

1 HOUSE LOCAL GOVERNMENT COMMITTEE

2 MARCH 7, 2008

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4 PITTSBURGH CITY COUNCIL CHAMBER

5 PITTSBURGH CITY COUNTY BUILDING

6 5th FLOOR, 414 GRANT STREET

7 PITTSBURGH, PA 15219

8 -----

9 Public Hearing

10 House Bill 2018

11 HOUSE MEMBERS:

12 Chairman Robert L. Freeman

13 Representative Mark Longietti

14 Representative Chris Sainato

15 Representative Don Walko

16 Presentative Harry Readshaw

17 Representative Paul Costa

18

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22

23 Reported by:

24 William E. Weber, RDR, CRR

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1                   CHAIRMAN FREEMAN: Good morning,  
2 everyone. I would like to welcome everyone to  
3 this hearing of the House Local Government  
4 Committee. I am State Representative Bob  
5 Freeman from the 136th District in Northampton  
6 County and chairman of the House Local  
7 Government Committee.

8                   I first would like to thank our  
9 host, Representative Don Walko, who has worked  
10 with my office to set up this hearing on our  
11 legislation, House Bill 2018 dealing with  
12 establishing a fund to compensate those  
13 communities that have a high percentage of tax  
14 exempt properties.

15                  And I also want to thank the folks  
16 here from Pittsburgh City Council for letting  
17 us use their chambers as well as the City  
18 County government for allowing us to hold this  
19 hearing here today.

20                  I would like all the members up  
21 here to please identify themselves and their  
22 districts then I have a few brief opening  
23 remarks. And I turn it over to Representative  
24 Walko for some as well.

1                   REPRESENTATIVE SAINATO: I am  
2   Representative Chris Sainato, I represent  
3   parts of Lawrence County.

4                   REPRESENTATIVE LONGIETTI: I am  
5   Representative Mark Longietti from Mercer  
6   County, 7th District.

7                   REPRESENTATIVE WALKO: Don Walko,  
8   Allegheny County.

9                   REPRESENTATIVE READSHAW:  
10   Representative Harry Readshaw, Allegheny  
11   County, I'm not a member of the committee but  
12   the Chairman graciously invited me to sit at  
13   the table and I thank him.

14                  CHAIRMAN FREEMAN: We are happy to  
15   have representatives here from this area here  
16   at this hearing. Let me begin by saying that  
17   today's hearing of the House Local Government  
18   Committee is on House Bill 2018, legislation  
19   that I introduced along with Representative  
20   Don Walko along with 40 other bipartisan  
21   co-sponsors to establish the Tax Exempt  
22   Property Municipal Assistance Fund.

23                  This proposal would provide state  
24   funding to those municipalities in

1        Pennsylvania that have a significantly high  
2        proportion of tax-exempt property within their  
3        borders.

4                Across our commonwealth communities  
5        large and small, urban and rural, cities,  
6        boroughs and township alike contain a  
7        considerable percentage of tax exempt  
8        properties. While the tax exempt properties  
9        represent the presence of very important  
10       governmental institutions, institutions of  
11       higher learning and not-for-profit medical  
12       facilities that do contribute to the quality  
13       of life of the community, they do not  
14       contribute, however, to the tax base of their  
15       host community in which they are located due  
16       to the tax exempt status.

17               Practically all cities, county  
18        seats, college towns and communities with  
19        not-for-profit medical facilities have a  
20        higher percentage of tax exempt properties  
21        that deprive those communities of tax  
22        rateables.

23               The vast majority of these tax  
24        exempt entities are regional assets yet it is

1 the host municipality that is left with the  
2 reduced tax base and strain on local services  
3 as a result of their presence.

4 The fiscal distress that many of  
5 our cities and boroughs find themselves in is  
6 not the result of poor fiscal management or  
7 lack of effort on their part to lure new  
8 development to their communities. Reports by  
9 the Brookings Institution and the Pennsylvania  
10 Economy League all point to the increasing  
11 fiscal distress that our cities, our boroughs  
12 and our inner ring suburbs are facing.

13 The presence of the significant  
14 number of tax exempt properties within their  
15 borders can greatly contribute to fiscal  
16 distress due to limited tax base that it  
17 creates. One has only to look at those  
18 communities that are under the Act 47  
19 Financially Distressed Municipality Program to  
20 realize the truth of this. Most of the Act 47  
21 communities contain tax exempt property levels  
22 from 20 to 30 percent, some even higher, 40  
23 percent. No wonder these communities are  
24 failing when they have to try to provide

1       essential services from such an eroded tax  
2       base.

3                   House Bill 2018 seeks to remedy  
4       this situation by providing state funding to  
5       compensate those communities that have 17  
6       percent or more of their total assessed value  
7       of properties classified as tax exempt. Under  
8       my legislation the revenue for this program  
9       would come from the dedication of the 18  
10      percent Johnstown Flood Tax that is levied on  
11      sale of liquor and wine in Pennsylvania and  
12      which generates approximately \$240 million in  
13      revenue each year.

14                   It should be noted no single  
15      municipality under the fund could receive more  
16      than 10 percent of the revenues from this  
17      program.

18                   Communities across our  
19      commonwealth, both large and small, are  
20      impacted by the presence of large amounts of  
21      tax exempt properties. In my hometown of  
22      Easton in Northampton County roughly 27  
23      percent of the assessed value of all property  
24      is tax exempt. Small communities such as the

1     Borough of Clarion and Gettysburg register tax  
2     exempt property levels of 70 and 80 percent  
3     respectively. Here in the City of Pittsburgh  
4     over 36 percent of the total assessed value of  
5     property is tax exempt.

6             No community can hope to provide an  
7     adequate level of municipal services which  
8     such a limited tax base with out unduly  
9     burdening those limited number of property  
10    owners who remain subject to the real estate  
11    tax. It also becomes all the more difficult  
12    for a struggling community to position itself  
13    for revival when a community is held back by  
14    overly high real estate taxes that scare  
15    prospective residents and businesses away.

16            My legislation offers a life line  
17    to these fiscally struggling communities by  
18    providing revenue through the Tax Exempt  
19    Property Municipal Assistance Fund that will  
20    compensate them for their high levels of tax  
21    exempt property.

22            Without this infusion of much  
23    needed funds, many of our state's high tax  
24    exempt property communities face the very real



1 prospect of failing as they fall deeper and  
2 deeper into financial distress due to the  
3 eroding tax base. In 1936 the Legislature  
4 enacted the 18 percent Johnstown Flood Tax to  
5 provide much needed relief and revitalization  
6 to a community devastated by a natural  
7 disaster. The revenues from that tax are now  
8 needed to come to the assistance of  
9 communities across Pennsylvania overwhelmed by  
10 the flood of tax exempt properties within  
11 their borders. With this legislation we can  
12 stabilize hundreds of needy communities across  
13 this commonwealth and ensure their success for  
14 years to come.

15 With that I would like to turn to  
16 Representative Don Walko for some introductory  
17 remarks.

18 REPRESENTATIVE WALKO: Thank you,  
19 Representative Freeman and I do commend you  
20 for your efforts and I know you have been  
21 working very hard, your committee staff as  
22 well, Amy and others who are dedicating a lot  
23 of time to this important issue. And what the  
24 bottom line is, this legislation would address

1 a structural problem in our tax system in  
2 Pennsylvania.

3 The tax system that is in place is  
4 based on an old Pennsylvania, one where wage  
5 taxes from city residents and one where real  
6 estate taxes generated by industrial concerns  
7 and others in our urban hubs were the basic  
8 source of revenue for municipalities. And  
9 that certainly isn't the case any more as  
10 Representative Freeman so eloquently pointed  
11 out.

12 The problem, the structural problem  
13 that we have in Pennsylvania was exacerbated  
14 back in 1997 with Act 55 a law called the  
15 Institutions of Purely Public Charity. And  
16 when we enacted that, we were hoping for a  
17 quid pro quo, some other kind of relief so at  
18 the same time the State House passed revenue  
19 sharing legislation that died in the Senate.  
20 The institutions of purely public charity  
21 shifted presumptions so when a municipality  
22 challenged the exempt status of some new  
23 construction by a hospital, those presumptions  
24 shifted in a way that made it more difficult

1 to prove that they were not tax exempt.

2 And that is a problem that must be  
3 addressed and I think Representative Freeman's  
4 legislation would partially do that. This  
5 legislation also will unite some players here,  
6 small cities, small towns, and indeed, the  
7 large institutions that are tax exempt. Those  
8 partners should get together and instead of  
9 fighting each other for more payments in lieu  
10 of taxes from hospitals and universities,  
11 their boards of directors, their main players  
12 should say let's unite with the small cities  
13 and towns throughout the Commonwealth of  
14 Pennsylvania and enact Representative  
15 Freeman's legislation.

16 So I'm really honored to be here.  
17 I am not on the committee either. But with  
18 you as chair it would be a wonderful  
19 experience and I look forward to the hearing.

20 CHAIRMAN FREEMAN: Thank you for  
21 comments and we also thank you for your work  
22 on this issue previous to the legislation and  
23 for being the third sponsor on the bill as  
24 well.

1                   With that I would like to turn our  
2     list of testifiers for the day and call up to  
3     the microphone our first testifier, Scott  
4     Kunka, Director of the Department of Financing  
5     here in Pittsburgh. Scott, welcome.

6                   MR. KUNKA: Thank you.

7                   CHAIRMAN FREEMAN: Thank you for  
8     your presence and the committee looks forward  
9     to your comments.

10                  MR. KUNKA: Good morning,  
11     Representative Freeman and members of the  
12     Committee and Representatives Walko and  
13     Readshaw. Thank you for coming to Pittsburgh  
14     today to take our testimony on this vital  
15     issue. And I do thank you very much for  
16     inviting me to speak. I bring you greetings  
17     from Mayor Ravenstahl from the City of  
18     Pittsburgh.

19                  Pittsburgh is the regional economic  
20     hub of Western Pennsylvania. As the regional  
21     economic hub, Pittsburgh is a prime example of  
22     the municipality with a substantial tax exempt  
23     community. The largest Pittsburgh employers  
24     are non-profit and government entities and

1       this has a profound impact on the city's tax  
2       base.  These entities own property that is tax  
3       exempt and they are also exempt from paying  
4       other revenue to the city in form of the  
5       payroll expense tax.

6                   As you can see from the chart in  
7       front of you on slide number 1 I believe it  
8       is.

9                   CHAIRMAN FREEMAN:  Speak into the  
10      mike.

11                   MR. KUNKLE:  I'm so sorry.  As you  
12      can see from the chart in front of you that  
13      well over 100,000 of our regional employees  
14      work for either the non-profit community or  
15      for government employers.  This represents  
16      about a third of the work force of the region.

17                   We do consider these entities  
18      tremendous community assets and we benefit  
19      from their presence in the city, however,  
20      their presence is a large and growing cost --  
21      their presence contributes to a large and  
22      growing cost borne primarily by city residents  
23      as associated with this large tax exempt  
24      employment base.

1                   The next slide is a very  
2                   significant slide because it shows the upward  
3                   trend both in the total volume of exempt real  
4                   estate in the City of Pittsburgh as well as  
5                   the percentage of the overall tax base of the  
6                   city. The tax exempt properties now total  
7                   about \$7.8 billion in assessed valuation which  
8                   is roughly about 37.2 percent of city's total  
9                   real estate tax base.

10                   These numbers continue to rise as  
11                   the city's economy become more focused on the  
12                   non-profit and government sectors.

13                   Were all these properties taxable  
14                   it would translate into about \$83.9 million in  
15                   tax revenue to the city. Now as everyone  
16                   knows they are not making any more land so  
17                   there is a finite amount of land in City of  
18                   Pittsburgh, therefore, it is next to  
19                   impossible to reverse this trend, it is a zero  
20                   sum game as far as available property in the  
21                   City of Pittsburgh.

22                   And as exempt institutions acquire  
23                   more property, they can squeeze out tax paying  
24                   entities. Again, I call your attention to the

1 almost \$84 million in foregone taxes in taxes  
2 and property the city represents. That number  
3 is about 70 percent of the 122 million in  
4 property taxes per year that we are able to  
5 collect. Moreover, this amount would fully  
6 fund the entire operating cost of both the  
7 City of Pittsburgh police and Emergency  
8 Medical Services Department.

9 The next slide shows the value of  
10 the taxes and property is significantly  
11 understated since the county has no incentive  
12 to maintain an accurate assessment on taxes  
13 and property at this point in time.  
14 Pittsburgh's tax exempt base of 7.8 billion is  
15 split evenly between the non-profit and the  
16 government sectors as you can see by the  
17 accompanying chart.

18 As I mentioned before, we place a  
19 tremendous value on non-profit presence in  
20 City of Pittsburgh and they do many good  
21 things for the region even beyond the nature  
22 of their own service. For example, you may be  
23 aware of the Pittsburgh Promise a community  
24 commitment to help students and families of

1 Pittsburgh public schools plan, prepare and  
2 pay for education beyond high school. This  
3 was a deal brokered by Mayor Ravenstahl,  
4 Superintendent Roosevelt with University of  
5 Pittsburgh Medical Center.

6                   However, the residents of the City  
7 of Pittsburgh are required to bear a  
8 disproportionate and continually increasing  
9 share of the tax burden as tax exempt  
10 institutions expand.

11                   Let me also briefly speak about  
12 another side of this issue. There are other  
13 revenue sources that the City of Pittsburgh  
14 has available to it but that are not, that do  
15 not affect the non-profit community.  
16 Pittsburgh is also impacted by the exemption  
17 of the non-profit community for the payment of  
18 the payroll preparation tax. The State  
19 Legislature enacted this tax in 2005 I believe  
20 was the first year we got it as an offset for  
21 the reduction of the Mercantile Tax and the  
22 Business Privilege Tax which were considered  
23 more onerous business taxes. This one is more  
24 a broad-based tax.



1           Again, this tax is assessed on the  
2 gross payroll of employers who perform work  
3 and provide service within the City of  
4 Pittsburgh. Non-profit employers, however,  
5 are exempt from this tax.

6           Having non-profit institutions been  
7 assessed the full extent of the payroll  
8 expense tax they would have paid about \$12.1  
9 million in revenue to the city.

