Pennsylvania House of Representatives
Local Government Committee Hearing
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HB 2018: Tax-Exempt Property Municipal Assistance Fund

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Thank you, Mr. Chairman and thank you to all of the members of the House Local Government Committee who are here today and to those who have signed on as cosponsors of House Bill 2018. My name is Patrick Hopkins and I am the Director of Administrative Services for the City of Lancaster. I appreciate the opportunity you have provided to me and the other presenters today to talk about our views on this important piece of legislation.

I have served as the City's Director of Administrative Services since January of 2006 when I was appointed by Mayor Rick Gray and also served in the same position for several years during the 1990s. In the interim, I worked for several years as a staff person in the House of Representatives, first for Representative Sturla and then as a financial analyst for the House Democratic Education Committee under Chairman Nick Colafella.

I give you this background to make it clear that while I understand the great need at the local government level for the funding contemplated in House Bill 2018, I also understand the legislative process enough to know that any bill that would redirect more

than $200 million in funding from state coffers to local governments is a tough sell, to say the least.

But despite the uphill battle you will face in moving this bill forward, there is no doubt that our local municipalities have long been in need of a source of steady and sustainable funding to offset the financial burden caused by the concentration of tax-exempt properties within our borders.

Today I will talk mostly about the City of Lancaster, but I know that other municipalities – both Boroughs and Townships – in Lancaster County would also benefit from this legislation. This is, I believe, one of the strengths of House Bill 2018 in that it does not single out urban, suburban or rural municipalities, but rather recognizes that all types of municipalities in Pennsylvania suffer under the weight of large portions of our tax base being tax-exempt. In my discussions with Mayor Gray about this bill, he noted that the Pennsylvania League of Cities and Municipalities has given its strong support to House Bill 2018 as a common sense approach to providing funding to as many as 500 municipalities across the Commonwealth.

For the members who are not familiar with the City of Lancaster, it is a Third Class City with a population of nearly 60,000 and is the county seat of Lancaster County. Our annual General Fund budget is about $45,000,000, with more than two-thirds of our budget directed toward Police and Fire services. Like the vast majority of local governments, the City of Lancaster must run a lean operation – balancing the need to

provide vital services with the need to maintain the least possible tax burden on our residents.

This balancing act is a difficult one because local government is a very labor intensive enterprise. The services we provide – police and fire protection, water and wastewater treatment, street maintenance and cleaning, parks maintenance - and so many of our other services require **people** to do the work. In fact, our operations are so labor intensive that 81% of our General Fund budget goes toward paying the salaries and benefits of our employees. Operating expenses represent only 13% of our budget and the remaining 6% is for debt service.

Lancaster also has many burdens placed on it by both Federal and State governments that either increase our costs or place restrictions on our ability to raise the revenues we need to provide basic services. We are told, for instance, what types of services we must provide, we are told how we must structure our municipal pension plans, we are told what sources of revenues we can and can not tap to fund our operations.

We also deal with the realities of an aging infrastructure and housing stock, a high concentration of residents in poverty, higher than average rates of unemployment and the resulting need to provide more social and public safety services for our residents.

But of all of the burdens we face, there may be no single larger financial burden than that caused by the concentration of tax-exempt properties within our borders. The City of

Lancaster encompasses only 7.2 square miles of land, yet contains nearly $2.5 billion in assessed property value based on the most recent County-wide assessment conducted in 2005. However, of this $2.5 billion in assessed value, more than $500 million is tax-exempt. Not including properties owned by the City, if we were to receive real estate taxes from all of these tax-exempt properties, we would collect an additional $4.2 million in 2008. That would be the equivalent of a 9% increase in total annual City revenues.

Were we actually receiving tax revenues from all of our tax-exempt properties, we would be able to better provide the level of services our residents expect from their City government **and** reduce the real estate tax burden on our property owners.

In part due to the fact that 23% of our properties are tax-exempt, Lancaster City has, by far, the highest real estate tax rate of any municipality in Lancaster County. The next highest real estate tax rate is that of Columbia Borough which is 15% lower than the City's rate. The third highest tax rate is in Millersville Borough with a millage rate which is only just over half the City rate. After that, the tax rates fall off quickly – and a few townships have no municipal real estate tax at all. So we have the lowest average household income of any municipality in the county and yet these residents bear the greatest tax burden of any county resident.

While many of us who love living and working in Lancaster believe the benefits of city living outweigh the higher taxes we pay, there is no doubt that our higher tax rates act as

a disincentive for many families to buy homes and for many businesses to operate in the City.

One of the great benefits of living in the City is the vast array of cultural activities available. We have great museums, the oldest continuously operating theater in the nation in the Fulton Opera House, a new minor league baseball stadium, the almost finished new home of the Pennsylvania Academy of Music and many more. Each one of these cultural institutions is a regional asset, providing benefits to many people who live far beyond the borders of the City. We are fortunate to have them in our downtown and to have the vitality they bring. Unfortunately, while they are regional assets, the burden of their tax-exempt status falls only on the City of Lancaster and our taxpayers.

The same is true of the social service organizations, houses of worship, educational institutions and County government offices located in the City. Each of these entities can be considered a regional asset that provides much needed services to residents from inside and outside the City's borders. The City, as the county seat, the geographic center and the public transportation hub of Lancaster County is the logical place to locate such services. But just like with the cultural institutions, the burden of lost taxes from these properties is not shared regionally, it is borne only by City taxpayers. House Bill 2018 recognizes the role the Commonwealth should play in leveling the playing field to ensure that municipalities are not left to carry the entire burden of hosting tax-exempt organizations.

I mentioned earlier the need for stable and sustained funding to assist municipalities in dealing with the burdens of tax-exempt properties. In the City of Lancaster, over several different administrations, efforts have been made to collect Payments In Lieu of Taxes, or PILOTS, from the owners of tax-exempt properties. This effort has seen varying levels of success, but has never produced anywhere near the level of revenues that are lost each year.

In 2006, Lancaster General Hospital took the exceptional step of increasing its PILOT from about $300,000 annually to $1.2 million a year. The hospital now pays over twice what it would pay in taxes if all of its property were taxable. Unfortunately, few tax-exempt property owners are able or willing to make a similar contribution, commensurate with the value of their property, to support the provision of City services. In fact, aside from the Lancaster General Hospital contribution, the other 200 tax-exempt property owners in the City of Lancaster contribute a total of only about $100,000 annually. Because these are all voluntary contributions, PILOTS can not be considered either a stable or a sustainable source of revenue for the City.

I can tell you from my experience as the one charged with producing the City's annual budget and with forecasting future revenue and expense trends that one of the few things that makes these jobs easier is a known source of revenue the City can count on year in and year out. We believe the Liquor Tax revenues targeted in House Bill 2018 can be

this steady source of revenue and allow municipalities across Pennsylvania to carry a lesser burden from being the host to so many tax-exempt properties.

As a final thought, tapping the "Johnstown Flood Tax" as the source for the Tax-Exempt Property Municipal Assistance Fund is a perfect fit. This tax was instituted in 1936 to help Johnstown and the surrounding area recover from the devastating effects of the Johnstown Flood. Now, almost 75 years later this revenue can be used to deal with a completely different and more silent devastation that is happening in municipalities all across Pennsylvania. The slow erosion of our tax base as more and more properties become tax-exempt may seem like a trickle, but I and my colleagues in municipal finance can tell you that our local financial burdens make it feel much more like a flood.

Again Mr. Chairman, I appreciate the opportunity to speak to the Committee today. I would be glad to answer any questions you or members of the Committee might have for me.