I do want to
5 compliment the Mayor because I've been a resident of
6 Wilkes-Barre now for nearly 38 years, so I've seen it
7 go through various transitions, and the Mayor really
8 has done an outstanding job of turning the city
9 around. It's wonderful to see people especially on
10 the weekends and in the evenings. We have parking on
11 both sides of the street, and it's jammed. People are
12 on the streets again. They're going to the
13 restaurants, the movie theaters. It's coming back
14 now. My question is, how close to the margin between
15 the amount of money you bring in as opposed to the
16 expense side of the budget?

17 MAYOR LEIGHTON:

18 Well, we like to say it's equal. That is
19 the one thing I was committed to when I became mayor,
20 was fiscal responsibility. Upon taking office I was
21 forced in my first 45 days to raise taxes 20 mills.
22 There were 53 mills and 73 mills, so a substantial
23 increase. I emphasized they had not been raised in
24 the previous two mayors' administrations, a term of
25 sixteen years.

1 So the City of Wilkes-Barre over the last
2 16 to 18 years was operating on revenues from the
3 1980s. Not only did I raise property taxes, I raised
4 every fee, every single fee across the board. We had
5 fees that were not raised from the 1960s. We went
6 around and we compared with other towns in our area,
7 other towns of similar size, we were charging
8 substantially less and that is how we fell behind, and
9 I inherited a \$19 million debt. The city could not
10 complete its functions.

11 The former administration was running the
12 city on a credit line, and I will not do that, so more
13 fiscal responsibility. We cut staffing at city hall,
14 cut staffing at other services and I can say the only
15 department that's seen an increase is the police
16 department. That's what we needed. We were losing
17 our city. We were losing our city to crime and drugs
18 and I was not going to allow that to continue on my
19 watch. I bit the bullet. I made very unpopular and
20 difficult decisions, increased that department by 21
21 officers I believe we've seen a substantial increase
22 in police visibility. Crime is down. It may sound
23 funny but we're now addressing the nuisance crimes,
24 getting the riff-raff off the streets.

25 CHAIRMAN FREEMAN:

1 What's your overall budget?

2 MAYOR LEIGHTON:

3 \$37 million.

4 REPRESENTATIVE PASHINSKI:

5 And the other reason that I mention that
6 is because, you know, the cost of everything has gone
7 up so dramatically. Construction costs, gasoline, a
8 36 percent increase. How do you maintain, you know, a
9 budget to be able to deal with those kinds of
10 increases?

11 MAYOR LEIGHTON:

12 It's been very difficult and don't
13 forget, Representative Pashinski, in three years out
14 of my first four years we had flooding that devastated
15 the southern part and northern part, doing millions
16 and millions of dollars worth of damage. You know,
17 the public thinks everything is covered and refundable
18 by the federal and state, FEMA and PEMA. The
19 important part is --- the keyword there is the
20 eligible items are covered; not everything is
21 eligible. So we were faced with putting a lot of
22 money into it and the Valentine's Day storm of a year
23 ago, which I still have nightmares over cost Wilkes-
24 Barre \$700,000 to clean up. We do not have \$700,000
25 and we all say, put a little money aside for a rainy

1 day. It was a very unpleasant week, and we got
2 through it, but we did the best we could under the
3 circumstances. I just hope we never see a snowstorm
4 of that caliber under my watch.

5 CHAIRMAN FREEMAN:

6 Any other questions? If not we thank you
7 for your testimony.

8 MAYOR LEIGHTON:

9 Thank you. If I can help, please ask.

10 CHAIRMAN FREEMAN:

11 Thank you.

12 MAYOR LEIGHTON:

13 Thank you.

14 CHAIRMAN FREEMAN:

15 We should also note for the record that
16 we have testimony, written testimony, by the County
17 Commissioners Association of Pennsylvania. Our next
18 testifier will be Todd Vonderheid, Director of
19 Strategy for 10,000 Friends of Pennsylvania. Welcome.
20 Good to see you again.

21 MR. VONDERHEID:

22 Thank you. Good morning. I'll start by
23 thanking everybody for coming to Wilkes-Barre today.
24 I've broken one of my iron rules. I never prepare
25 testimony because I like different strains of thought,

1 but I have a two and a half year old and six month
2 old, and so my brain doesn't function at all anymore.
3 I'm forced to actually provide written testimony so
4 I'll begin again.

5 Good morning. Welcome to Wilkes-Barre.
6 Especially I'd like to start by thanking
7 Representative Chairman Freeman as well as Chairman
8 Saylor who couldn't be here today and the entire
9 committee for taking time from your schedules to come
10 to Wilkes-Barre and hear from Pennsylvanians who share
11 your concern about the future of local government, its
12 role in our lives, and perhaps more importantly its
13 capacity to fill those roles.

14 I come before you today representing, as
15 you do, a variety of interests that often find
16 themselves in opposition, but on this issue of
17 fairness to local governments, I find that those
18 interests speak with a common voice.

19 First and foremost, I'm a husband and a
20 father of two who've choosen to make Wilkes-Barre
21 their home, one of Pennsylvania's oldest communities.
22 Second, I'm a recovering elected official having
23 served 42 months, that was plenty, as a majority
24 commissioner in Luzerne County overseeing a \$230
25 million budget and managing over 1,700 employees.

1 Third, I am presently the president and
2 CEO of the Greater Wilkes-Barre Chamber of Business
3 and Industry, a business advocacy, economic, community
4 and workforce development organization, representing
5 1,200 businesses and perhaps more important, that
6 organization has developed 5,000 acres of industrial
7 land and four mixed-use buildings in downtown Wilkes-
8 Barre.

9 And finally, I am and remain the Director
10 of Strategy for the Campaign to Renew Pennsylvania, an
11 initiative of 10,000 Friends working to make
12 Pennsylvania's communities more economically
13 competitive through targeted public investment,
14 sustainable development and local government reform.

15 The issue of local governance and tax
16 reforms has been discussed for over a hundred years in
17 Pennsylvania. In fact, in 1906 my organization's
18 predecessor, the Greater Wilkes-Barre Board of Trade
19 proclaimed that the fragmented system of local
20 government was one of the most critical issues facing
21 our region. Well, it's been over a hundred years, and
22 here we sit.

23 I'm testifying today because the issues
24 that result from this distress have particularly
25 corrosive effects upon our region's economic progress.

1 When a community declines, people of means depart,
2 businesses follow, schools decline, taxes go up, crime
3 ensues, the adjacent landscape is abused. No one
4 moves in because of these things, and taxes go up
5 again, and the cycle continues and continues.

6 Poor or declining communities don't have
7 the resources to invest in their schools, parks and
8 neighborhoods, so why do we think that the private
9 sector would do so, regardless of the subsidy?