10           We tried to put a little graphic in  
11 on the next slide here. As the major  
12 non-profits thrive, there is greater burden on  
13 Pittsburgh to provide core services such as  
14 public safety and public works. As you can  
15 see by the scale representing the increasing  
16 weight and the prevalence of the non-profit  
17 and governmental sectors in Pittsburgh leads  
18 to skyrocketing demand and cost for capital  
19 infrastructure and public safety services that  
20 do, in fact, benefit the entire region and not  
21 just the City of Pittsburgh.

22           And finally, the City of Pittsburgh  
23 and Mayor Ravenstahl's enthusiastically  
24 supports your legislative efforts to address

1 the concerns faced by municipalities with  
2 large tax exempt bases.

3 This is especially pertinent as our  
4 economy becomes more and more dominated by the  
5 non-profit sector. We believe your proposed  
6 bill is a giant step in the right direction  
7 and we stand ready to support it in any manner  
8 that we can. Again, I thank you for your  
9 invitation to speak to you this morning.

10 CHAIRMAN FREEMAN: Thank you for  
11 your testimony. We thank you for your  
12 continued support for the legislation. Are  
13 there any questions from Committee members?  
14 Representative Longietti.

15 REPRESENTATIVE LONGIETTI: Thank  
16 you for your testimony. We certainly have  
17 been able to attend all the hearings except  
18 one so far and hear many of the same themes.  
19 I thought you just might want to comment a  
20 little bit you talked about how you believe  
21 that the non-profit property is under valued  
22 because there just isn't an incentive.

23 MR. KUNKA: Correct.

24 REPRESENTATIVE LONGIETTI: Do you

1       have any sense for the magnitude of that  
2       issue?

3                   MR. KUNKA:   Well, I would say maybe  
4       about a third at this point in time.   Some of  
5       the bigger ones we looked at in some detail is  
6       there.   And, I mean, I don't blame the county  
7       for it, they have limited resources also for  
8       not taking the kind of effort there, but  
9       probably about a third and the value of the,  
10      not just the property itself but the  
11      continuing improvements of the infrastructure  
12      of the properties themselves.   So we believe  
13      it is significantly understated at this point  
14      in time, yes, sir.

15                  REPRESENTATIVE LONGIETTI:   Also,  
16      you talked about as these non-profits thrive  
17      and grow, it seems like we are seeing that  
18      across the commonwealth.   The burden on public  
19      safety services and other services increases.  
20      Can you explain that just a little bit, I  
21      mean, do non-profits bring a greater burden do  
22      you think on those types of services?

23                  MR. KUNKA:   I don't think they  
24      bring a greater burden than the profit-paying

1 business but they do bring the same type of  
2 burden that is there. As the proportion of  
3 the employment base shifts towards non-profits  
4 from the for-profit sector, this is good in  
5 one sense it is providing employment and  
6 driving the economy of Pittsburgh and the  
7 region that is there. However, there as  
8 people come in, the population of the city  
9 swells by a magnitude of three times during  
10 the day, during the workday. Their services,  
11 public safety and emergency medical services,  
12 we still need to maintain the roads and the  
13 streets and provide the water.

14 Representative Walko is Chairman of  
15 the Board of Pittsburgh Water and Sewer  
16 Authority. The infrastructure needs, I  
17 believe the Governor has a proposal out  
18 recently also the infrastructure needs of  
19 water and sewer throughout the seat,  
20 Representative Readshaw, Chairman of the  
21 ALCOSAN board, that's correct, are tremendous.

22 So in order to help these  
23 institutions thrive, we need to provide them  
24 with safe roads, with the infrastructure for

1 water and sewer with safety services. It is a  
2 symbiotic effect, but the, we can't -- the  
3 land is finite. As they expand, which has a  
4 beneficial effect, there is also a  
5 corresponding increase on the services that we  
6 need to provide.

7 REPRESENTATIVE LONGIETTI: Do you  
8 hear the comment at all the chart on the  
9 various Act 47 communities, I have a couple in  
10 my district we will hear a little later from  
11 mayor of Sharon, the intervention stage, but  
12 that designation and the nature of that  
13 situation, how does that tax your police  
14 force? I guess in my mind it just seems like  
15 the criminal element takes a look at where can  
16 they best get a foothold? They tend to look  
17 at some cities in distressed situations to try  
18 to do that.

19 MR. KUNKA: Well, with all due --  
20 commenting on the situation of the criminal  
21 activity in the city may be best left to our  
22 Chief of Police. My purview is more in the  
23 financial area. It is my understanding that  
24 the crime statistics are actually down for the

1 City of Pittsburgh at this point in time.

2 We have been able to -- Mayor  
3 Ravenstahl has actually increased the size of  
4 the police force by 100 officers in the last  
5 16 months that he has been in office. So,  
6 while we don't believe that crime is gaining a  
7 larger foothold, the cost to combat that has  
8 increased very dramatically. You put 100  
9 officers on and everyone knows police officers  
10 are important and necessary, but they are  
11 expensive also. And they also carry long  
12 material liabilities.

13 REPRESENTATIVE LONGIETTI: Thank  
14 you, Mr. Chairman.

15 CHAIRMAN FREEMAN: Any other  
16 members have any questions?

17 REPRESENTATIVE WALKO: I have a  
18 couple myself.

19 CHAIRMAN FREEMAN: Representative  
20 Walko.

21 REPRESENTATIVE WALKO: Thank you,  
22 Mr. Chairman. Scott, regarding the PWSA and  
23 you are on the board as well, Pittsburgh Water  
24 and Sewer Authority, it is true our

1 infrastructure needs have also been increased  
2 because of the shift from along the  
3 riverfront, the industrial uses to now the  
4 hospital community in Oakland and other  
5 focuses. Would you comment on that?

6 MR. KUNKA: Well, I mean that is  
7 absolutely true, I guess maybe one way to look  
8 at it is these institutions are heavy users of  
9 the water and sewer infrastructure that may  
10 have been a book store or a pizza shop that  
11 has a certain need but a hospital has a  
12 gigantic need for clean, fresh water on a  
13 demand basis and also generate a lot of waste.  
14 So I think that's -- let me do say that these  
15 taxes or institutions do pay for their water.  
16 So, it is not a free ride as far as that is  
17 concerned.

18 It places a burden on the system to  
19 get them the water that is necessary on  
20 demand. They cannot have a situation where  
21 they do not have access to the water. That  
22 places a burden on the PWSA to make sure the  
23 infrastructure is in place to provide.

24 REPRESENTATIVE WALKO: I wondered

1       regarding the \$52, I can't remember the name  
2       of it emergency --

3                       MR. KUNKA:   Local Services Tax now.

4                       REPRESENTATIVE WALKO:   Local  
5       Services Taxes, would you comment on the  
6       benefit of that to the City of Pittsburgh or  
7       how helpful was it?  I just want to point out  
8       that I think there are roughly 450  
9       municipalities in Pennsylvania that have  
10      enacted it even though it was always billed as  
11      Pittsburgh's quote, unquote bailout.

12                      MR. KUNKA:   Of course we greatly  
13      appreciate anything the State Legislature can  
14      do to improve our tax base.  And this was a  
15      five-fold increase in the previous amount  
16      which was \$10 which was enacted in the 1960s  
17      at some point in time.  However, the  
18      Legislature did change the methodology of  
19      collection for this current year.  It has cost  
20      the city, we believe it is fair, but it has  
21      cost the city some revenue that is associated  
22      with it.  We are still in the first year of  
23      it, the first quarter actually, so we are  
24      hearing some, some grumbles I guess,



1       disgruntles, from the employment community as  
2       far as the record-keeping burden doing this on  
3       a weekly bases as opposed to quarterly or a  
4       one time shot.

5               We will monitor that situation and  
6       see how it goes. Right now the money is  
7       coming in, it is just I think it is more  
8       burdensome on the record keeping, especially  
9       for small employers at this point.

10              REPRESENTATIVE WALKO: Thank you.

11              REPRESENTATIVE READSHAW: No  
12       questions, just a comment.

13              CHAIRMAN FREEMAN: Before we get on  
14       to Representative Readshaw, I'm told  
15       Councilman Bruce Kraus was with us earlier. I  
16       apologize for not bringing that in. Oh, and  
17       Don Wolf, Chief of Staff is here. Good to  
18       have you. Thank you again for using these  
19       facilities. I'm sorry, Representative  
20       Readshaw.

21              REPRESENTATIVE READSHAW: That's  
22       quite all right. I don't have a question. I  
23       just obviously want to thank Director Kunka  
24       for being here today and expressing the

1 administration's support of this legislation.  
2 I'm a lifetime resident of the City of  
3 Pittsburgh and have seen so many changes from  
4 a great manufacturing center to where, in  
5 fact, we are at this point in time in history.

6 I just wanted to thank you and the  
7 administration for being here in support of  
8 this. Obviously, we have been talking about  
9 in subject for a number of years and seen  
10 many, many changes taking place in  
11 municipalities. And it is time to act, it is  
12 time to remedy this problem. So thank you  
13 once again for being here.

14 MR. KUNKA: Thank you, and we  
15 realize there is this proposed source of  
16 revenue from the state's General Fund at this  
17 point in time, one of the things I think is  
18 unique and brilliant about it, it is not, we  
19 are not enacting, trying to take more revenue  
20 off somebody else. These are existing sources  
21 of funds that are already out there. So, I  
22 think it serves many purposes that way.

23 CHAIRMAN FREEMAN: Mr. Kunka, a  
24 couple follow-up questions. Representative

1 Longietti alluded to the issue too of how we  
2 assess the value of non-profits. That issue  
3 has come home to me, we had the hearing in my  
4 hometown of Easton the Mayor pointed out that  
5 Lafayette College which has a tremendous  
6 amount of property in the City of Easton I  
7 think has a total assessed value of roughly 20  
8 million. In actuality, the last couple of  
9 buildings that they built probably exceeded 60  
10 million. So is it your feeling that if we  
11 enact this legislation, it will added  
12 incentive on the part of the counties to have  
13 more accurate assessment?

14 MR. KUNKA: No question, that with  
15 be the case. Now I think the addition of  
16 necessary resources to accomplish that would  
17 be a prudent use of funds that are available  
18 to do that. I think it would benefit  
19 everybody to have a more accurate idea of what  
20 these properties are currently valued at.

21 It is very difficult, and I  
22 understand why they don't go. The hospital,  
23 even if you sold it on the private market, you  
24 know, what is the intrinsic value of that.

1       So, I think that it will for our own purposes  
2       and for our own data collecting purposes, when  
3       we discuss these types of various legislative  
4       initiatives to have accurate data is obviously  
5       the key to be able to enact decent proper  
6       public policy.

7                   CHAIRMAN FREEMAN: I think one of  
8       the points to be made about that as well is  
9       the fact once we have a more accurate picture,  
10      it could conceivably have this legislative  
11      drive more dollars into these urban  
12      communities.

13                  MR. KUNKA: That's correct.

14                  CHAIRMAN FREEMAN: Have you seen  
15      the trend over the last few years, I  
16      understand something that is happening in my  
17      community, but other communities that are  
18      affected by this issue, where a lot of these  
19      non-profits are expanding, they are buying  
20      more property, they are building more  
21      buildings which is good news from the  
22      standpoint of their success as an institution,  
23      but again, when it takes more property off the  
24      tax rolls and lowers base, are you seeing that

1 trend in Pittsburgh.

2 MR. KUNKA: No question about it,  
3 that is where the double-edged sword, the  
4 University of Pittsburgh Medical Center is  
5 building the, a new Children's Hospital in  
6 Lawrenceville section of our town. This is a  
7 very beautiful, very necessary, very large  
8 institution that is going there. And  
9 literally entire city blocks are being devoted  
10 to the development of this institution.

11 Many of the properties in those  
12 city blocks were formerly tax-paying  
13 properties that are there. So, while the  
14 public good is being served on the one hand by  
15 state-of-the-art hospital for the children of  
16 the region, in fact, probably worldwide kind  
17 of reputation, on the other hand, we still  
18 need to provide services to that institution  
19 and the tax-paying properties around it are no  
20 longer tax-paying properties.

21 CHAIRMAN FREEMAN: I noted that  
22 through the efforts of the city and others you  
23 probably have been a more successful than any  
24 community around the state in trying to get

1 non-profits to provide some type of payment of  
2 taxes. I think that is great. We should  
3 continue to do that regardless of the passage  
4 of legislation.

5 One of the things I tried to  
6 emphasize in the legislation is I think it  
7 helps to reduce the tension that often exist  
8 between communities and non-profits. We all  
9 recognize these are important institutions to  
10 have in the community. They contribute to the  
11 employment base, they contribute to the  
12 quality of life, they truly are valuable  
13 assets for this community, but also for the  
14 region at large. So I know you as a  
15 municipality welcome their presence here.

16 But, you also have at the end of  
17 the day have to provide police protection,  
18 fire protection and code enforcement. It is  
19 difficult to do.

20 MR. KUNKA: That's right, I'm  
21 sorry, sir, and it is a matter of  
22 predictability and reliability. We welcome  
23 the Pittsburgh Public Service Fund and  
24 contributions they have made over the last

1 three years and they are reorganizing and  
2 reconvening for another commitment to the  
3 city. But, we do not know the amounts in  
4 advance. We only know at the end of the  
5 quarter what we would have.

6 We don't know how long it will  
7 continue so it is very hard to plan in a  
8 rational basis for the out years without  
9 knowing a stable source of funds.

10 CHAIRMAN FREEMAN: Sure, the debate  
11 needs to continue on how we evaluate what is  
12 truly tax exempt and to revisit, for example  
13 Representative Walko referenced, I think one  
14 of the benefits of this legislation and I ask  
15 your opinion as well, if we were are to at  
16 some point able to increase the products made  
17 by property, one of those concerns I have is  
18 many of those institutions if they are capable  
19 of, not necessarily education, but medical  
20 facilities might decide to move their  
21 operations to a township where they will not  
22 be hit.

23 So, in a way this kind of prevents  
24 them from fleeing the city just as the

1 commercial base facilities at one time and the  
2 industrial base fled the cities at one time.