10 Municipal distress is a bottom line
11 business issue and communities can't bricks and mortar
12 themselves out of it. In fact, in downtown Wilkes-
13 Barre in eight we've had an investment of just shy of
14 \$100 million in four years. The total taxable revenue
15 from that \$100 million pays for less than three full-
16 time cops. Not enough to patrol the district where
17 the investment was made.

18 As I'll discuss in a few minutes, our
19 system of local government is broken and failure to
20 contribute --- our local government is broken and that
21 failure is contributing to many of our Commonwealth's
22 ills. It was just over a year ago that I met with
23 Representative Freeman to discuss the plight of
24 Pennsylvania's older and core communities, and he
25 mentioned a concept that has become House Bill 2018.

1 I want to commend the Chairman and the committee for
2 tackling this difficult issue and recognizing, perhaps
3 most importantly, that tax-exempt parcels are not the
4 enemy of local government, but rather as the two
5 Mayors who preceded me today discussed, they are the
6 institutions whose value is difficult to measure in
7 terms of property taxes paid to any single
8 jurisdiction.

9 The philosophical belief behind House
10 Bill 2018 is groundbreaking, I think, because it
11 acknowledges that the benefits from tax-exempt
12 institutions are regional in nature and the cost of
13 those services, those institutions should not be
14 restricted to municipal boundaries or geography
15 they're located in.

16 Parks, places of worship, hospitals,
17 government centers, colleges, universities, stadiums
18 and arenas serve and add value, not to individual
19 municipalities, but to regions, and in some cases to
20 the entire Commonwealth or the nation. It is that
21 broader base of citizen benefiting from those services
22 and those amenities, therefore, which should share the
23 costs of delivering the most basic, but most important
24 services to those tax-exempt regional assets.

25 Within two blocks from where we sit are

1 campuses of Wilkes-Barre University and King's
2 College. To even the most parochial eye those two
3 institutions benefit all of northeastern Pennsylvania.
4 However, all of northeastern Pennsylvania does not
5 share in the cost to provide services to those
6 campuses, only the City of Wilkes-Barre bears that
7 cost.

8 In fact, the central business district in
9 which you now sit today contains 658 tax parcels. Of
10 that, 362 or 55 percent are tax-exempt. You can
11 imagine how difficult it is, even if it's possible, as
12 the Mayor just described, to provide mandated services
13 to a district where more than one half of the
14 properties generate little to no revenue to pay for
15 those services.

16 If the City of Wilkes-Barre, or almost
17 any municipality in Pennsylvania, were a private
18 business, it would be bankrupt or would have closed a
19 long time ago. This is one of Pennsylvania's dirty
20 little secrets. While we as elected and civic leaders
21 talk about regionalism, partnership and cooperation,
22 we require by state law that local governments raise
23 revenue and provide service within little boxes, with
24 no regard for the realities of the marketplace, the
25 environment or social concerns such as crime.

1 The intent of House Bill 2018 is
2 consistent with my belief that Pennsylvanians are
3 connected to one another in fundamental ways.
4 Municipal boundaries cannot overcome those realities,
5 nor can they override the responsibility that comes
6 with those connections.

7 Now on to the practical implications of
8 the proposed legislation. First, I believe that House
9 Bill 2018 is an important step in leveling the playing
10 field between municipalities and supporting the cost
11 of services to important regional amenities and
12 institutions which serve far beyond the boundaries of
13 their host municipalities.

14 I do believe the Commonwealth has a
15 responsibility to take revenues from a broader tax
16 base and share it with host municipalities and
17 counties, particularly, because it is the outdated
18 laws of the Commonwealth, which mandate an unbalanced
19 set of taxing authorities based on artificial
20 classifications of local government without regard for
21 market realities, local needs or priorities.

22 My point is this, that while I strongly
23 support House Bill 2018, and I think it goes a long
24 way toward more fairly distributing the cost of
25 services to communities, I believe just as strongly

1 the entire system of local government and service
2 delivery in Pennsylvania is broken. And it is the
3 laws of that broken system, many of which are decades
4 old, which are forcing Pennsylvania's counties and
5 municipalities into fiscal distress, and which
6 moreover are making our state economically
7 uncompetitive in the global economy.

8 You only need to review, as
9 Representative Freeman already mentioned this morning,
10 the Pennsylvania Economy League report examining the
11 fiscal health of communities since 1970 to see what
12 lies in store for even today's more prosperous
13 municipalities. The report found that over 1,100, or
14 almost half of the Commonwealth's municipalities are
15 in worse financial condition than they were in 1970.

16 It found that fiscal distress crossed all
17 boundaries from our cities, to boroughs, to first
18 class townships and sooner or later that decline will
19 spread to townships of the second class. The League's
20 report made clear to all who read it that because our
21 outdated state laws require counties and communities
22 to provide certain services within artificial
23 boundaries and to raise revenue mostly from regressive
24 sources like property tax, within those same
25 artificial boundaries, it is the Commonwealth itself

1 that reinforces those little boxes I discussed. And
2 we all know that those little boxes exacerbate our
3 weaknesses and diminish our strengths.

4 While I understand that this is a
5 terribly complex issue, and that House Bill 2018 also
6 is a well-intentioned effort to address the core
7 problems with our broken system, I urge you to do two
8 things.

9 First, send House Bill 2018 to the floor
10 for full debate because if House Bill 2018 becomes law
11 you will set a precedent regarding municipal
12 interconnectedness upon which future legislation can
13 build.

14 Second, look to the recent report of the
15 State Planning Board. One of your members,
16 Representative Steil, worked and helped to craft that
17 and you're all familiar with it. This report gives us
18 a roadmap to local governance reform that will make
19 our communities more sustainable and less dependent on
20 fleeting largesse of federal and state governments.

21 The Planning Board's recommendations
22 include some key findings. Enable counties to either
23 contract to provide police and fire services on a
24 county-wide and raise revenue to do so. Allow tax
25 base sharing among municipalities to support regional

1 assets. Improve the existing Intergovernmental
2 Cooperation law so that when issues arise there are
3 communities that are already working together and
4 there's a process to resolve those issues.

5 Refine the Municipal Planning Code to
6 ensure that there's planning consistency between local
7 and county comprehensive plans and zoning. As the
8 Mayor said, we've had over \$50 million of public
9 infrastructure damage in Luzerne County in four years
10 because of storm water, strictly because of storm
11 water falling from one community that does not believe
12 or is not required to be connected to those who live
13 below it.

14 Create a statewide health and pension
15 plan for municipal employees. Certainly that's now
16 being discussed through Representative DePasquale's
17 House Bill 568.

18 On behalf of the constituencies that I'm
19 representing here today I want to thank the committee
20 for the opportunity to address you and I look forward
21 to your questions.