3 MR. KUNKA: Well, one idea that  
4 could be possible as this piece of legislation  
5 is refined and moved on is, we, I had  
6 testified some months ago regarding Act 55 as  
7 Representative Walko mentioned before, I  
8 believe it was the Senate Finance Committee,  
9 Senator Brown I think it was. About how the  
10 original intention of that legislation over,  
11 has sort of morphed something into something  
12 that wasn't really, the intent that was there.

13 So, if there is some coordinated  
14 action that maybe some dollars that might have  
15 come out from reform of Act 55 be placed into  
16 this fund sort of to increase the pool  
17 available and have that sort of, the same kind  
18 of thing where it is not logic, well, I will  
19 just take my business and move it here,  
20 whatever, you really can't escape, it is a  
21 state-wide kind of a situation. If we work on  
22 both ends of those, the Act 55 really has as  
23 the Representative said, we had a high of  
24 about \$5 million in payment in lieu of taxes



1 in agreements with institutions. We are down  
2 now to about \$600,000. There is literally no  
3 incentive for them to continue to contribute.

4 CHAIRMAN FREEMAN: No leverage.

5 MR. KUNKA: No leverage at all,  
6 sir, that's correct.

7 CHAIRMAN FREEMAN: In terms of I  
8 think one of the things I envisioned with this  
9 legislation is the opportunity to stabilize  
10 our communities, particularly our older  
11 communities, the others are affected. Is it  
12 your opinion as well that creating this kind  
13 of financial stability will put Pittsburgh in  
14 a better position to lure more people back  
15 into living in its old neighborhoods too maybe  
16 even encourage certain commercial industrial  
17 projects to revisit the city because the  
18 burden won't be as high on them as far as tax  
19 base?

20 MR. KUNKA: Right, an individual  
21 taxpayer the burden will be less as I  
22 mentioned in my presentation. These are the  
23 miles of roads, the miles of water lines and  
24 sewer lines, they are still there. They don't

1 change but the amount, the universe of people  
2 who are paying for them do. So I mean that is  
3 obviously the ultimate goal that we are going  
4 here, the Mayor passed a tax exempt, has  
5 proposed that City Council pass a tax  
6 exemption program for downtown living in the  
7 city and several neighborhoods that are out  
8 there. So we believe that it is the  
9 population, the people who are paying the  
10 taxes as that increase that produces  
11 stabilization.

12 As I said, what we don't have right  
13 now is any type of predictability of what the  
14 non-profit community will give us. When you  
15 have predictability, you can make plans for  
16 the long-term.

17 CHAIRMAN FREEMAN: Thank you very  
18 much for your testimony. Any other questions  
19 from members? If not, thank you. Once again,  
20 thank you for your support of the legislation.

21 Our next testifier is City Manager  
22 Curtis Davis from the City of Johnstown.  
23 Mr. Davis, good to see you again.

24 MR. DAVIS: Thank you.

1                   CHAIRMAN FREEMAN: Thank you for  
2 coming to testify before the committee. Begin  
3 when you are ready.

4                   MR. DAVIS: First of all, I would  
5 like to thank you for you know introducing  
6 this legislation. It is certainly something  
7 the City of Johnstown hopes is successful.  
8 And I would like to go on the record that we  
9 don't get any of that Johnstown flood tax.

10                  CHAIRMAN FREEMAN: Despite the  
11 name.

12                  MR. DAVIS: Despite the name. I  
13 get asked that all the time.

14                  REPRESENTATIVE WALKO: I understand  
15 Ed Wojnaroski introduced a bill to make it all  
16 go to Johnstown.

17                  MR. DAVIS: He may have. I will  
18 have to tell him that. I have a prepared  
19 statement. I hope everybody has had a chance  
20 to look at it.

21                  The City of Johnstown is actually a  
22 mini Pittsburgh in just about everything  
23 Pittsburgh had to say here, you will hear me  
24 reiterate. The City of Johnstown is an Act 47

1       municipality. Went distressed in 1993. One  
2       of the reasons in the original recovery plan  
3       they said that the City of Johnstown was at  
4       about 40 percent tax exempt properties.

5               As you look at it, you can see that  
6       we've in that time period grown to 49.9  
7       percent. So, every other property in the City  
8       of Johnstown is tax exempt which puts quite a  
9       burden on our taxpayers. We have increased  
10      our, you know, property taxes but you just  
11      can't keep going back to the property tax  
12      owners to pick up that tab.

13             The city took the hospital, we had  
14      at that time three hospitals in the City of  
15      Johnstown and we took them to court in 1994 to  
16      try to get some kind of arrangement. As a  
17      settlement out of court they come up with a  
18      pilot agreement, and the three different  
19      hospitals at that time agreed to pay the city  
20      \$250,000 in payment in lieu of taxes.

21             The settlement also contained a  
22      clause which basically said that as additional  
23      properties were purchased, because as  
24      mentioned in the City of Pittsburgh land is

1       finite, we are landlocked and even when  
2       economic development people want to come in  
3       and say, we would like to move into the city,  
4       they look at us and say we need a two acre  
5       lot. Well, finding a two acre lot within the  
6       city is very difficult. It is hard on  
7       economic development people.

8                   What happened was the clause was  
9       put in, however, from 2000, from 1999 until  
10      2000 current, there has never been any kind of  
11      increase in that pilot payment even though  
12      there has been a drastic increase. In that  
13      time period we went back and looked they had  
14      picked up 36 additional properties and there  
15      was no adjustment ever made. Once more, going  
16      back to what the City of Pittsburgh had to  
17      say, when you are in a pilot situation, you  
18      are kind of begging, you know. And you are  
19      going up and saying yeah, we will pay this  
20      portion we don't really have to. Then we have  
21      to go to court and it gets a little messy.

22                   In 2006 our regional health system,  
23      and I would like to point out that we have a  
24      very good health system. Once more, it is a

1 regional health system. I went in to speak  
2 about a month ago to all of our business  
3 leaders about our financial condition. And  
4 the first thing I told them, I said we looked  
5 at the health system as a regional asset, we  
6 looked at the YMCA as a regional asset, we  
7 look at Goodwill as a regional asset, the  
8 Association for The Blind is a regional asset.

9 I said what you need to start doing  
10 is looking at your city as a regional asset.  
11 Because what happens is, when it comes time  
12 just like Pittsburgh you want to hold your  
13 Christmas parade, Halloween parade you want to  
14 come down to your big ball game, you come down  
15 to the city and everybody gets back in their  
16 car drives out to a suburban municipality with  
17 volunteer firemen, part-time policemen, and it  
18 is an issue for us. We are carrying the  
19 burden here.

20 So I made that presentation to the  
21 business community because like Pittsburgh, we  
22 grow by about 7,000 people whenever, during  
23 the day for workers. So there is an  
24 additional burden on our police and fire. We

1       turned around with our health system and the  
2       health system you have in place Conemaugh  
3       Health System bought out the other two  
4       hospitals. And when they bought out the other  
5       two hospitals, they refused to pick up the  
6       pilot payment. So I actually went from  
7       \$250,000 in pilot down to \$160,000. So I had  
8       a drop of about 30 percent in my payment while  
9       my costs were going up drastically.

10               So you see what we had, the current  
11       assessed value of the, just the hospital  
12       properties, comes to about a little over 44  
13       million. And if they were in taxation, they  
14       would be paying about 1.7 million so it  
15       equates to about nine percent payment of what  
16       would be paid.

17               The city and school district  
18       recently chose 19 properties that we felt we  
19       should question under Act 55, that did not  
20       meet the purely charity. We went before the  
21       Assessment Appeals Board and actually were  
22       quite successful. The Assessment Appeals  
23       Board turned around and determined that out of  
24       the 19 properties I think you have a sheet

1 attached and they show one, two, three, four,  
2 five, six, seven of them should have been 100  
3 percent taxation, others 50 percent, others 25  
4 percent. And that just on those properties we  
5 should be getting \$242,548 in taxation.

6 That is expected. The hospitals  
7 challenged this in court. We are still trying  
8 to negotiate a settlement. They are basically  
9 telling us they really don't want to pick up  
10 the additional 90,000 that we lost when they  
11 bought out the UPMC facilities in Johnstown.  
12 So, that kind of puts us in a bind with  
13 decreasing revenue income. And in 2006 our  
14 tax exempt properties actually exceeded our  
15 taxable properties. If you look in the sheet  
16 there.

17 In 2006 it came to, our taxable  
18 assessed value was 133,698,000 and our tax  
19 exempt came in at 134,342,000. The  
20 Association for The Blind comes in every year  
21 at the end of the year and gives us ten or  
22 \$11,000 if they have a good year. A couple  
23 churches send in, you know, 100, \$150. But,  
24 you know, our major employers really don't.



1                   And the other side of that is, our  
2           major employers also have some good paying  
3           jobs. Then what happens is they turn around  
4           and they leave and we don't get the earned  
5           income tax. So we lose that money also.

6                   There is, like I say, a burden on  
7           our police and fire.

8                   So, that's where Johnstown is right  
9           now, struggling.

10                   CHAIRMAN FREEMAN: Thank you for  
11           your testimony. Any questions by the members?  
12           Representative Longietti.

13                   REPRESENTATIVE LONGIETTI: Thank  
14           you, Mr. Chairman. Thank you for your  
15           testimony.

16                   Do you have any sense, we heard  
17           this in some of the other communities, but do  
18           you have any sense for what the property tax  
19           burden is in Johnstown for the folks that are,  
20           you know, either residents or businesses not  
21           non-profits in comparison to the communities  
22           that surround Johnstown?

23                   MR. DAVIS: Yes. What happens is  
24           when you look at our millage, and our people

1 even passed a referendum, took the cap off.  
2 So our millage in the City of Johnstown, we  
3 have increased it, and it is now at 42.4  
4 mills. You know, and when you go to most of  
5 the surrounding municipalities, you know,  
6 theirs are more in the realm of nine to  
7 probably the maximum of 16 mills. So even at  
8 that point if you are a business, you are  
9 saying, wow, about coming in, because they are  
10 carrying that extra burden.

11 REPRESENTATIVE LONGIETTI: We heard  
12 similar I think in Gettysburg, I believe that  
13 we heard the Mayor of Gettysburg for his home  
14 actually paying significantly more in property  
15 taxes than Wal-Mart pays in the surrounding  
16 township.

17 CHAIRMAN FREEMAN: True.

18 REPRESENTATIVE LONGIETTI: I wanted  
19 to get a sense. Thank you, Mr. Chairman.

20 CHAIRMAN FREEMAN: Thank you,  
21 Representative. Representative Walko?

22 REPRESENTATIVE WALKO: Thank you,  
23 Representative Freeman. Mr. Davis, I was  
24 looking, you have these appeals pending and I

1       was curious, if it is too detailed, that is  
2       okay if you don't want to go into the  
3       legalities. But you have one parcel that is  
4       \$1.6 million and the assessment appeal you won  
5       said 100 percent taxable. What was that  
6       property?

7                   MR. DAVIS: That is actually a, it  
8       is interesting because it is actually a  
9       property which they went into a joint venture  
10      with UPMC. And the reason they put in  
11      taxation was if you look at the legislation  
12      what was determined you really can't transfer  
13      your tax exempt status. So, even though it is  
14      a facility you now leased to another  
15      non-profit, and that is what was determined  
16      there, they leased it to another non-profit,  
17      and therefore, they said that tax exempt  
18      status cannot be transferred even if it is to  
19      another tax exempt. So it is a medical  
20      facility for cancer treatment.

21                   REPRESENTATIVE WALKO: And they  
22      have appealed that ruling, is that correct?

23                   MR. DAVIS: Yes, they have.

24                   REPRESENTATIVE WALKO: Do your

1 attorneys give you any indication as to  
2 whether that will be a successful appeal?

3 MR. DAVIS: Well, the, we are still  
4 trying to negotiate. But what happened in the  
5 assessment appeal is the hospital has taken a  
6 pretty strong stand in saying state-wide they  
7 are getting a lot of support from the hospital  
8 associations that will help them even cover  
9 their costs, you know, of going to court which  
10 puts us in a really, you know, sensitive  
11 situation. We don't have deep pockets.

12 REPRESENTATIVE WALKO: I guess what  
13 I'm getting at is under Act 55 perhaps that  
14 appeal has become more feasible as opposed to  
15 prior to Act 55 they might have been blown out  
16 of the water and not even thought to appeal,  
17 that is what I'm wondering.

18 MR. DAVIS: Absolutely, Act 55  
19 certainly had an impact on this decision.

20 REPRESENTATIVE WALKO: That also  
21 goes to the \$1.3 million parcel, I would  
22 think.

23 MR. DAVIS: Uh-huh. A lot of  
24 these, if you look at them, a lot of these are

1        what is happening we are trying to make that  
2        whole decision as to what is taxable, what is  
3        isn't, what is non-profit, what is profit, and  
4        I don't know about here but in our facility  
5        what is happening they are spinning off, they  
6        bring doctors in, they will buy a building  
7        take it out of taxation and then turn around  
8        and they will rent the building and tell the  
9        doctors they have to rent from them then they  
10       get the rent back. You know, and then the  
11       question is what is for profit and what isn't  
12       for profit and which arm are we looking at  
13       here.

14                REPRESENTATIVE WALKO: See I fear  
15       that the presumptions were shifted by Act 55,  
16       making the appeal by the municipality more  
17       difficult. But I don't hold much hope out for  
18       substantially amending Act 55 given the power  
19       of those institutions.

20                I think, I don't know if you would  
21       agree, it would be better to have those  
22       institutions on your side advocating for the  
23       Freeman approach.

24                MR. DAVIS: Absolutely. Because,

1       like you said with Act 55, the stance has  
2       pretty much been that our mission station is  
3       our mission statement for our parking garages,  
4       you know, for our office buildings and,  
5       therefore, they are all, you know, tax exempt.

6                       REPRESENTATIVE WALKO:   You have a  
7       new Point Stadium, is that correct?

8                       MR. DAVIS:   Yes.

9                       REPRESENTATIVE WALKO:   That is  
10      opening this year?

11                      MR. DAVIS:   Yes, we actually built  
12      a new Point Stadium with the state helped us  
13      out quite a bit on funding although we put  
14      some money in, and yes, it has opened to rave  
15      reviews with the Triple A which is a large  
16      amateur baseball tournament with people coming  
17      in from Detroit, New Orleans, New York,  
18      Baltimore, Washington.   That worked out quite  
19      well.