22 Before I close I'd like to leave you with
23 some food for thought. Recently the Campaign to Renew
24 Pennsylvania and 10,000 Friends commissioned two
25 statewide surveys to gauge voter sentiment of

1 municipal services, planning and development issues.
2 While it's not surprising that voters support common
3 sense solutions, it is particularly important to note
4 that they do not share the opinion of many elected
5 officials that functional municipal cooperation will
6 result in governmental Armageddon.

7 For example, 95 percent of voters in
8 Pennsylvania believe that governments should be
9 required to work together on efforts that include
10 transportation and protection of open spaces. Sixty-
11 four (64) percent believe that communities should be
12 encouraged to pool resources to deliver local services
13 like police and fire. A wide majority, 84 percent,
14 believe that regional police departments should be
15 formed, and perhaps most importantly, 67 percent think
16 that suburban communities should financially support
17 regional amenities housed in the older communities
18 that have spawned those same suburbs.

19 Pennsylvanians believe they're connected,
20 only our laws require them to be disconnected. So as
21 you can see, Pennsylvanians, as usual, are way ahead
22 of their elected and civic leaders. They want those
23 who are in a position to lead to do so by advancing
24 the efforts to make our communities more sustainable.
25 If we choose to do nothing and wait until our

1 municipal pensions are bankrupt or until many
2 communities have less than a cruiser full of full-time
3 police officers --- in fact, in Luzerne County, 29
4 police departments have less than three full-time
5 officers --- we will have no one to blame but
6 ourselves.

7 The timing is right for reform. House
8 Bill 2018 in a good start, but structural and systemic
9 change is required. Let us free our local officials
10 from the outdated state laws that practically preclude
11 cooperative decisions that could control costs,
12 improve services and give us the resources necessary
13 to build a brighter future.

14 If we don't, another generation of
15 community leaders will be forced to wear the same
16 chains we have forged for the ones that exist today.
17 Thank you very much.

18 CHAIRMAN FREEMAN:

19 Thank you very much for your testimony
20 and for your support of House Bill 2018. Are there
21 any questions from the members? Representative
22 Mensch?

23 REPRESENTATIVE MENSCH:

24 Todd, good to see you.

25 MR. VONDERHEID:

1 Good to see you again.

2 REPRESENTATIVE MENSCH:

3 I recall you being at the office and we
4 talked about the regional planning and we talked about
5 economic development. It was either one or the other.
6 A couple of points, if I may. You may remember I used
7 to have an office in Plains.

8 MR. VONDERHEID:

9 Yes, I do.

10 REPRESENTATIVE MENSCH:

11 I spent a couple days a month out there.
12 I've noticed a significant change in the city.

13 MR. VONDERHEID:

14 It really is changing.

15 REPRESENTATIVE MENSCH:

16 Yeah.

17 MR. VONDERHEID:

18 Very exciting.

19 REPRESENTATIVE MENSCH:

20 It was a nice tour of the downtown. When
21 you're talking about reforming the municipal planning
22 code to ensure consistency between local and county
23 comprehensive plans, one of the things that you and I
24 talked about was how we have four --- had four, now we
25 have five regional planning groups in western Luzerne

1 County.

2 MR. VONDERHEID:

3 Right.

4 REPRESENTATIVE MENSCH:

5 We're crossing borders. We're bringing
6 in Bucks County now. We're bringing in --- the 5th
7 includes parts of Montgomery and also Chester County.
8 So we're beginning to do some intercounty. Is that
9 possible up here? Have you tried?

10 MR. VONDERHEID:

11 We actually --- we had a groundbreaking
12 effort at a bi-county open space plan at the end of
13 June of 2003 and we've just begun to work on a bi-
14 county comp plan. So Luzerne and Lackawanna Counties
15 we really believe are one marketplace with the same
16 common issues and resources. We're trying to plan
17 flexibly. The work --- we've included dozens and
18 dozens of the 105 or so municipalities in those two
19 counties. We've include those officials in the
20 process. We hope that it can spur an ability to make
21 those things work together.

22 We have about seven or eight multi-
23 municipal planning efforts going on right now.
24 Unfortunately only one of them includes a third-class
25 city. Most of them, as you've talked about in your

1 district, planning efforts going on in like places, or
2 at least places who believe they are like places,
3 small boroughs and second class townships for the most
4 part. In Lackawanna County there are 11
5 municipalities as well as --- and in that 11 most of
6 them are townships of second class except the Borough
7 of Dunmore and the City of Scranton. And we think
8 that is a huge step in the right direction. They feel
9 there is an interconnectedness between those places,
10 and so it's happening. Certainly the benefits that
11 you created through the original changes I believe in
12 2001, to the MBC. When were those changes made?

13 CHAIRMAN FREEMAN:

14 Oh, in 2000.

15 MR. VONDERHEID:

16 2000. Certainly you've gone a long way
17 with the work that you're doing and all of the --- but
18 it's the level of inconsistency that's still allowed,
19 that certainly has contributed to our storm water
20 damage and ---.

21 CHAIRMAN FREEMAN:

22 And which is addressed in Representative
23 Steil's bill.

24 REPRESENTATIVE MENSCH:

25 When you say our system of local

1 government, our means the state.

2 MR. VONDERHEID:

3 Our state, yes.

4 REPRESENTATIVE MENSCH:

5 In your endeavors 10,000 Friends, have
6 you thought about or have you done any contrasting to
7 surrounding states, how Pennsylvania compares?

8 MR. VONDERHEID:

9 We have. We found actually that working
10 with Brookings and some of the other things around the
11 country we found actually that there are more
12 destructive commonalities between New York,
13 Pennsylvania, Ohio, Michigan and it's probably
14 consistent of those things actually that the
15 consistency is with the problems, and the
16 fragmentations are one of the reasons why we have had
17 the economic issues we also have.

18 There are commonalities of economic
19 realities and commonalities of structure. When you
20 look to the South, the Pacific Northwest, those
21 communities in effect learned from us and came after
22 us and set up systems of government that were much
23 more fluid, much more responsive to appropriately
24 distributing the costs of the service over a district.
25 And they are being beating the pants out of us

1 economically. We all know that and we wake up every
2 day and hope that our children and neighbors don't
3 wind up moving to Portland, or California, or Texas or
4 the South or the Southeast. I think that we finally
5 have to come to the realization that we can have
6 functional reform. I don't care --- as former county
7 commissioner I don't care how many mayors are in the
8 parade. I care how many fire chiefs or police chiefs
9 there are. That's what matters.

10 REPRESENTATIVE MENSCH:

11 The essential services?

12 MR. VONDERHEID:

13 The essential services.

14 REPRESENTATIVE MENSCH:

15 One last question. Yesterday we were in
16 Easton and heard from the mayors of Allentown and
17 Easton and Bethlehem and something I hadn't really
18 thought about before, but I've been thinking about
19 that ever since I left the building yesterday. Is the
20 migration that is happening from the cities into the
21 townships --- and they cited one in particular. They
22 will have the same problems and you say the same thing
23 here in your testimony. So maybe it's a two-part
24 question. One, I'm curious of your insights into
25 what's happening with this migration, and secondly, is

1 that the same phenomenon that we're experiencing here
2 in Wilkes-Barre and Scranton and other areas?

3 MR. VONDERHEID:

4 Well, I'll start off with the second
5 piece. We actually experienced that issue of urban
6 abandonment, in the core valleys before it happened
7 anyplace else. In 1972, long before there were the
8 issues of urban decline in Allentown and Easton and
9 many small cities. We weren't experiencing any of
10 those here, but we had a natural disaster and 14 feet
11 of water in the building we sit in today. That was
12 the first when people just said, they lived on a hill,
13 but people who didn't live on the hill ran to the
14 hills and they just ran first and that created this
15 gap in the marketplace right away. And then we
16 started to experience the other cyclic issues and they
17 were real issues, so and that is an issue for us.
18 It's the urbanized core and so that's certainly what
19 we're experiencing. But to the first point you're
20 talking about.

21 And one of the county commissioners in
22 Lehigh County lives in Lower Macungie.

23 REPRESENTATIVE MENSCH:

24 Percy Dougherty.

25 MR. VONDERHEID:

1 Percy who is a great advocate for
2 regional cooperation, complains constantly, almost ad
3 nauseam about the fact that there are no laws and no
4 rules in the municipality that he lives in and no
5 police to protect it.

6 So certainly it's a phenomenon that's
7 taking place, but to me I think in Pennsylvania we
8 have this kind of Teddy Roosevelt sense of rugged
9 individualism. You know, we think that we are of means
10 we can leave all of the costs behind and go someplace
11 else. Go to the Midwest or go wherever it may be.
12 That's wonderful to a degree, but the assumption that
13 you can leave somebody else behind and not be
14 connected to them is unrealistic.

15 And because, in fact, you both benefit
16 from them and impact them, and so we have to be
17 connected. I said to somebody this morning that the
18 stadium in Lackawanna County is a lousy nine miles
19 from where we sit right now has added to my quality of
20 life, has increased this region's competitive
21 advantage to attract and retain industry and create
22 jobs, and I don't pay a penny to make sure the ladder
23 truck to put out a fire and I don't pay a penny for
24 the cops that service that complex. I don't pay a
25 penny to the arena that a lot us, in fact, helped

1 build less than a mile from where we sit right now. I
2 don't pay a single penny. That's a problem. It
3 really is.

4 In fact, with the structure that we have
5 because of EFT versus PFT in my neighborhood and in
6 all of the City of Wilkes-Barre my wife and I, two
7 working earning people. We pay for police and fire for
8 my parents and retirees, in fact, for some folks who
9 have greater needs than I'll ever have in my life.
10 But because their needs don't come on a W-2, they
11 don't pay, we pay for their services. So young
12 families are disproportionately burdened to pay for
13 those services in the current broken system. My basic
14 issue is the cost of services isn't distributed the
15 way it should be. That's the real issue. Thank you.

16 CHAIRMAN FREEMAN:

17 Thank you. Representative Pashinski?

18 REPRESENTATIVE PASHINSKI:

19 It's a perfect segue to where I was going
20 with this. Don't you think there's a way that we can
21 have these tax-exempt businesses and institutions and
22 so on take a slight piece of that responsibility? In
23 looking at it all when we start to name some of the
24 tax-exempt areas --- as the Mayor pointed out earlier,
25 he went to various tax-exempt institutions and asked

1 for help and they recognized the need and they were
2 able to help out financially. Do you feel that the
3 time is right now to relook that aspect of it all and
4 engage in a conversation with them to find a means
5 that might be conducive for them to participate
6 financially in this regionalization of responsibility?

7 MR. VONDERHEID:

8 Well, I think that everybody has a duty
9 to pay. That's my best way to answer and so in many
10 ways the large institutions that the Mayor discussed
11 we want to have almost gladly --- again, assuming that
12 the money is going to be spent correctly --- have
13 stepped up and in fact, the business improvement
14 district the city we need help design, and just
15 implemented the last year.

16 I talked about 55 percent of those
17 parcels are tax-exempt, that we derive about --- the
18 district derives about \$175,000 from taxable parcels
19 in June. We derived \$100,000 from contributions
20 PILOTs from those tax-exempt entities. So in fact, in
21 some instances they're paying more than they would if
22 they were taxed, to participate and care for the
23 program, put police, additional police and cleaning
24 services and marketing services on the street.

25 So those who can I think in many ways

1 are. It's the value that, both tangible and intrinsic
2 value that those amenities create. The arena
3 authority, that you know well could not write a check
4 comparable to the cost of services or its assessed
5 value to Wilkes-Barre Township and could not write
6 that check nor could the state nor will Riverfront
7 Parks nor Kirby Park, which is a gift to the city for
8 a hundred years, ever be able to carry the costs of
9 its services.

10 But the fact that somebody who lives on
11 Third Ave in Kingston, which is closer to Riverfront
12 Park than I am, doesn't pay for it, but I do even
13 though they're in it as often as I am. That's the
14 disconnect. And so, yes, entities, institutions,
15 usually the hospitals and schools, during good times,
16 they just right now our colleges the small schools in
17 all of our communities in Pennsylvania are doing well
18 because of the population inside that 18 to 20
19 demographic. In five years college presidents tell me
20 that that's going to be down and the budget is going
21 to get tight again.

22 So today I'm thankful for that. Tomorrow?
23 I'd rather not write that check and have great
24 institutions filled with young people learning. When
25 the Mayor talks about losing \$40,000 because Wilkes

1 took a building, we think \$40,000? What is \$40,000?
2 It tells you how tight the municipal budget it. That
3 \$40,000 matters.

4 Now, I and you now walk on that street
5 where there are a hundred young people walking out of
6 the building every day, bagels, coffee, go to
7 restaurants across the street and we love it. It's
8 enriched our cities and made other people interested
9 in investing. It is illustrative of how difficult it
10 is when you're looking for \$40,000 when you can take a
11 hundred people and more and put them on the streets.

12 So the system forces us to not value
13 things of great value. It almost forces us --- it
14 just makes us think in boxes, and that's the burden.
15 So yes. So institutions with means should contribute
16 to the cost of services, but that shouldn't --- that
17 focus on --- to me the focus is on more appropriately
18 sharing the value of those, having everybody who
19 benefits pay to support it.