20                      REPRESENTATIVE WALKO:   That is an  
21      exempt facility?

22                      MR. DAVIS:   Right, that is owned by  
23      the city.   But in the case of the Point  
24      Stadium, we are looking to actually get our

1 revenues back on that.

2 REPRESENTATIVE WALKO: Great.

3 Thank you, Mr. Davis.

4 MR. DAVIS: Any other questions?

5 CHAIRMAN FREEMAN: Yes, a couple  
6 follow-up questions myself. Getting back to  
7 the line of questioning by Representative  
8 Longietti, Johnstown, of course, is an Act 47  
9 community as you know and has been since 1993,  
10 I guess.

11 MR. DAVIS: Correct.

12 CHAIRMAN FREEMAN: It is in the  
13 course of the work we have done on this  
14 legislation it has become abundantly clear  
15 that no community that has ever gone into Act  
16 47 has ever gotten out of Act 47. And, would  
17 you say one of the fundamental reasons that is  
18 so because although Act 47 tries to help  
19 communities with state support and some  
20 measures in dealing with structural problems,  
21 shy of invigorating the tax base, there is  
22 little way you will ever get out of Act 47?

23 MR. DAVIS: Right. The way out of  
24 Act 47, obviously, is through economic

1 development. And, just to give you an idea,  
2 it is not that we haven't had economic  
3 development, you go back look in 2006 we  
4 actually saw probably about \$22 million worth  
5 of, you know, either improvement or new  
6 building. We have like Pittsburgh been able  
7 to go from a rust belt city to getting some  
8 technology call defense appropriation  
9 businesses within the city limits. But, you  
10 know, it is not a catch-up game. Because like  
11 I said, in Pittsburgh, we don't have for a  
12 large facility to come in that really is going  
13 to put us over the top, we just can't come up  
14 with two acres.

15           You know, all of our parcels we are  
16 trying to buy and redo neighborhoods where we  
17 do a lot of demolition work so we come up with  
18 a couple of lots and we take the lots and we  
19 try to get a business to come in, they are all  
20 small businesses. We have a couple new  
21 bioscience industries that come in. But like  
22 you said, our economic development has been  
23 somewhat, but not enough, you know, to take us  
24 over the top and without the property tax



1 revenue which has been flat, even had a slight  
2 decrease over the last ten years, and that is  
3 with -- I know myself, just in the last three  
4 years I trimmed at least 15 positions off.

5 We have gone from about 202  
6 employees and I have taken it down to,  
7 actually 20, down to 182 employees over the  
8 last three years. We are still --

9 CHAIRMAN FREEMAN: With reducing  
10 the employees, I'm sure that you can't help  
11 but fall behind in terms of some of your  
12 maintenance requirements, code enforcement,  
13 all the things that help keep the city stable.

14 MR. DAVIS: Well, the group that  
15 gets hurt the worst is our Public Works  
16 Department, right. Then you have your paving  
17 and we are falling behind because the lack of  
18 funding in our paving. I mean, it is really  
19 difficult. At maximum we pull money out of  
20 CDBG funding. And we may come up with, you  
21 know, 150 max \$200,000. Well, that won't,  
22 that will get you about a mile or two in  
23 paving, you know, with oil prices.

24 CHAIRMAN FREEMAN: It is almost as

1       if you face the initial problem the eroding  
2       tax base because the industry has gone to the  
3       burbs, commercial districts have been replaced  
4       by suburban malls, you lose revenue from that  
5       standpoint. You are left with an eroded tax  
6       base as the not-for-profit entities consume  
7       more property. That forces you in order to  
8       maintain an adequate level of services to  
9       raise your millage, which then becomes a  
10      disincentive to attract any industry, business  
11      or commerce but it is essential for you in  
12      order just to just keep your ship afloat?

13                   MR. DAVIS: That's correct.

14                   CHAIRMAN FREEMAN: Then you have  
15      the added problem you have to scale back your  
16      number of people in essential services like  
17      public works or codes or something like that  
18      which then puts them in a position where they  
19      cannot necessarily carry out their mission  
20      which is critical to attract more industry and  
21      business in your community.

22                   MR. DAVIS: Couldn't have put it  
23      any better myself.

24                   CHAIRMAN FREEMAN: A no-win

1 situation, I would say.

2 MR. DAVIS: Yes.

3 CHAIRMAN FREEMAN: One of the  
4 things too, I think we need to recognize is  
5 Governor Rendell has been very supportive and  
6 generous to our older communities as far as  
7 capital projects. I can't recall a previous  
8 Governor who devoted so much of our cap money  
9 to really good urban revitalization programs  
10 across the commonwealth. That is a long-term  
11 gain.

12 You hope to reap benefits all the  
13 time as that creates somewhat of a tax base,  
14 maybe a buzz and some economic development.  
15 Your needs now are present short-term, in  
16 terms of being able to maintain your police  
17 force, Public Works Department your code  
18 enforcement, fire department. You need money  
19 for those general operating costs.

20 MR. DAVIS: That's the problem.  
21 The state has been very generous like you said  
22 to third class cities. They come in they look  
23 at it, Governor Rendell has helped us out on a  
24 lot of our cap projects. But like I said,

1       some of those are at least three or four years  
2       down the road before we get any revenue  
3       generation. In the meantime, we have  
4       operating budget costs that have increased  
5       dramatically and that is the part of our  
6       budget that is killing us, the operating  
7       budget.

8                       You know, and like I said, with  
9       police and fire basically constitute 60  
10      percent of my budget, my operating budget and  
11      85 percent of my budget is personnel costs.  
12      That is even with trimming.

13                     CHAIRMAN FREEMAN: One of the  
14      beauties of this proposal, it allows those  
15      municipalities affected 100 percent tax exempt  
16      to utilize the revenue we generate and send to  
17      them for the operating costs that you have no  
18      other way to maintain them.

19                     MR. DAVIS: We even did a study and  
20      presented it as to the number of fire calls.  
21      I think it actually averages out to probably  
22      at least somewhere around 100 fire calls a  
23      year to the hospital facility.

24                     CHAIRMAN FREEMAN: Thank you for

1 your testimony and support for the  
2 legislation. Any other questions of members?  
3 Again we thank you and appreciate you coming  
4 from Johnstown.

5 Our next testifier is Rich Herman,  
6 borough council member and Clarion Borough and  
7 also joined by Nancy Freenock, borough  
8 manager. Welcome to both of you, thank you.  
9 Begin your testimony whenever you are ready.

10 MR. HERMAN: Thank you, Chairman  
11 Freeman. Representative Walko, I don't have  
12 your name spelled correctly in first paragraph  
13 so I certainly apologize for that.

14 REPRESENTATIVE WALKO: I forgive  
15 you.

16 MR. HERMAN: Thank you very much.

17 CHAIRMAN FREEMAN: Very generous.

18 MR. HERMAN: It has been  
19 interesting before I would like to read our  
20 testimony in. It is interesting listening to  
21 the first two cities or towns testifying  
22 because it is really not dissimilar, although  
23 the numbers might be different, in having  
24 talked prior to the beginning of the hearing

1       about Gettysburg other smaller communities  
2       such as Clarion that we face a lot of similar  
3       things. And I notice in listening to some of  
4       the questions that you asked this morning that  
5       I think a lot of the things that you are  
6       asking we do have in our direct testimony here  
7       this morning. So I think it will show really  
8       where a small community and a large community  
9       can be so similar in this particular  
10      situation.

11               So, again we want to really thank  
12      everyone for putting this bill together. We  
13      are so happy to be here.

14               Again, my name is Rich Herman I am  
15      a borough council member and chair of public  
16      safety in Clarion and Nancy Freenock, our  
17      borough manager, is with me today.

18               And we are certainly excited to be  
19      here in support of House Bill 2018. And you  
20      might want to know, people might ask why, and  
21      it is pretty simple. We feel in Clarion we  
22      built the perfect storm of tax exempt  
23      properties.

24               Our perfect storm adds up right now

1 current is 70.7 percent of the total assessed  
2 property value. We feel this presents an  
3 unfair tax burden on Clarion Borough taxpayers  
4 that must be addressed. Just to tell you  
5 about, a little bit about where we are from  
6 Clarion Borough is located two miles north of  
7 exit 62 and 64 off the interstate. From  
8 Pittsburgh we are 75 miles northeast of the  
9 city and lies on a plateau above a great curve  
10 in the Clarion River which is some information  
11 that I was able to pluck out from a  
12 publication, that gives a panorama of the  
13 river and the rolling Allegheny Mountain  
14 foothills.

15 The Borough of Clarion was  
16 incorporated April 6, 1841 and spans 1.49  
17 square miles according to 2000 U.S. Census  
18 Bureau and has a population of 6,185. Clarion  
19 University a major part of our community has  
20 approximately 5,000 students located right in  
21 Clarion on the a sloping campus. Clarion was  
22 named Pennsylvania's Outstanding Community in  
23 1997. Borough citizens are prideful that  
24 Clarion is the quintessential American small

1 town, offering wide range of employment,  
2 support service and cultural opportunities.

3 Clarion University is the largest  
4 employer in the borough with total employment  
5 in Clarion of about 700. That number is down  
6 about 40 employees in the last ten years.

7 Owens-Brockway Glass has operated in Clarion  
8 since 1906 and employs approximately 450.

9 While the third biggest employer, Clarion  
10 Hospital moved from the borough of Monroe  
11 Township in 1983. The hospital at that time  
12 had 350 employees in Clarion and now actually  
13 employs 500 where it moved out to the  
14 township.

15 Their move to the township signaled  
16 the beginning of the expansion of that  
17 township and the I-80 corridor along exit 62  
18 continues today.

19 Since 1980 the Clarion Hospital,  
20 Clarion Mall, four new hotels, Wal-Mart a new  
21 Intermediate Unit, Trinity Point Development,  
22 as you see there are a variety of restaurants  
23 and other establishments have all been a big  
24 growth spurt in Monroe Township, obviously not



1 in Clarion.

2                   According to latest information we  
3 have from Clarion County real property tax  
4 summary, Clarion borough has \$107,018,911 in  
5 total assessed property value. Of that  
6 75,658,177 is tax exempt. Accounting for 70.7  
7 percent of the assessed property. These  
8 figures are nothing new to Clarion Borough or  
9 its taxpayers. In 1990 the percentage of  
10 non-taxable property was 69.8 percent. It  
11 reached a high of 71.1 percent in 1995. And  
12 currently sits at 70.7 percent and there is an  
13 attachment in the back that will walk you  
14 through those years.

15                   In 2007 just to note this, Clarion  
16 Borough did receive payment in lieu of taxes  
17 of \$16,247. Those were prior arrangements  
18 with a couple different entities, one being  
19 University Foundation, one being a  
20 federally-subsidized building.

21                   With the Borough of Clarion being  
22 landlocked since the 1980's has slowed to  
23 trickle. In 1990 there were 1,490 parcels in  
24 Clarion. In 2008 there are 1,503 parcels.

1       There were 53 non-taxables in 1990, 52 in '97,  
2       but today there are 91.

3                   In our opening we referred to  
4       growing the perfect storm for cause of such  
5       high tax exempt ratio. The fact is Clarion  
6       Borough is the host municipality to Clarion  
7       University along with being a county seat for  
8       Clarion County plus Clarion Area School  
9       District, local churches, clubs which you see  
10      there, Post Office and other similar type  
11      buildings.

12                   The Borough of Clarion has a  
13      long-standing positive relationship working  
14      together with all of these tax exempt property  
15      holders, especially Clarion University who  
16      holds the largest amount of tax exempt  
17      property valued as \$66,875,253 or 62.4 percent  
18      of the total.

19                   In the last ten years or so Clarion  
20      University and the University Foundation has  
21      unveiled a plan to obtain more properties  
22      around the university, rebuild some of its  
23      buildings, has built or is planning to build a  
24      number of new buildings and is continuing to

1       grow. It is important to note that the  
2       borough supports the growth of the university  
3       so it can continue to maintain its status as  
4       one of the top educational institutions in the  
5       region. It is also important to point out the  
6       relationship between the university, the  
7       borough and the community remain strong.

8               Clarion University strongly  
9       supports a large number of community projects  
10      and, of course, offers a wide variety of  
11      cultural athletic and civic programs that  
12      enrich the community. Our relationship with  
13      university has never been stronger than it is  
14      today.

15             Since the Borough of Clarion is  
16      landlocked, however, the continued expansion  
17      of any tax exempt property holder is a major  
18      drain on the resources that the borough has to  
19      offer.

20             Has the borough been a good steward  
21      of the citizen's tax dollars? We believe we  
22      have. The borough currently employs, you see  
23      there, seven officers, a chief, five public  
24      work employees. In '92 Clarion had nine

1 officers, a chief, five public works  
2 employees, a borough manager and three office  
3 staff. We reduced by a few workers over that  
4 period of time.

5 In the last ten years the average  
6 annual raise among employees is somewhere  
7 between three and 3.2 percent. Four years ago  
8 after renegotiating our health care coverage,  
9 we saved the borough about \$30,000 a year for  
10 three years indicated. So we think we have  
11 been good stewards of the tax dollars.

12 Our problem like all the boroughs,  
13 towns and cities is everyday costs continue to  
14 rise. Add to that, and this is just one fact,  
15 Clarion Borough is paying the lion share of  
16 operating Clarion Volunteer Fire Department  
17 which serves surrounding communities. But  
18 needs right now a \$200,000 roof repair and you  
19 can understand why the borough citizens are  
20 frustrated by looking at all these kinds of  
21 cost.

22 There is only one way to recover  
23 these costs and that increase tax, property  
24 taxes. Clarion Borough enjoyed a reputation

1 of not raising property taxes for many years.  
2 From 1994 to 2002 we had no property tax  
3 increase. But having so much tax exempt  
4 property has finally caught up with us all.