20 CHAIRMAN FREEMAN:

21 As a follow-up to Representative
22 Pashinski, I think one of the benefits of this
23 legislation is that it moves the contentiousness that
24 sometimes happen when you're dealing with non-profits
25 ponying up somehow to help out the community. It

1 sounds like you've had great success in this community
2 with your better endowed with non-profits.

3 MR. VONDERHEID:

4 In which times?

5 CHAIRMAN FREEMAN:

6 In good times.

7 MR. VONDERHEID:

8 In times when there was leadership they
9 trusted.

10 CHAIRMAN FREEMAN:

11 Yeah.

12 MR. VONDERHEID:

13 But that honestly would go away with
14 leadership that they didn't trust. As Representative
15 Harris said before, they could go away.

16 CHAIRMAN FREEMAN:

17 But when they can see that their
18 resources have been given to the community and used
19 well, that's all-important. Representative Ross has
20 made a very good point, too that not all non-profits
21 are created equal. You have the universities or not-
22 for-profit medical facilities but you also have a
23 Salvation Army or you have a shelter or you have, as
24 you mentioned, properties that really are public
25 assets such as the park system, all of which could not

1 be expected to come up to the plate and provide some
2 sort of payment in lieu of taxes.

3 MR. VONDERHEID:

4 I actually mentioned that we are a
5 non-profit, but we own real estate and this is a
6 (c)(6) and pays taxes. Actually a (c)(4) and pays
7 property taxes, designed specifically because we
8 thought we should. An example is we run and developed
9 taken a former facility with 60,000 square feet and it
10 began with 12 start up businesses, but now it's just
11 12 and one that's graduated, and now it has 125
12 employees. It is probably the most successful small
13 city incubator in the state, if not in the country.
14 Wonderfully done.

15 We pay property taxes, fully occupied,
16 fully functional and that is a --- we're willing to
17 try to do that, but every day as our resources get
18 tighter, it gets much harder to subsidize and maintain
19 success, and that value is worth so much more than the
20 \$150,000 we lose, so much more than that, but there
21 are no ways to bail us out.

22 CHAIRMAN FREEMAN:

23 Let me touch on something else. You
24 mentioned in your testimony the need for greater
25 cooperation and I agree with you a hundred percent on

1 the part of municipalities sharing services and
2 finding other ways to create regional partnerships of
3 these issues.

4 We have an odd structure of local
5 government in Pennsylvania in that --- as you
6 mentioned, unlike the south or the west where counties
7 are active participants in municipal functions, here
8 the county is really sort of marginalized to human
9 services, court services and a very limited number of
10 specific local government responsibilities. All the
11 others, police, fire, the local municipality has that
12 responsibility.

13 You, obviously, are a very progressive-
14 thinking former county commissioner and we've seen
15 reports from beyond our region of having the county
16 play an active role in helping. In your conversations
17 with other county commissioners, during your tenure in
18 office, did you see or come across activity on the
19 part of commissioners to weigh into these issues or
20 did they say, no, that's not my responsibility?

21 MR. VONDERHEID:

22 Well, I think that there is an
23 intellectual interest, and a lot of folks who ---
24 yeah. I think that many of them are like we were,
25 struggling so hard to provide the mandated services in

1 the existing frame, you know, in a tax averse state,
2 in a tax averse general assembly. Nobody cared.
3 Everybody knows that. But to say to the county
4 commissioners, do something else without the revenue
5 stream to support it, I think it's something that they
6 can't get to the do without the revenue.

7 In fact, in the work many of us have been
8 doing through 10,000 Friends sitting at the table with
9 all municipal associates, that's one of the barriers
10 that we can't get to the do without knowing how to pay
11 for it and that's really crippling.

12 I do think though that there's probably a
13 difference, which is why there would be people who
14 were able to --- if you were able to enable counties
15 to deliver hard service, police, fire or deliver or
16 contract through to provide services on a countywide
17 basis. But not every, not all 67 counties would
18 believe that's a priority, or choose to do so. But I
19 think that the second class, two-As, three and four
20 would probably would be very interested in that
21 opportunity.

22 CHAIRMAN FREEMAN:

23 What do we need to do at the state level
24 to create that environment? You did mention some very
25 enlightened commissioners who obviously see the

1 problem we're addressing. I think I really don't
2 speak for the other members here, but I think there
3 tends to be a rather hesitance on part of many county
4 commissioners even in the second and third class
5 counties that say, you know what, we're going to draw
6 up a plan to have regional police force and it's
7 almost like walking into a hornet's nest. You know
8 you're going to experience resistance from all the
9 police chiefs and from local forces, even some well-
10 intentioned council members or supervisors are going
11 to say, we don't want to lose local control. We don't
12 want to give up our prerogatives. How do we create
13 that atmosphere?

14 MR. VONDERHEID:

15 Well, what I'd say is in the counties,
16 you are the first and last part of the criminal
17 justice system. You call 9-1-1 ---

18 CHAIRMAN FREEMAN:

19 Sure.

20 MR. VONDERHEID:

21 --- and then you're responsible for
22 adjudicating and housing, the impact of the criminal
23 system. In the middle, the piece that actually
24 reduces the cost on the back end, is we police our
25 streets correctly and deploy our resources correctly.

1 We have no impact on that. In Luzerne
2 County, we have \$230 million annual budget. Of that
3 about a hundred is human services, so \$130 million
4 general fund to operate with. \$90 million of that
5 goes to the criminal justice part, our prison and
6 court system. So there's \$40 million to do everything
7 else, and the county has 325,000 people on the second
8 largest piece of geography in the Commonwealth.

9 So I believe that we could be more
10 effective, and that that \$90 million could be
11 appropriately spent or used, if there was cohesive
12 system to reduce crime, and as I said, we had 52
13 police departments Luzerne County, so if 20
14 municipalities choose to allow the State Police to
15 service their needs --- whether they do that
16 effectively or not is another conversation, but they
17 don't pay a fee for that service any more so than
18 anybody else does. But of those 52, 29 have less than
19 three people in a full-time police department.

20 There are some municipalities that we've
21 been working with who are declining to participate in
22 regional efforts who have an eight percent closure
23 rate on cases, and while I don't mean to denigrate
24 those folks, there are Girl Scout troops who can have
25 eight percent closure rates. They are simply making

1 citations. They don't have the ability to actually
2 close cases because there's two cops.

3 CHAIRMAN FREEMAN:

4 What are populations? 4,000, 5,000?

5 MR. VONDERHEID:

6 We have one of the greatest populations
7 of boroughs. We have a couple first class first class
8 townships, Plains, Hanover, but most of them are
9 boroughs. Literally the entire west side, we have 14,
10 or 15 boroughs. All of which, ten years ago had ten
11 cops. Today they have two.

12 CHAIRMAN FREEMAN:

13 They probably have substantially higher
14 populations?

15 MR. VONDERHEID:

16 Absolutely higher populations. Today
17 they all share the same part-timers, same part-time
18 cops who make \$8 an hour to go up and down the west
19 side and east side of this river every day and they're
20 not actually sure what municipality they're in.
21 People from suburban Philadelphia, they look at me and
22 they don't know what I'm talking about.

23 You got to go to the Mon Valley. I think
24 you got to come to coal country, and you got to
25 understood that we actually for the first time in 77

1 years, we have two years of consistent growth in our
2 population. The Eastern seaboard is moving to us as
3 certainly you've experienced in the Lehigh Valley
4 We're not prepared to deal with it. We're not
5 prepared to provide services. We are not prepared to
6 grow correctly, because the system won't let us do it.

7 CHAIRMAN FREEMAN:

8 Very good. Any further questions from
9 the staff members? If not we thank you very much for
10 your testimony.

11 MR. VONDERHEID:

12 Thank you for coming, everybody.

13 CHAIRMAN FREEMAN:

14 Thank you. Our final testifier is David
15 Ross. Take your time to get yourself situated, but
16 whenever you're ready, come up to the podium.

17 In addition to Mr. Ross' testimony, we
18 also have testimony from the Pennsylvania Alliance
19 that we'll pass out to the membership. The gentleman
20 before you is Dave Ross, the Public Policy Officer of
21 Pennsylvania Association of Non-profit Organizations.
22 We thank you for coming, and feel free to proceed with
23 your testimony.

24 MR. ROSS:

25 Thank you, Chairman Freeman, Chairman

1 Pashinski, and members of the House Local Government
2 Committee, Representative Harris. I'm here today and
3 I presume that my testimony will be a little bit
4 different than others' testimonies. My purpose here
5 is that we support this Bill, HB 2018, because we
6 think it's a wonderful idea.

7 It takes pressure off the charitable non-
8 profit community in a way that will help to smooth the
9 relationships between charities and the communities
10 they serve. I represent the PANO, the Pennsylvania
11 Association of Non-profit Organizations. We're a
12 statewide membership organization serving the
13 charitable non-profit community. We have over 700
14 members and many of your members have members, so we
15 have a very broad reach.

16 And I can't speak directly to each one of
17 your districts or your particular city, but what I can
18 speak to is that this bill will have broad statewide
19 implications that I think, I believe, will allow the
20 non-profit community and the local governments to
21 better work together. The idea of PILOTs, payments in
22 lieu of taxes by charities has been a problem for the
23 charitable community, has been an issue, for many
24 years.

25 Act 55 is the Institutions of Purely

1 Public Charities Act. Act 55 is the Act that governs
2 how charities operate and how we qualify for tax-
3 exemptions. There's five core criteria that charities
4 we have to meet, advance the charitable purpose,
5 donate or render gratuitously a substantial portion of
6 its services, benefit a substantial and indefinite
7 class of persons who are legitimate subjects of
8 charity, and relieves --- and this is one of the more
9 important ones, and I say that because it's the reason
10 I'm here. Relieves the government of some of its
11 burden.

12 The purpose of Act 55 in 1997 --- many of
13 you may have been a part of that, but its purpose was
14 to clarify what non-profits have to do to benefit the
15 community, to serve the community and receive tax-
16 exemptions for that purpose. All these five criteria
17 must be met.

18 Act 55 prevented a great deal of
19 litigation after its passage. In fact, the litigation
20 of which caused the bill to be --- to actually be
21 drafted and eventually become the law. The point
22 being that there are clear standards in place of why
23 charities receive tax exemptions.

24 And the charitable non-profit community
25 is very broad. It reaches --- I'm sorry, it is

1 hospitals, colleges, human services, arts and culture,
2 and each one of these various types of non-profits,
3 types of 501(c)(3)s impact the local community
4 differently, but they have an economic benefit.

5 So once you combine the fact that
6 charities relieve government's burden, serve the local
7 community, serve a function that government either is
8 unable to provide or is no longer willing to provide,
9 combine that with the fact that non-profits as a
10 structural type of entity can perform the services
11 that they provide differently, economically, than say
12 the same services provided by a government agency
13 directly, it's a little bit more efficient; it's a
14 little less expensive for non-profits to serve that
15 function.

16 If non-profits don't have the resources
17 they need to accomplish their missions to serve the
18 community they either have to eliminate those
19 services, cut back on the services, or do more with
20 less. Either way, the services --- either the quality
21 suffers or the amount of services suffers.

22 PILOTs deplete charitable resources and
23 those services still have to be provided by somebody.
24 To someone, by someone. Those services, many of them,
25 are either --- some of them are essential government

1 functions; some are not. But those that are not are
2 important government functions, are important
3 community functions.

4 All of that aside, with respect to the
5 arts community, with respect to colleges and
6 universities, with respect to hospitals, most
7 municipalities look at those non-profits as kind of a
8 double-edged sword.

9 But what I am suggesting is that if we
10 can eliminate them if we can eliminate this inherent
11 conflict between local governments and the 501(c)(3)
12 charitable non-profit community we can focus on that
13 which we do well. We can focus on the benefit. We
14 can focus on the services that we provide. We're both
15 doing the same thing from different directions, from
16 different sides, going to the same place.

17 And the reason that there is a
18 perception, that there are so many non-profits in so
19 many of our distressed urban communities is because
20 they serve that constituency and they don't pick up
21 and move when the neighborhood changes. They stay and
22 continue to serve that community.

23 There's also something in my written
24 statement about how non-profit arts particularly ---
25 because that information has already been researched

1 --- can serve as an economic engine for growth and
2 many of you may have been involved in projects like
3 that, but non-profits as a whole are a significant
4 employer, and those employees pay taxes.

5 Many non-profits pay taxes on various
6 aspects of what they do, and it is an economic benefit
7 to having them in your community. The problem is not
8 that there's too many charities and too many non-
9 profits. The problem is that there's not enough
10 employers, so how can we work together to improve the
11 quality of life in our communities so that it attracts
12 those employers?

13 Will the employers want to come into a
14 community that doesn't have social services, that does
15 not have adequate hospitals, that does not have
16 research facilities attached to those hospitals, or
17 colleges, universities, arts venues? Who's going to
18 want to relocate there?

19 So my point is we're both working the
20 same purpose, we're both working towards the same goal
21 just from two different directions and this bill, HB
22 2018, has the ability to bring both parties to the
23 table, to bring both sides to the table, remove the
24 tension and allow us better to work together.