5 In the last three years Clarion  
6 Borough has had to raise tax rates eight  
7 mills, and those increases were simply to pay  
8 the bills. And having really worked hard on  
9 the budget and having Nancy sitting next to  
10 me, I am sure she will nod her head in  
11 agreement that it is an I very bare bones  
12 budget.

13 Recently the borough has had to  
14 consider a new threat, tax reassessments.  
15 Unlike -- just stop here a second. Unlike the  
16 county here in Pittsburgh, most every other  
17 county is still based on some 1970 tax, I  
18 think ours was 1975.

19 CHAIRMAN FREEMAN: That is your  
20 last reassessment?

21 MR. HERMAN: That is our last  
22 reassessment.

23 CHAIRMAN FREEMAN: Good lord.

24 MR. HERMAN: We have asked our

1 county officials to look at it in some manner,  
2 whether it with be partial or period of time,  
3 three years, anything. And they are  
4 absolutely set in cement that will not happen,  
5 not happen on their watch, they will not spend  
6 the money. And you can see where we are going  
7 with that.

8 The positive impact of the passage  
9 of House Bill 2018 on the residents of Clarion  
10 Borough would be immediate. Nancy and I talk  
11 about this a lot. And we certainly have no  
12 problem in testimony using a significant  
13 portion of this added revenue to give our  
14 citizens some tax relief, some real tax  
15 relief.

16 We also feel it would be important  
17 to set aside some port of revenue to help on a  
18 yearly basis to build a solid reserve fund  
19 for, obviously for emergency needs. One mill  
20 right now in Clarion is worth \$28,000. Well,  
21 and the reason I say, it is actually worth 30,  
22 but the collection rate 94, 95 percent. So in  
23 actual dollars what we get is 28,000. So  
24 depending on the amount, Clarion Borough will

1 receive from this House Bill the impact on the  
2 borough residents actually could be  
3 substantial.

4 And again, you can see the  
5 testimony is no different than anybody else.  
6 We did pass a borough resolution in support of  
7 the bill. It is attached.

8 CHAIRMAN FREEMAN: We appreciate  
9 that.

10 MR. HERMAN: And again, I think  
11 some of you may know, we are the autumn leaf  
12 capital of Pennsylvania so, where at least  
13 400,000 people or so come to celebrate Autumn  
14 Leaf Week in October every year.

15 So on behalf of them, ourselves,  
16 borough council we thank you for sponsoring  
17 this legislation and know that it will have a  
18 major effect or Clarion Borough.

19 CHAIRMAN FREEMAN: We thank you for  
20 your testimony and support for legislation.  
21 Are there any questions of the members?  
22 Sorry, Representative Sainato.

23 REPRESENTATIVE SAINATO: Thank you,  
24 Mr. Chairman. Is Clarion in Act 47?

1 MS. FREENOCK: Early intervention.

2 REPRESENTATIVE SAINATO: Early  
3 intervention. I know that our first two  
4 cities were, the other ones are and I  
5 represent New Castle which went into Act 47  
6 last year, Mr. Chairman.

7 MR. HERMAN: We are hoping to get  
8 right back out.

9 REPRESENTATIVE SAINATO: I commend  
10 you, Chairman Freeman, for this legislation  
11 because it affects I think every city in the  
12 state in some form or another and it is, well,  
13 upsetting, but earlier you said once you go  
14 in, you don't come out. Unless from our  
15 perspective we do something to help you guys  
16 to come up with more sources of revenue, I  
17 don't see much hope for many of them at this  
18 point. So you are in the early stage.

19 MS. FREENOCK: That's correct, we  
20 are trying to prevent becoming distressed.

21 REPRESENTATIVE SAINATO: I'm just  
22 curious I mean it seems most of the cities  
23 looking at the chart up there. That is really  
24 all I wanted to know. Thank you, Mr.



1 Chairman.

2 CHAIRMAN FREEMAN: The chair wishes  
3 to recognize the presence Representative Paul  
4 Costa. Representative Longietti.

5 REPRESENTATIVE LONGIETTI: Thank  
6 you, Mr. Chairman. You mentioned briefly and  
7 we will hear from the City of Sharon in a  
8 little bit. They have the same problem. But  
9 the tax appeals that are being made, and I  
10 think that may be a recurrent thing in many of  
11 these communities because, you know, there has  
12 been a flight. These properties are no longer  
13 are valued at what they could be in some of  
14 the townships and areas that surround them.

15 I was curious, I meant to ask this  
16 of some of the others, I don't know whether or  
17 not you have any senior citizen high-rises  
18 where it is like a Section 8 or HUD  
19 subsidized. Have you seen a move by those  
20 folks to come in either in and say we should  
21 be tax exempt or our assessment should be  
22 significantly reduced?

23 MS. FREENOCK: Not yet, but I  
24 wouldn't rule that out. We had nine

1 properties in the past two years from the  
2 downtown area that did appeal their assessment  
3 successfully and we have one which is a -- we  
4 have nine properties in the past two years  
5 that filed for reassessment. They were  
6 successful. We had one which is a financial  
7 institution that is appealing their  
8 assessment. We fully expect this trend to  
9 continue.

10 REPRESENTATIVE LONGIETTI: Just as  
11 a comment, it seems as though HUD at the  
12 federal level is pushing these various  
13 non-profit or pseudo non-profit companies that  
14 have these high-rises to seek reassessments or  
15 to claim they are tax exempt because if they  
16 are able to get a reduction then HUD pays them  
17 less.

18 It seems like another example of  
19 the federal government trying to push this  
20 down to the local level. And just as a point  
21 of information, Mercer County the county  
22 solicitor actually successfully litigated  
23 through the appeals court that these entities  
24 really aren't tax exempt. So you might want

1 to stick that away.

2 MS. FREENOCK: Thank you, we  
3 appreciate the advice.

4 REPRESENTATIVE LONGIETTI: Mental  
5 file there. One other question, just curious  
6 if either of you know why the hospital decided  
7 to move out to the township back in '83?

8 MR. HERMAN: You know, frankly,  
9 frankly there is so much great development  
10 land in Monroe Township and actually Clarion  
11 Township as well, but Monroe Township is the  
12 township that has really boomed. That it made  
13 only good sense to move out there where you  
14 are near an interstate, where they have more  
15 land to expand, where they can expand services  
16 and be ready to add things, new things like  
17 MRI still weren't invented then, but they have  
18 room to expand out there where they didn't  
19 where they were located in the borough.

20 MS. FREENOCK: And as you heard  
21 this morning from the City of Pittsburgh and  
22 the City of Johnstown, we too are landlocked.  
23 We can't expand, there isn't any land  
24 available.

1                   If I could, I would like to point  
2       out that in Clarion Borough there is a large  
3       population of senior citizens who are on fixed  
4       income and they really can't afford real  
5       estate tax increases.

6                   We also have a 57 percent low to  
7       moderate income ratio that does qualify us for  
8       CDBG money but as mentioned \$100,000 might pay  
9       two miles of roadway.

10                  MR. HERMAN:   Nancy, when we were  
11       talking during the other testimony somebody  
12       had asked the question about, this might be a  
13       question that might come up about surrounding  
14       township tax millage rates, etc., and we were  
15       laughing about that on the way down.   I know  
16       Nancy wanted to make sure she got that in  
17       testimony.

18                  MS. FREENOCK:   As you can see from  
19       one of the attachments, we are at 26 mills.  
20       The highest millage rate surrounding Clarion  
21       Borough was four mills and that is Monroe  
22       Township where all of the --

23                  CHAIRMAN FREEMAN:   How many?

24                  MS. FREENOCK:   Four, the highest.

1                   CHAIRMAN FREEMAN: That explains  
2     the anomaly in Gettysburg too when you have  
3     the mayor of Gettysburg paying more than the  
4     Wal-Mart in the township next door. A gross  
5     imbalance.

6                   MS. FREENOCK: I would mention too  
7     we had a bit of a boom with EMST tax because  
8     for some reason when it was enacted in Clarion  
9     Borough there was no income limit. So last  
10    year we were fortunate to gain an extra  
11    \$100,000 income. We will lose that money this  
12    year because of the \$12,000 exemption, which  
13    is fine, I guess, but we have a number of work  
14    study students and workers that work in fast  
15    food restaurants whom I know the Legislature  
16    didn't want to overburden them.

17                  But again, the same services we  
18    provide for residents of the borough and for  
19    those individuals that make more than \$12,000  
20    are provided to citizens that make less.

21                  REPRESENTATIVE LONGIETTI: Briefly,  
22    getting back to the hospital situation, I know  
23    that can be a double-edged sword too. Because  
24    they are tax exempt but at the same time you

1 hate to see them lose, leave your community.

2 I know that is a concern in my area as well.

3 Because the hospital is landlocked.

4 You know, they need to expand. The  
5 City of Sharon doesn't want to lose them but,  
6 you know, at the same time they are not paying  
7 taxes but you don't want to lose those people.

8 MR. HERMAN: Not as employees, you  
9 really don't want to lose them.

10 REPRESENTATIVE LONGIETTI: Thank  
11 you, Mr. Chairman.

12 CHAIRMAN FREEMAN: I think  
13 Representative Longietti brings up a very good  
14 point too. In the debate we have had on this  
15 proposal and the whole issues of tax and  
16 property tax, one thing that comes up  
17 periodically in Pittsburgh concern, geez some  
18 of these non-taxable entities like hospitals  
19 are quite well endowed, why don't they step up  
20 to the plate and provide more in terms of a  
21 pilot payment in lieu of taxes.

22 My big concern with that is if that  
23 envelope is pushed too far, they will leave  
24 your community and go out to the township

1       where they probably won't have a request for  
2       pilot. So you end up losing the employees as  
3       well as the prospect of the institution brings  
4       to the community. This way we avoid that  
5       flight, we compensate you for the regional  
6       asset, state asset.

7                   MR. HERMAN: That is why I think we  
8       wanted to make also very clear that we have a  
9       pretty good relationship between, work at  
10      Clarion University but that aside, the  
11      relationship between the university and the  
12      town is a pretty good one, a pretty strong  
13      one. I think somebody brought up a really  
14      good point not too long ago and that is that  
15      when you look at university that needs to  
16      expand, and needs to get some property in  
17      order to do things, new buildings, ect, and as  
18      they acquire and become non-taxable  
19      properties, there can be a feeling in the  
20      community that they are taking away and all of  
21      a sudden my taxes are going up and here they  
22      are building these buildings and not getting  
23      anything in return.

24                   And you really don't want to start

1       having a divide between a good community asset  
2       and its citizens. You want to bring them  
3       close together. I think a real positive thing  
4       this will do, and if we could lower taxes is  
5       say wow, somebody, not only is somebody  
6       listening but Clarion University really is an  
7       asset now. And now the tax structure gets  
8       reduced a little bit and the citizens don't  
9       look at it in a way that they could be driven  
10      to look at it with its continual growth.

11               CHAIRMAN FREEMAN: So it reduces  
12      some of the potential stress between the town  
13      and --

14               MR. HERMAN: I really believe it  
15      will help the relationships tremendously.

16               CHAIRMAN FREEMAN: I do too.  
17      Representative Walko.

18               REPRESENTATIVE WALKO: Thank you,  
19      Mr. Freeman. Mr. Herman, Ms. Freenock,  
20      Clarion University makes up 62 percent of  
21      Clarion. And I was just wondering do they  
22      have independent police force?

23               MR. HERMAN: They do. They pretty  
24      much stay on their campus. We have a



1 reciprocal agreement with them so that if they  
2 need Clarion Borough services, then we do go  
3 on campus with Clarion Borough and they will  
4 come out and help us from time to time. But I  
5 think it is more our way going onto the  
6 campus.

7 REPRESENTATIVE WALKO: How about  
8 fire protection? Does Clarion University  
9 have --

10 MR. HERMAN: No, as a matter of  
11 fact, they are not allowed to make a payment  
12 to the borough. They can make a donation to  
13 the fire department.

14 MS. FREENOCK: That's correct.

15 MR. HERMAN: They make a small  
16 donation to the fire department on a yearly  
17 basis, that is it.

18 REPRESENTATIVE WALKO: How about  
19 emergency services, ambulance, EMS?

20 MS. FREENOCK: That is provided for  
21 the hospital.

22 REPRESENTATIVE WALKO: Okay. At a  
23 charge?

24 MR. HERMAN: Yes.

1 MS. FREENOCK: We have a large  
2 number of rentals in the borough. There are  
3 2,000 housing units and 1300 of those are  
4 rentals with the majority being let to college  
5 students. So our police force spends a great  
6 deal of time responding to calls that are  
7 student related.

8 REPRESENTATIVE WALKO: Most of  
9 those students if they do work, I would  
10 presume as was the case with me when I was a  
11 student, you make \$12,000 or less in the  
12 borough.

13 MS. FREENOCK: Correct.

14 MR. HERMAN: Maybe 2,000.

15 REPRESENTATIVE WALKO: It is state  
16 university, it is state owned, state property,  
17 so, there is even more logic to having the  
18 state come in. Especially in Clarion's case,  
19 and other state universities.

20 MR. HERMAN: I think the reason we  
21 not only wanted to testify on our behalf  
22 today, but I think we can sort of represent  
23 the other 13 potential, because there are 14  
24 state system schools, that we can represent

1 almost all of the other towns across the  
2 commonwealth as to what our plight is, they  
3 have to have a similar plight.

4 REPRESENTATIVE WALKO: I'm sure.  
5 And where do all these 400,000 people stay for  
6 Autumn Leaf, do they just come up for the day?

7 MR. HERMAN: Ten days. We have,  
8 not only just our parade will draw 100,000,  
9 and usually during an election year it would  
10 not be uncommon to have Governor Rendell there  
11 because of a lot of people prior to voting.  
12 So, we have a large parade, we have a large  
13 craft day on Fridays where the entire town  
14 really shuts down and Main Street is a craft  
15 show in and of itself for probably about  
16 five -- no, more like six city blocks. So it  
17 is quite a thing for about ten days.

18 REPRESENTATIVE WALKO: Thank you.

19 MS. FRENOCK: Unless the visitors  
20 stay with visitors in the borough, they are  
21 outside the borough.

22 CHAIRMAN FREEMAN: Off of Route 80.

23 MS. FRENOCK: This event is not a  
24 money maker for the borough.

1                   REPRESENTATIVE WALKO:   Thank you  
2                   very much.

3                   CHAIRMAN FREEMAN:   I have a couple  
4                   quick follow-up questions.  You mentioned that  
5                   your millage is at 26.

6                   MS. FREENOCK:   Yes.

7                   CHAIRMAN FREEMAN:   Forgive me, I  
8                   should know this as Chairman of the committee  
9                   but what is the ceiling for those?

10                  MS. FREENOCK:   30.

11                  CHAIRMAN FREEMAN:   So you are four  
12                  mills away from being at your cap?

13                  MS. FREENOCK:   Yes.

14                  CHAIRMAN FREEMAN:   And you are not  
15                  a home rule community so you have no authority  
16                  to rise above that?

17                  MS. FREENOCK:   Unless we go to the  
18                  Court of Common Pleas.

19                  CHAIRMAN FREEMAN:   You can always  
20                  petition.

21                  MS. FREENOCK:   Right.

22                  CHAIRMAN FREEMAN:   What is the  
23                  current budget in Clarion, General Fund  
24                  budget?

1 MS. FREENOCK: Give me one second.

2 It is I think 1.6 million.

3 CHAIRMAN FREEMAN: Okay, so the  
4 \$574,000 envisioned in this bill would be a  
5 real shot in the arm for you guys?

6 MS. FREENOCK: Absolutely, I think  
7 at one point the 2007 numbers if the  
8 university were paying real estate taxes at  
9 the 2007 rate we with would generate 1.6  
10 million in additional income.

11 CHAIRMAN FREEMAN: Wow, what is the  
12 population of Clarion?

13 MS. FREENOCK: 6,185.

14 CHAIRMAN FREEMAN: In terms of the  
15 non-profit institutions, the university, the  
16 hospital you have in your community, this  
17 might be difficult to ascertain, can you give  
18 me ball park what percentage of those folks  
19 working there actually live in the borough and  
20 what percentage live outside the borough?

21 MR. HERMAN: That would be  
22 difficult. It so happens that in -- it so  
23 happens that in the area of town I live in  
24 which I do live in the borough, there are

1 several, several hospital employees who live  
2 up in my area. But exactly how many, I have  
3 no way of knowing, we do not have numbers to  
4 reflect that.

5 CHAIRMAN FREEMAN: Just curious I  
6 know a lot of other circumstances similar to  
7 yours, you face the prospect where people work  
8 in the community by going to those  
9 institutions but many times live in townships  
10 or suburbs outside. So you do not realize  
11 earned income tax that comes from being  
12 employed there which could be substantial from  
13 the salaries of certain medical professionals.

14 MR. HERMAN: You asked about the  
15 population, that is why in our testimony I  
16 also put that we have about 5,000 students in  
17 addition to the 6,185 you have to account for  
18 because of the student population that is  
19 affiliated with the university.

20 CHAIRMAN FREEMAN: Okay.

21 MS. FREENOCK: With the remaining  
22 700 housing units I mentioned 1300 rentals,  
23 700 housing units, if it is one resident per  
24 individual, we have 700 or double up to 1400

1 employees now. We know the university has 700  
2 employees or thereabouts, so I would say there  
3 is a big gap there between those that work in  
4 the borough.

5 CHAIRMAN FREEMAN: Do you have a  
6 lot of students living off campus in housing  
7 facilities?

8 MR. HERMAN: Yes.

9 CHAIRMAN FREEMAN: So code  
10 enforcement is a real issue for you.

11 MS. FREENOCK: Absolutely.

12 MR. HERMAN: Yes, it is.

13 MS. FREENOCK: Yes.

14 CHAIRMAN FREEMAN: Another thing --

15 MR. HERMAN: And a lot of things  
16 you mentioned before about problems Gettysburg  
17 would have, and the smaller communities, are  
18 absolutely identical, absolutely the same.  
19 But again, listening to Johnstown's or  
20 Pittsburgh's testimony, it is just numbers. I  
21 mean, when it comes down to what you are  
22 trying to provide, it is all the same.

23 CHAIRMAN FREEMAN: That is one of  
24 the reasons we appreciate your testimony today

1 in particular. A lot of times when this bill  
2 comes into the public eye they assumed it is  
3 simply to help cities, all though those are  
4 communities in need of this, it does touch  
5 small communities like Clarion, Gettysburg and  
6 other towns across the commonwealth. This  
7 really is a broad-based bill.

8 MR. HERMAN: It very much is.

9 CHAIRMAN FREEMAN: Not seeing any  
10 other questions, we thank you for your  
11 testimony and taking the drive all the way  
12 down here today. Hopefully, we can get back  
13 before the storm hits.

14 MR. HERMAN: Thank you very much.

15 CHAIRMAN FREEMAN: At this time I  
16 would like to give our stenographer a brief  
17 break, blood is starting to emanate from his  
18 nails. Take about a five minute break and  
19 reconvene in roughly five, ten minutes.

20 (Recess held)

21 CHAIRMAN FREEMAN: I would like to  
22 reconvene the committee and continue with our  
23 testimony. Next we call up to testify Mayor  
24 Robert Lucas, Mayor of the City of Sharon.



1 Mr. Mayor, welcome. Thank you for coming here  
2 today to testify before the committee. You  
3 can begin your testimony at any time.

4 MR. LUCAS: Sure, thanks for  
5 inviting me down here. Great legislation. I  
6 hope we can get it through.

7 Before I read my testimony, I would  
8 like to give you a little background. I  
9 worked for the City of Sharon as a firefighter  
10 for 24 years, retired, was a Councilman for  
11 two years, have been mayor since 2006.

12 Also a small business owner so this  
13 testimony will speak to what I have personally  
14 realized and saw take place in the City of  
15 Sharon.

16 The City of Sharon is similar to  
17 many historic third class cities in  
18 Pennsylvania. It has a rich history of  
19 providing jobs, homes, schools, health care  
20 facilities, libraries, places of worship and  
21 many needed non-profit agencies.

22 However, over the last 30 plus  
23 years Sharon has experienced a decline in  
24 population of over 40 percent. The exodus of

1 thousands of jobs and erosion of our core  
2 neighborhoods.

3 In addition, the last county wide  
4 property assessment occurred in 1970. The  
5 commonwealth's successful Keystone Opportunity  
6 Zone initiative placed an additional burden on  
7 our city services without corresponding  
8 revenues.

9 House Bill 2018 addresses the fact  
10 that cities like Sharon are caught in the  
11 middle. Currently, 25 percent of our assessed  
12 value is tax exempt and yet we must  
13 continually provide the needed city services  
14 for these necessary entities while our tax  
15 base erodes yearly.

16 Our neighboring communities with  
17 large tracts of undeveloped land enjoy  
18 residential and commercial growth. Their  
19 taxes are lower because of a broader tax base.  
20 Meanwhile, the challenge of maintaining  
21 adequate police force in the face of increased  
22 drug and criminal activity is a daily  
23 struggle.

24 The federal program COPS helped but

1       it ended. Blighted neighborhoods and  
2       substandard housing draws absentee landlords  
3       that prey on desperate people. This  
4       corresponds to increase of structure fires,  
5       which in turn strains our fire department.

6               Fiscally the City of Sharon working  
7       on the Governor's Action Team utilized the  
8       Early Intervention Study two years ago. And  
9       we avoided Act 47. We are trying to do what  
10      needs to be done to stay that way. We have  
11      made tough expenditure decisions. As mayor I  
12      reduced our work force by 20 percent.

13             We also have the highest property  
14      tax in Mercer County, currently 39 and a half  
15      mills. In summation, the models of yesteryear  
16      where people wanted to live in town close to  
17      their places of work, school and worship has  
18      changed and the commonwealth needs to assist  
19      our poor communities through this transition.

20             Now, we are committed to moving  
21      Sharon forward and the Tax Exempt Property  
22      Municipal Assistance Act would be an essential  
23      tool for us to keep moving forward.

24             CHAIRMAN FREEMAN: Thank you.

1 Thank you for your support of legislation and  
2 testimony. Any questions? Representative  
3 Longietti.

4 REPRESENTATIVE LONGIETTI: Thank  
5 you, Mr. Chairman. First I just want to thank  
6 the mayor of Sharon for traveling down to  
7 Pittsburgh. He is the mayor in one of the  
8 communities that is in my Legislative  
9 District. He has done an excellent job under  
10 very difficult and trying circumstances.

11 And I do want to plug the City of  
12 Sharon for those of you that remain, it is a  
13 unique city, it has a lot of challenges, and  
14 yet it has some great anchors. We have Quaker  
15 Steak and Lube which is famous for their wings  
16 that continues to be downtown, it is the  
17 original. We have the largest shoe store in  
18 America in Reyers Shoe Store, the largest  
19 candy store in Daffins Candies, and the  
20 largest women's off price fashion store in the  
21 winter. So, there are some real positives in  
22 Sharon. And yet, Sharon has struggled like so  
23 many of these third class cities.

24 You know, perhaps the mayor can

1       expand a little bit on some of the struggles  
2       that third class cities like Sharon have with,  
3       you know, with gangs and crime trying to pick  
4       on these cities. They see them in the  
5       situations there you alluded to the COPS  
6       program that did help for some period of time  
7       but perhaps you can just expand a little bit  
8       upon what some of those challenges are.

9                   MR. LUCAS: If you recall in the  
10       COPS program, it came about through the  
11       Clinton years. We were able to hire six  
12       additional police officers and place what we  
13       call Zone 5, our troubled area. And we had a  
14       substation there, we had police officers on  
15       patrol. The neighbors got to know them. And  
16       it worked.

17                   If a pin fell in the wrong angle,  
18       these police officers knew it. And when that  
19       dried up, our police force went back down to  
20       28 officers and it is constantly, our call  
21       ratio is probably gone up by 60 to 70 percent  
22       since that has gone away.

23                   You know, when you start losing  
24       your neighborhoods, the only people that want

1 to buy the properties are absentee landlords,  
2 and they don't care who they rent to. So, you  
3 get these desperate people, and then the gangs  
4 come in we have the young people that see this  
5 stuff on TV and now we had, I mean the City of  
6 Sharon is down to 15,000 people. And yet we  
7 had the Chetter Boys, and I can't remember  
8 what the other name of the gang was.

9 We are close to Youngstown. The  
10 drug trade comes from Detroit and one of our  
11 sister cities, Farrell. They experienced,  
12 they are in Act 47, it is the same thing.  
13 Until we turn it around, I alluded to it when  
14 I said people don't want to live in the city  
15 any more. What they want to do is they want  
16 to move to the suburbs.

17 So we lost the Westinghouse that  
18 employed 10,000 people back in the 60s. If  
19 they came back, we still wouldn't see that tax  
20 dollars because those people that work there  
21 wouldn't live in the City of Sharon. And that  
22 is what happened with the Keystone Opportunity  
23 Zones. It was great because it brought jobs  
24 back to Pennsylvania. But they located in the

1 communities that had the land that these other  
2 companies left.

3 But the people that work there  
4 don't live. So thankfully we were able to go  
5 to the \$52 EMST tax. But other than that,  
6 that is all we get. So you have someone  
7 making 40, \$50,000 a year but they live in a  
8 community where they only have to pay nine  
9 mills. And don't get me wrong, I don't blame  
10 them, but that, the model is changed.

11 And something has to happen and  
12 this legislation addresses that. It is not  
13 the panacea, it is not going to take us over  
14 the top.

15 CHAIRMAN FREEMAN: Get you the  
16 stability.

17 MR. LUCAS: Right. Representative  
18 Freeman, you mentioned the Brookings Institute  
19 report. And Governor Rendell talks about  
20 that. I mean, we have got these doughnuts out  
21 there and they are just going to expand.  
22 Because the small communities that are around  
23 us doing well, where are they going to be at  
24 in 20 years? Where will they be in 30 years?

1       Sometime we have to address the issue. Again,  
2       I appreciate coming down.

3               REPRESENTATIVE LONGIETTI: And you  
4       kind of touched on it, the challenge that the  
5       City of Hermitage puts on Sharon, at least in  
6       our area we believe it is the third largest  
7       land wise city in the Commonwealth of  
8       Pennsylvania from what we have been told.

9               MR. LUCAS: Yes, I believe so.

10              REPRESENTATIVE LONGIETTI: And you  
11       talked a little bit we have Sharon Regional  
12       Health System is a good employer.

13              MR. LUCAS: Our largest employer in  
14       Mercer County.

15              REPRESENTATIVE LONGIETTI: Located  
16       in City of Sharon. A lot of those folks that  
17       make a decent wage don't live in Sharon. Just  
18       maybe touch a little bit more on what the  
19       challenge of being surrounded by Hermitage and  
20       how that is unique in Mercer County how  
21       Hermitage surrounds everything.

22              MR. LUCAS: In order for you to  
23       leave the City of Sharon, unless you drive  
24       into Farrell, you have to go through Hermitage



1 to go anywhere else. Because they were large  
2 when people were annexing, they didn't want to  
3 take this piece of land and that piece of  
4 land. So they are still around. They are all  
5 over the place.

6 They have the model now that the  
7 retail stores love. In 1960 the retail space  
8 per capita in the United States was four  
9 square feet. And if you remember when you  
10 were a kid and you went into downtown, there  
11 were shops but they weren't very large. Now  
12 it is 39 square feet. Your Wal-Marts, big box  
13 stores, they couldn't locate in a city like  
14 Sharon if we wanted them to, we don't have  
15 that area.

16 Hermitage has the wide State Route  
17 18, State Route 62, four, six lanes wide, and  
18 these major retail locate out there,  
19 rightfully so. I understand it.

20 But, we, we have got the  
21 double-edged sword where people leave Sharon  
22 to move to Hermitage because of the lower tax.  
23 They have, I believe their tax is six and they  
24 have not raised their property tax in 25

1       years.

2                   CHAIRMAN FREEMAN:   And yours is 39  
3       mills?

4                   MR. LUCAS:   Ours is 39 and a half,  
5       in fact, we reduced by three mills when the  
6       EMST tax came in.   When we were able to go to  
7       \$52, we reduced millage by three mills.