25 PILOTs are being paid by charities all

1 over the state, all across the state, millions upon
2 millions of dollars and whether that's helpful in the
3 long run or not, is hard to say, but in my opinion
4 personally I am of the belief that it's not --- that
5 PILOTs are not necessarily --- they're not --- they
6 deplete charitable resources.

7 Charities and the broader non-profit
8 community receive government funds and requesting
9 PILOTs from non-profits, only to then provide grants
10 later, just moves the same money around in circles.
11 More people have to handle it; more the administrative
12 costs. This bill streamlines that process. I mean,
13 the money is going to the same place anyway. The
14 state provides grants to the 501(c)(3) communities,
15 the (c)(3) community provides those services.

16 Well, they also provide PILOTs; many of
17 them pay PILOTs to the local communities. If the
18 state would just pay for PILOTs those state and local
19 communities the administrative costs on all of that,
20 less litigation, less anxiety about, you know, whether
21 the charity's going to be able to meet its budget,
22 whether they have to hire more attorneys for --- the
23 list just goes on and on.

24 So my point is that this bill streamlines
25 that whole process and prevents all of that ill will.

1 So that's my seven minutes, and I think
2 this bill has something that can actually make a
3 difference, and that's it. Thank you.

4 CHAIRMAN FREEMAN:

5 We thank you for your testimony, and for
6 your support of the legislation. I think --- you
7 know, one of the things I was trying to achieve in
8 this legislation, too, was to ease that tension
9 between not-for-profit organizations and
10 municipalities. And you'll be pleased to know that
11 just about every local official who has testified
12 before us either today or yesterday noted that they
13 recognize the importance of those non-profits, whether
14 it's a college, whether it's a hospital, whether it's
15 other charitable organizations or government entities,
16 the county.

17 They know the importance of it, they want
18 to maintain it within their borders. They recognize
19 and quality of life kind of factor, but also
20 recognizing that with this legislation, that those are
21 truly regional assets and it shouldn't be up to the
22 local host municipality to shoulder all the burdens of
23 providing services with an eroded tax base as a
24 result. I think this legislation really does get at
25 the issue without creating tensions that we see every

1 time the issue of PILOTs comes up. Are there
2 questions in terms of that? Representative Mensch.

3 REPRESENTATIVE MENSCH:

4 If I may, on Act 55. Despite the gray
5 hair, I'm a brand new legislator. I'm not as familiar
6 with Act 55 as I might be. I've been Chairman of the
7 Medical Association and their PILOT to me is alien as
8 a concept. I didn't realize until yesterday that
9 there were actually payments in lieu of. With a
10 501(c)(3) granting, why would anyone then decide to
11 pay a PILOT? Is it a corporate conscience, a
12 community conscience?

13 MR. ROSS:

14 Yes. There is actually a couple of
15 reasons. One is in a sense of community, a sense that
16 they're part of the community. They don't want to see
17 the community ailing like that, but another part of it
18 is pressure, and whether it's good public policy or
19 bad public policy, pressure is there.

20 REPRESENTATIVE MENSCH:

21 Would it be primarily medical
22 institutions and universities, colleges?

23 MR. ROSS:

24 I'd have to say that it's --- probably
25 the majority of it is colleges, universities and some

1 kind of broad coalition of charities. And as far as
2 the broad coalition charities they typically don't
3 have a lot of property. As far as whether it's --- if
4 we're looking at how much property they hold and
5 whether a couple million dollars here and there or a
6 couple hundred thousand dollars here and there is
7 going to make a difference in the community, the
8 question is what's the opportunity cost of those
9 dollars?

10 What else could those dollars have gone
11 for differently and when are you going to have to pay
12 for those services, whether it be this year or five
13 years from now, when the reason is if in fact there
14 was no youth services of some sort. At some point the
15 bill has to be paid and the question is, is it better
16 to leave that money in the charitable non-profit
17 community for services or is it better to handle a
18 short term need?

19 As far as what types of organizations are
20 paying PILOTs, yes, you're in. It's hospitals and
21 colleges. The broad charitable community has not
22 contributed as much but predominately because they
23 don't own the property. They do own some. It's not as
24 large, but keep in mind --- and I'm sure you realize
25 this, the reason they're holding --- the reason they

1 have property is they're typically using that property
2 to provide the services they provide, typically, and
3 taxing that property that is potentially, less
4 opportunity for the growth and development of that
5 regional asset. So with respect to a hospital, if you
6 take their property away you don't have much left. We
7 have a lot of employees who have some great
8 intellectual assets, but without the hospital building
9 they can't provide the service.

10 REPRESENTATIVE MENSCH:

11 To your broader point, when you were
12 talking about universities and helping with the
13 revitalization of the community and they push the
14 inner city out, if that's the right description, but
15 at the same time they rehabilitate that entire area.
16 Crime goes down, certain other services, the arts
17 community, other services have come in and of course,
18 new businesses. So it's really a renaissance that's
19 been fueled by the universities that are beginning to
20 take back old properties while expanding the
21 universities. So I understand your point. I
22 understand it's not happening every time, but that's a
23 good example.

24 CHAIRMAN FREEMAN:

25 Representative Pashinski.

1 REPRESENTATIVE PASHINSKI:

2 Yeah. I wanted to pursue that just a
3 little further. Do you think there ever is a time
4 though, when a certain institution like certain
5 universities --- University of Pennsylvania has done a
6 marvelous job, but they have a \$4 billion endowment,
7 you know. I mean, they're extremely well-financed and
8 they're more than solid.

9 But the fact is that most of the cities
10 are experiencing shortfalls in those kinds of
11 services, and during this time of need is what we're
12 all struggling with. If the money were available, it
13 wouldn't be an issue. Is there --- would you say
14 there's a various stratus classifications where some
15 non-profits just work on such a shoestring that they
16 could never even consider a PILOT as opposed to, say,
17 Blue Cross, which is a non-profit up here?

18 It's hard to balance that one out when
19 you got a \$460 million surplus. And I think, you
20 know, they're are good neighbor. They want to help
21 out and they're a tremendous asset to the area. So
22 they're probably one of the largest employers locally.
23 It's just a matter of the cities need some help. It's
24 a way that they can offer that help without a
25 government band-aid, so it serves a number of

1 purposes. But my question is, do think there might be
2 different layers of stratus where a PILOT would be
3 appropriate and where a PILOT would not be?

4 MR. ROSS:

5 I think the answer to that question I
6 have to go back to Act 55. Act 55 provides that
7 PILOTs are voluntary. Voluntary agreements are core
8 to what lead to the passage of that bill as well as
9 its enumerated requirements. As far as strata, as far
10 as --- I don't know if there really --- if there could
11 be a bright line rule or a threshold.