8                   So, like I said, we are trying to  
9       do it.   But how do you compete and what we see  
10      is senior citizens that have a high tax rate,  
11      property tax.   Hermitage has two and a quarter  
12      percent wage tax.   We have one.   Well, if you  
13      are a senior citizen and you don't have any  
14      income, where are you going to move to?   So,  
15      the population of the Shenango Valley is not  
16      increasing, but it is shifting.   Our senior  
17      citizens are moving to cities like Hermitage  
18      and we end up with, we end up with a lot of  
19      people that have the \$9 an hour job, \$10 an  
20      hour job.   So what kind of home can they  
21      afford?

22                   And if they can't afford the home,  
23      who do they rent off?   They rent off these  
24      absentee landlords.   You know, fighting the

1 code issue, the strain on the fire fighting  
2 force, it is a cycle that we have to stop.  
3 Like I said earlier, this would give us some  
4 money to help. We are looking to build homes  
5 to change whole tracks of affordable housing  
6 in the 50 to say \$75,000 range where somebody  
7 if a combined income is \$40,000 you can afford  
8 to buy a home. That is what we have on the  
9 drawing boards for our downtown area because  
10 many years ago if you walked in downtown  
11 Sharon, it wasn't just retail, it was an  
12 eclectic mix. We have a campus of Penn State  
13 right in downtown. And Sharon Regional is  
14 just up over the hill.

15 We have a lot of businesses. But,  
16 this would help us stabilize and go forward  
17 with the plans of bringing houses back into  
18 downtown. That was also part, people lived in  
19 your downtown.

20 CHAIRMAN FREEMAN: Absolutely.

21 REPRESENTATIVE LONGIETTI: Thank  
22 you, Mr. Chairman.

23 CHAIRMAN FREEMAN: I think you  
24 raise some very good points. In conversations

1 Mark and I had about Sharon reminds me very  
2 much of Easton in a lot of ways, my hometown,  
3 same problems. Fighting absentee homeowner,  
4 intrusion of gangs into the community, drug  
5 trade. I'm sure like Easton, Sharon probably  
6 has some wonderful assets, have some great  
7 housing stock.

8 MR. LUCAS: Yes.

9 CHAIRMAN FREEMAN: You have an old  
10 downtown that has a certain charm to it, I'm  
11 sure. And like you said, I think one of the  
12 keys to recovery of that downtown is to a  
13 built-in customer base for having more people  
14 living in the downtown.

15 MR. LUCAS: Correct.

16 CHAIRMAN FREEMAN: That is some of  
17 the things we are looking at in Easton trying  
18 to revive our downtown as well. Did you feel  
19 too that one of the problems you encountered  
20 in terms of revenue streams, mentioned this  
21 before, but the governor has been very good as  
22 far as capital projects for a lot of  
23 communities across the commonwealth,  
24 particularly our cities and boroughs.

1                   But your needs again as the case as  
2   Clarion and other communities really are every  
3   day operating needs. If you are going to  
4   combat absentee landlords, you need code  
5   enforcement people. To combat gangs, you need  
6   police officers on the beat. If you take care  
7   of fire concerns, you need a decent fire  
8   department. All that requires operating that  
9   doesn't come from capital fund projects, it  
10   comes from something like the proposal we have  
11   here.

12                   MR. LUCAS: Yes, yes. I have to  
13   tell you, in the negotiations with the police  
14   from now on new hires, the accumulated sick  
15   leave is gone. So our employees understand  
16   that the model has to change. And we are  
17   going to be in negotiations with the fire and  
18   the non-uniform. And they understand what is  
19   coming down the pike.

20                   So we are doing what we are  
21   supposed to do, we are trying to stay out of  
22   Act 47. But as the other people have taught,  
23   it is almost like running up against the wall.  
24   How many more rabbits can you pull out of the

1       hat.   Something like this would really be a  
2       help.

3                   CHAIRMAN FREEMAN:   One of the  
4       things come home to me in the Act 47  
5       situation, you guys are trying.  You are doing  
6       everything you can to stabilize your community  
7       and turn it around.  But without the revenue  
8       sources you need, you can't do it.  It is an  
9       issue of the eroding tax base, an issue of not  
10      having general operating fund revenues  
11      necessary to maintain police, fire, code  
12      enforcement.

13                   In order to do what someone once  
14      told me a long time ago, three keys to  
15      attracting people to live in the community it  
16      has to be safe, it has to be clean and  
17      attractive.  All those goals take resources.  
18      You can't achieve them without some sort of  
19      funding stream.  And that is one of the  
20      problems a lot of older communities face.

21                   MR. LUCAS:   Correct.  If the state  
22      gives you money for a park, you have to  
23      maintain the park.  We had an RACP grant of  
24      1.5 million.  We spent like 1.1 of it but RACP

1 is a reimbursable grant. So we had to go to  
2 the local bank, part of this river walk was on  
3 their property. We said listen, give us a no  
4 interest loan so that we can start this  
5 project and we will get reimbursed. And the  
6 river walk which is on your property will  
7 improve your property. So, they went and said  
8 okay.

9 We had to borrow the money in order  
10 to start the project. I mean creative  
11 financing is an everyday occurrence in the  
12 City of Sharon.

13 CHAIRMAN FREEMAN: As it is for  
14 many communities.

15 MR. LUCAS: Correct.

16 CHAIRMAN FREEMAN: Representative  
17 Walko.

18 REPRESENTATIVE WALKO: Thank you,  
19 Mr. Chairman. Mayor Lucas, just one brief  
20 question and you might not have the answer,  
21 what is the cost of the foregone revenue as a  
22 result of Keystone Opportunity Zones in  
23 Sharon?

24 MR. LUCAS: I really don't have a

1 cost to it, but part of the Westinghouse plant  
2 is in that. The firm that -- Winner Steel  
3 came in put in a coating mill, they recently  
4 sold to a Russian steel company. They give  
5 us -- there are some people that give us  
6 money, they give us \$23,000 in tax revenue in  
7 the pilot program.

8 Our hospital does give us some  
9 money. But it is again, we have great  
10 relationship with them, but they don't want  
11 anybody to know that they give us money.  
12 Because guess what, the school district will  
13 say what about us. You know everybody will  
14 say what about us. This eliminates that.  
15 Because, you know, if you take this a little,  
16 to get back to the Keystone Opportunity Zones,  
17 this firm employs 350 people. We don't get  
18 the tax dollars from the Keystone Opportunity  
19 Zone because it is obviously property tax is  
20 free. And maybe of that 350 we might have 30  
21 workers in Sharon because they pay a good  
22 wage, well now I can leave Sharon.

23 And that's -- in fact,  
24 Representative Longietti has heard this many



1 times, the key in the Shenango Valley when  
2 your child graduates from college is to leave  
3 the valley. Now what kind of legacy are we?  
4 We all fee it is a greet place, I'm sure  
5 Easton is a great place to live. Pittsburgh,  
6 every time I come into Pittsburgh, what a  
7 great city. What are we going to end up with,  
8 a city full of non-profits because the  
9 business won't come in? Then how do we fund  
10 it. I really don't know what the answer is.

11 REPRESENTATIVE WALKO: It is funny  
12 one of the things you point out about people  
13 living outside of the City of Sharon, so  
14 relevant to Pittsburgh. I live in the  
15 Northside of Pittsburgh and I also represent  
16 Westview, parts of Ross Township and parts of  
17 Reserve Township which are suburban  
18 communities and people there think they say  
19 they are Pittsburghers. They enjoy downtown  
20 as much as I do, the ball parks, the museums,  
21 they don't live in the city.

22 Now there are other factors at work  
23 that might or might not apply in Sharon, for  
24 example, schools. I don't know if you are in

1 the school district of surrounding areas?

2 MR. LUCAS: No, the City of Sharon  
3 School District is contiguous just to the City  
4 of Sharon. It is a rarity, no busing,  
5 everyone walks.

6 CHAIRMAN FREEMAN: Neighborhood  
7 schools, good.

8 REPRESENTATIVE WALKO: How many  
9 students do you have in that school district,  
10 roughly?

11 MR. LUCAS: I'm going to say class  
12 size is probably somewhere in the neighborhood  
13 of 130 per class. So, you know, take that  
14 through. And our school taxes are 50, I  
15 believe 54 mills.

16 CHAIRMAN FREEMAN: 54 mills on top  
17 of 39 and a half.

18 MR. LUCAS: 39 and a half. The  
19 county is another 21. You know, you realize  
20 the counties don't want to reassess because  
21 the majority of the population don't live in  
22 the cities. Property in Sharon in 1970 was  
23 premium property. We, now we get companies  
24 coming in for reassessments to make them go

1 down. We just had a mill down around 300,000  
2 square foot property so we know we are going  
3 to get hit for about \$40,000 less in revenue.

4 REPRESENTATIVE WALKO: Thank you,  
5 Mayor Lucas.

6 CHAIRMAN FREEMAN: Any further  
7 questions? Thank you for your testimony and  
8 for your support for the legislation.

9 One other thing I just wanted to  
10 touch base with you on, this is part of our  
11 conversation with the City Manager Davis from  
12 Johnstown, it seems like so many communities  
13 like Sharon, like Johnstown, Easton, Clarion,  
14 if we don't do something to provide another  
15 revenue stream to compensate for the high  
16 percentage of taxes on properties, you slide  
17 into Act 47 and you also get into a downward  
18 spiral where you raise taxes as high as you  
19 can to maintain services, but part of that  
20 equation requires you to cut back on personnel  
21 because you can't afford personnel you need.  
22 So your services decline even though you make  
23 the best efforts you can to provide services,  
24 you raise the taxes as high as you need to

1 provide services. All that creates is a  
2 disincentive to move back in the community,  
3 businesses to establish in the community. You  
4 have zero sum gain. You can't win.

5 MR. LUCAS: Correct.

6 CHAIRMAN FREEMAN: Hopefully, that  
7 will help to ease that and get you to a level  
8 of stability. One thing I'm a big believer in  
9 older communities, I lived in Easton all my  
10 life. I believe in the merit of traditional  
11 towns and traditional cities how it can bring  
12 people together and create a sense of  
13 community the way they are built and designed  
14 people in close proximity to each other.  
15 Presence of mixed use that allows people to  
16 get to know your neighbors and interact, all  
17 key components to a good community. If we can  
18 stabilize our older communities in  
19 Pennsylvania, if we give them the shot in the  
20 arm, the legislation will provide for them,  
21 that they can become successful.

22 I think demographics are changing  
23 in our commonwealth. More and more people are  
24 becoming empty nesters, the baby boom

1 generation which I am one is getting older and  
2 grayer. As a result, they may not want to cut  
3 grass and the bushes every Sunday and might  
4 want to live in a walkable community where  
5 they can access cultural events, good  
6 restaurants, public library, things within  
7 reach and far more enjoyable they don't have  
8 to drive miles and miles to get there.

9 So if we can stabilize you, I think  
10 you are in a position to come back.

11 MR. LUCAS: I agree. I tell  
12 business people, all our business properties  
13 are full. In other words, in Sharon  
14 architects, lawyers, they are full.

15 CHAIRMAN FREEMAN: They probably  
16 enjoy the downtown.

17 MR. LUCAS: They do. I was a  
18 physical guy all my life as far as work goes.  
19 Mentally, at noontime you are tired, not  
20 physically, if you want to get in your car and  
21 get a bite to eat or do you want to take a  
22 walk along the river. Those were amenities a  
23 downtown have.

24 If you are walking there is

1       lifeblood, that is what we don't have any  
2       more. You don't have all those people, even  
3       though they weren't always just going to  
4       business, might be go to a store or home.  
5       Somebody might be going to school. But you  
6       have that lifeblood. That is what we need to  
7       get back. I think you are on the track of, we  
8       can come back and we can be successful.

9                   CHAIRMAN FREEMAN: One final thing,  
10       Sharon is home to the largest shoe store?

11                  MR. LUCAS:   Reyers, yes.

12                  CHAIRMAN FREEMAN: Don't tell me  
13       wife that.

14                  MR. LUCAS:   Believe me, that's the  
15       truth. It will cost you \$200.

16                  CHAIRMAN FREEMAN: Thank you for  
17       your testimony. We are awaiting the arrival  
18       of our last testifier, wasn't scheduled until  
19       12:30, Jim Nowalk from the State Mayor's  
20       Association. I guess what we can do is just  
21       recess until he arrives. We will take a brief  
22       break until he shows up.

23       (Recess held)

24                  CHAIRMAN FREEMAN: We will

1 reconvene our hearing final witness Mr. Jim  
2 Nowalk, president of the State Mayors  
3 Association here in Pennsylvania. We thank  
4 you, Jim, for coming and look forward to your  
5 testimony. You may begin whenever you are  
6 ready.

7 MR. NOWALK: I will read from my  
8 prepared remarks and then if there are  
9 questions, I will be happy to answer them.  
10 Let me start with good afternoon members of  
11 the House Local Government Committee.

12 My name is Jim Nowalk, I am the  
13 mayor of White Hall Borough and the president  
14 of the Pennsylvania State Mayors Association  
15 which is an organization of mayors by mayors  
16 and for mayors which has been in existence for  
17 37 years.

18 Our state headquarters is located a  
19 few miles from here in the Borough of Bethel  
20 Park. At its 2007 annual conference in King  
21 of Prussia, Pennsylvania the membership of the  
22 of the Pennsylvania State Mayors Association  
23 adopted the attached resolutions attached to  
24 my remarks and I think everyone has a copy of

1 my remarks, in support of the bill which has  
2 now been designated House Bill 2018.

3 On behalf of the more than 1,000  
4 mayors of cities, boroughs incorporated town  
5 and home rule townships across the  
6 Commonwealth of Pennsylvania represented by  
7 our association, I am pleased to offer comment  
8 on House Bill 018 which has been referred to  
9 the House Committee of Local Government.

10 The Tax Exempt Property Municipal  
11 Assistance Act if enacted will serve to  
12 address the fundamental unfairness which is  
13 inherent in the commonwealth's public policy  
14 that exempts governments and charitable  
15 organizations from the payment of real estate  
16 taxes.

17 Municipalities are creations of the  
18 Commonwealth, having only those powers which  
19 are expressly given to them necessarily  
20 implied from the expressed powers. The  
21 commonwealth through various city and borough  
22 codes specifies in great detail the powers and  
23 duties of elected officials such as mayors.