12 I would say that Act 55 has a \$10 million
13 threshold, and where a particular burden shifts but
14 that's with respect to using the federal tax-exemption
15 and that has to be assumed --- it's actually a
16 technical minor aspect of it. But I think it does
17 have to do with the size, the scope and those
18 voluntary agreements.

19 But once again I don't --- I mean, what
20 is the budgets of most Pennsylvania --- small
21 Pennsylvania cities, third class cities? And then
22 when they start looking to their non-profit community,
23 how much are they getting out of that? And then if we
24 consider what the value of that is, not just in
25 dollars but what those dollars would have otherwise

1 paid for, it's a value judgment. It has to do with
2 whether the community can do without something else
3 and whether there's other ways to fund that.

4 REPRESENTATIVE PASHINSKI:

5 Thank you.

6 REPRESENTATIVE MENSCH:

7 If the medical association decides that
8 it wants to do a PILOT, is it a one-time or does it
9 become a binding agreement? How does that work?

10 MR. ROSS:

11 There's the Pittsburgh Public Service
12 Fund, which is over the course of three or five years.
13 In Philadelphia they've had some kind of arrangement
14 now for many years. I don't know what the current
15 status of that is, but I can say that most PILOTs are
16 being paid individually, independently, individually
17 and not a matter of public record, because there's
18 another aspect to this. And that's as a donor, would
19 you want to know that the donation that you just made
20 is just going to be turned back over to the same
21 institution that you would otherwise pay taxes to?
22 It's a matter of donors' choices. Why they're
23 donating to charities as opposed to paying taxes on
24 those charitable dollars.

25 REPRESENTATIVE MENSCH:

1 If this House Bill were enacted tomorrow,
2 and Act 55 still governed your constituency, what do
3 you think will be the behavior and attitude with the
4 future potential for PILOTs?

5 MR. ROSS:

6 Being that this bill does not speak to
7 the other half of the PILOTs issue, the charitable
8 presence, I don't see that it will prevent charities
9 from entering further agreements, further PILOT
10 agreements, but it certainly would abate some of the
11 need.

12 CHAIRMAN FREEMAN:

13 Follow up to Representative Mensch. Has
14 it been your experience, dealing with not-for-profit
15 organizations, that typically the kind of support they
16 would give to a PILOT is usually tied to either a)
17 infrastructure within their surrounding environs or,
18 two (sic), some kind of tangible connection to the
19 mission of the institution, and that they're more
20 willing to engage in this kind of PILOTs if they can
21 show their trustees or their donor base that this
22 actually enhances the operation of the facility?

23 MR. ROSS:

24 I'm not sure of the mission part. It's a
25 tough sell.

1 CHAIRMAN FREEMAN:

2 At least in terms of infrastructure.

3 MR. ROSS:

4 Yeah. Infrastructure, yes. Many
5 colleges and universities throughout Pennsylvania, for
6 example, do provide their own security or police type
7 of service. They do have their own community
8 services. That is not to say that they don't tap into
9 the community services of the local government,
10 services in the larger community, but that goes back
11 to the fact that they're an economic hub, if you will.
12 But to answer your question ---.

13 CHAIRMAN FREEMAN:

14 You can get that information for us if
15 you have any.

16 MR. ROSS:

17 Okay. I'll look ---.

18 CHAIRMAN FREEMAN:

19 It just strikes me in terms of Lafayette
20 College, they've shown great willingness to work with
21 the City of Easton on a variety of things that they
22 feel will enhance the attractiveness of the college.
23 For instance, they work in partnership with the county
24 and the city to try to improve the corridor that leads
25 to the campus, because they recognize that that's the

1 first thing that hits families as they're coming to
2 take a tour. So if that corridor is a dilapidated,
3 blighted, part of the city, they recognize that's not
4 good for the college. So they're willing to make
5 those kinds of PILOT investments in those kinds of
6 ventures, because it's mutually beneficial. And I
7 would assume that's where a lot of the PILOTs find
8 their basis.

9 MR. ROSS:

10 I'm not sure I can actually say that most
11 of the PILOTs that I've seen at least have been more
12 about the local government asking for PILOTs and
13 expecting the entire non-profit community to pay
14 accordingly. Yeah. I mean, I know there's a lot of
15 separate agreements between particular colleges or
16 particular hospitals that are that exact scenario.
17 Although recently in Lancaster, I believe it was, the
18 city government was asking for PILOTs to do 25 percent
19 of what would otherwise be due in property taxes by
20 these non-profits, which is a significant request.

21 The non-profit community had a major
22 problem with that for many reasons, but some non-
23 profits actually did work with the city on PILOTs and
24 one --- I heard that one was actually paying
25 substantially more than it otherwise would have had to

1 pay, simply because they felt that it was their civic
2 responsibility.

3 Now, you're also talking about a type of
4 institution that is based on civic responsibility, is
5 based on serving the community so you're --- so, yeah,
6 I would think that PILOTs do have something to do with
7 their infrastructure needs or their ties to the
8 community, but ultimately it comes down to the
9 resources they have available.

10 CHAIRMAN FREEMAN:

11 Are there any further questions? Seeing
12 none, we thank you very much for your testimony and
13 the support your organization has to this legislation.
14 We appreciate it. We are the end of our testifiers. I
15 would, however, like to turn to Representative
16 Pashinski. Any closing comments?

17 REPRESENTATIVE PASHINSKI:

18 Just once again, thank you,
19 Representative Freeman and the members of the Local
20 Government committee for coming to Wilkes-Barre and
21 sharing your expertise and have our mayor, our sister
22 city, Scranton, could come to testify.

23 CHAIRMAN FREEMAN:

24 Suburb of Wilkes-Barre.

25 REPRESENTATIVE PASHINSKI:

1 The suburb of Wilkes-Barre. Don't say
2 that when he's here. But we do think of ourselves
3 regionally and we are very pleased that they took the
4 time to come up here and share this very important
5 piece of legislation. We hope certainly we can
6 address it and get it passed. It will certainly be
7 helpful to Wilkes-Barre and to Scranton. I thank you
8 very much. And also thank you to all the testifiers
9 for coming out today.

10 CHAIRMAN FREEMAN:

11 I would like to thank all the testifiers,
12 the members who are present, and staff as well and
13 again, thank our host community, the City of Wilkes-
14 Barre and Representative Pashinski for assisting us.
15 This concludes our hearing for today. Our next
16 hearing is scheduled for February 28th in the Borough
17 of Gettysburg, a community where almost 80 of its
18 properties are tax-exempt. And we have a hearing set
19 for Pittsburgh as well. So this concludes the hearing
20 and thanks everyone and this hearing is adjourned.

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23 HEARING CONCLUDED AT 12:30 P.M.

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