24 Mayors and members of council have



1 various responsibilities to provide basic  
2 municipal services to their residents and  
3 businesses, police protection, fire  
4 protection, emergency medical services,  
5 garbage collection, road maintenance, removal  
6 of storm water and sanitary waste and more.

7 The commonwealth also prescribes in  
8 the same detail through laws such as the  
9 general county assessment law the means by  
10 which elected officials are to fund and pay  
11 for these basic municipal services often  
12 placing limitations on the rates of taxation.

13 Because so many of these services  
14 relate to ownership and use of the land, the  
15 commonwealth has provided that local  
16 municipalities may tax the value of the land  
17 paid for these services.

18 That which the commonwealth gives  
19 to municipal officials, it can also take away  
20 sometimes without fully appreciating the  
21 detriment or unfairness of its actions. This  
22 is what often happens when the General  
23 Assembly exempts many institutions,  
24 governments and entities from taxation by

1       municipal governments. Among other subjects  
2       listed in Section 204 of the General County  
3       Assessment Law, the General Assembly has  
4       conferred an exemption on all churches,  
5       meeting houses, or actual places of regularly  
6       stated worship, all actual places of burial;  
7       all hospitals, universities, colleges,  
8       seminaries, academies, associations and  
9       institutions of learning, benevolence or  
10      charity, all schoolhouses, all courthouses,  
11      jails, poorhouses, all public parks and all  
12      real property owned by institutions of purely  
13      public charity.

14               Now, the theory that is used to  
15      support a tax exempt status for such  
16      institutions, governments and entities is that  
17      taxes are the contributions which subjects  
18      make for the support of the many activities of  
19      government.

20               And as the Supreme Court has  
21      explained in the case of Hospital Utilization  
22      Project versus Commonwealth of Pennsylvania,  
23      any institution which by its charitable  
24      activities relieves government of a

1 governmental burden is conferring a pecuniary  
2 benefit upon the body politic.

3 In receiving an exemption from  
4 taxation, it is merely being given quid pro  
5 quo for its services in providing something  
6 which government would have to provide.

7 Now the problem with the theory  
8 supporting tax exemption is this: In  
9 fulfilling their corporate mission,  
10 institutions of purely public charities, for  
11 instance, are likely not relieving the elected  
12 officials, boroughs and cities of the burden  
13 of providing basic municipal services, in  
14 contrast, these institutions are more likely  
15 relieving state government of some of its  
16 health, education and welfare  
17 responsibilities.

18 Moreover, the cost to local  
19 municipalities providing the basic services to  
20 properties that are tax exempt is not being  
21 reimbursed from state government which has  
22 benefited from the charity's work. These  
23 services are being paid by the other property  
24 owners in the municipality who have the mixed

1        blessing of owning property in a municipality  
2        with institutions of purely public charity.

3                Could the inherent unfairness of  
4        this public policy be any more apparent?

5        Could the justification for enacting the Tax  
6        Exempt Property Municipal Assistance Act be  
7        any more obvious? In this unfairness is not  
8        the only one caused by this public policy.

9        The randomness with which tax exempt entities  
10       can purchase property in a municipality can  
11       cause one municipality to suffer a competitive  
12       disadvantage vis-a-vis an adjoining  
13       municipality whose percentage of tax exempt  
14       properties is significantly smaller.

15               The municipality which suffers a  
16       loss in revenue created by the presence of tax  
17       exempt entities may have to raise its real  
18       estate taxes to compensate for loss in tax  
19       revenue while the adjoining municipality of  
20       otherwise comparable circumstances reaps the  
21       benefit of lower tax rates by maintaining the  
22       status quo.

23               Is this fair? Is there any other  
24       way of restoring the inequity between the two

1       municipalities than the infusion of state  
2       money to the municipality with the tax exempt  
3       entities through the enactment of a law such  
4       as the Tax Exempt Property Municipal  
5       Assistance Act, and I do not believe so.

6                       Finally, the limitations which the  
7       General Assembly has placed upon the ability  
8       of cities and boroughs to raise revenues and  
9       the consequent dependence of these  
10      municipalities upon real estate taxation  
11      places an unfair burden upon Pennsylvania's  
12      senior citizens. As you are all aware, the  
13      taxation of the value of real estate is  
14      regressive in that the tax is imposed without  
15      any regard for the taxpayer's ability to pay.

16                      Many senior citizens are being  
17      forced to leave their homes and unless there  
18      is adequate alternative housing, their  
19      familiar neighborhoods and communities in  
20      which they have lived because increases in  
21      real estate taxes have outstripped the cost of  
22      living increases in their Social Security  
23      checks.

24                      Consequently, the passage of any

1 legislative act which serves to relieve the  
2 unfair burdens created by regressive real  
3 estate taxation and provide for an alternative  
4 source of municipal revenue should be embraced  
5 by the General Assembly.

6 The Pennsylvania State Mayor's  
7 Association urges the House Local Government  
8 Committee to move forward with the enactment  
9 of House Bill 2018. At this time if you  
10 anybody has questions, I will be happy to  
11 answer them.

12 CHAIRMAN FREEMAN: Mayor Nowalk,  
13 thank you for your testimony and support of  
14 the legislation as well as association's  
15 support. I was pleased after speaking to your  
16 association last spring, last summer that they  
17 were ready, willing and able to support the  
18 proposal, so my thanks to them. Any  
19 questions? Representative Longietti.

20 REPRESENTATIVE LONGIETTI: Thank  
21 you, Mr. Chairman, thank you, Mr. Nowalk for  
22 your testimony and traveling here today.

23 Something I commented earlier on, I  
24 just wanted to see if you have seen any trend

1 in this regard, we experienced it in Mercer  
2 County where you have housing, usually senior  
3 citizen housing that has been created. Often  
4 times HUD gives tax credits for that facility  
5 to be built and then they also subsidize what  
6 the rent is. And we have seen a trend where  
7 both in one instance they came in and  
8 basically said, talked about relieving the  
9 government of a burden basically come in and  
10 said you know what, we are really tax exempt,  
11 we relieve government of the burden we provide  
12 housing to these people we are challenging  
13 that we can be assessed at all or taxed at all  
14 on our property. Fortunately, Mercer County  
15 took that to the Commonwealth Court recently  
16 and won that case.

17 In other cases they are basically  
18 coming in and asking for reassessments because  
19 in some of these cities and towns the value of  
20 property is declined because the taxes are so  
21 high, etc., and the housing stock has  
22 deteriorated. So, in the word to be here HUD  
23 is pushing them to do this. Because if those  
24 taxes get reduced, then HUD 's subsidy also

1 gets reduced because, you know, the cost  
2 structure. I'm just wondering if you are  
3 seeing that at all if you heard that. I just  
4 I always thought it was ironic, I don't know  
5 if that is the proper term, here it is the  
6 federal government is giving them money and  
7 then they are saying we are relieving  
8 government of a burden. But really taxpayers  
9 are paying the bill. I just wanted to see if  
10 you would comment on that.

11 CHAIRMAN FREEMAN: I have not had  
12 any mayor contact with me regarding that  
13 necessarily, but just in reading the newspaper  
14 and being familiar with what happened with  
15 various trends, I see that as a trend as our  
16 economy gets worse and as, as citizens are  
17 having a hard time finding enough money, then  
18 obviously they have to rely on subsidized  
19 housing. The federal government being in the  
20 state it is in with high deficits is looking  
21 for a way of reducing its cost and expense so  
22 they would look for that assessment. And I  
23 applaud those who took that challenge all the  
24 way to the Commonwealth Court.



1                   But that is precisely the point  
2           that I wanted to make in my remarks to you.  
3           And that is, I will elaborate, if you look at  
4           Section 204 General Assessment Law, you will  
5           see listed about 11, 12 different exemptions  
6           including some reference to the federal  
7           government. So I don't know if it fell in  
8           under that, obviously, it did in your  
9           particular case, but I'm sure that in one of  
10          the sections is the exemption.

11                   There are only two that really  
12          apply to what municipal government does in  
13          terms of relieving the burden, that is  
14          libraries and parks. You know, we provide  
15          libraries we provide parks, I didn't include  
16          fire companies because you don't have  
17          charities coming in and saying I would like to  
18          set up a volunteer fire company, you know. It  
19          is something where we are not in competition  
20          with anybody. Parks that is similar. Like I  
21          said, libraries is similar. But everything  
22          else is an exemption, either benefits the  
23          state government or the federal government.

24                   And I believe that there may be

1       some reference to subsidized housing, I will  
2       have to look at that again as I said I read it  
3       last night, but I know there is language in  
4       there that somebody could possibly construe as  
5       exemption for the federal government.

6               But again, the problem is this, the  
7       benefits being conferred upon state government  
8       and the federal government are being paid for  
9       by the local residents. You know, the fire,  
10      police protection is the same, the emergency  
11      medical service, the sewers and the removal  
12      sanitary, all of those are the same for the  
13      exempt entity as it is for the regular entity,  
14      so who bears the cost of tax exempt entity not  
15      putting in the fair share, the municipality  
16      which is why this legislation is so important.

17             That the state steps up and says  
18      look we recognize we are realizing the  
19      benefit. The federal government is realizing  
20      the benefit. We don't want to, you know, a  
21      borough or a city to have to bear that. Let's  
22      provide some money.

23             So, I can as I said from reading  
24      the newspaper and from other things I am aware

1 of that trend I can understand from the study  
2 of the economy. That is why this legislation  
3 is so important.

4 REPRESENTATIVE LONGIETTI: At the  
5 same time as you all know, I guess I will do  
6 the easy one pick on the feds not the state,  
7 but you know, at the same time the feds are,  
8 you know, getting rid of revenue sharing,  
9 reducing CDBG grants, all the things that  
10 traditionally helped maybe on the back end  
11 bear some of the burden for the municipalities  
12 that has all this responsibility. But all  
13 that has been cut back.

14 MR. NOWALK: Right, I can maybe  
15 think of one thing in there. Obviously, we  
16 want to take care of veterans but a lot of  
17 that responsibility is federal government,  
18 entities are exempt under the law. Which is  
19 as it should be, however, the municipality  
20 shouldn't have to bear when you have all this  
21 tax exempt property cumulative up to 17  
22 percent, I guess I was curious about the 17,  
23 17 percent is such an unusual number. I will  
24 share this with you at our council meeting the

1 other night I mentioned I would be speaking  
2 today with you and I said, you know, I said  
3 figure it out, we in 3.3 square miles, we have  
4 six churches, we have six schools, I mean,  
5 Representative Harry Readshaw's district,  
6 proud to be represented by him, and we have,  
7 we have three public schools, three private  
8 schools, we have obviously the government  
9 buildings, there are other tax exempt  
10 property.

11 I'm thinking wow, wonder if we hit  
12 that 17 percent but the borough manager said,  
13 you can see even with all those municipalities  
14 tax exempt entities that we don't hit 17  
15 percent, it is probably a good number.

16 I haven't had a chance to analyze  
17 it with any municipalities, but it's just  
18 again even my own sort of anecdotal private  
19 experience. We would not benefit, I know the  
20 City of Pittsburgh, for instance, others are  
21 really suffering because of the all the tax  
22 exempt properties.

23 CHAIRMAN FREEMAN: I should note  
24 too, we had difficulty trying to ascertain

1 where the line should be drawn. If you drove  
2 dollars to compensate people for the smallest  
3 amount of tax exempt property, you lose your  
4 bang for buck.

5 There are really needy communities  
6 with a high percentage with just small grants  
7 and for the smaller communities where it is  
8 not really a problem, you are giving money for  
9 something.

10 I think our executive director of  
11 the committee noted that the average  
12 state-wide is about 12 percent, most  
13 communities have about 12 percent tax exempt  
14 property. Adding another five percent gives  
15 you critical threshold you are the community  
16 really in need.

17 MR. NOWALK: That is good. Thank  
18 you for clarifying that just curious somebody  
19 asked why 17 percent as opposed to a number  
20 divisible by five usually what we see. I will  
21 explain that to them. Thank you for that.

22 CHAIRMAN FREEMAN: That is open for  
23 further discussion as the legislation goes  
24 along. Any other questions?

1                   REPRESENTATIVE READSHAW: I would  
2     like to make a comment, Mr. Chairman, if I  
3     might Mayor Nowalk and I over the years are  
4     good friends I do represent a portion of the  
5     borough, I want to thank the mayor for being  
6     here, I thank you for testifying on behalf of  
7     the Pennsylvania State Mayor's Association.  
8     It is extremely important to Representative  
9     Freeman's legislation because obviously, as  
10    you are well aware of, as the public hearings  
11    take place throughout the state on any  
12    legislation particularly this as we speak of  
13    it when you can stand up and say all these  
14    entities, all these individuals, groups,  
15    organizations are in favor of this  
16    legislation, it furthers the cause immensely  
17    and hopefully allows this legislation to be  
18    passed.

19                   I thank you for being here.

20                   Mr. Chairman, if I might, I would  
21    like to thank you once again, I am not a  
22    member of the committee but I thank you for  
23    the courtesy extended to me today.

24                   CHAIRMAN FREEMAN: You are always

1 welcome to our meetings consider joining the  
2 committee next meeting. Representative Walko.

3 REPRESENTATIVE WALKO: Thank you, I  
4 do have a brief comment. I think you very  
5 eloquently and concisely stated the irony of  
6 our current tax structure in Pennsylvania  
7 where host municipalities of large tax exempt  
8 institutions, etc., are providing the quid pro  
9 quo. I think that's, and it is very concisely  
10 and eloquently stated. I don't know when your  
11 mayor's association meets again.

12 MR. NOWALK: It will meet in July  
13 of this year, July of this year we have our  
14 annual conference. We are working on our  
15 communications so if there is something where  
16 we need to communicate, you know, I'm trying  
17 to get to the point where if this bill goes  
18 out of the floor we need to support it that we  
19 are able to send out to all of our members to  
20 give it support.

21 REPRESENTATIVE WALKO: I do think  
22 you are sitting on a mighty powerful group,  
23 with a mighty powerful group. If it is used,  
24 as I think you are going to, that could really

1 help Representative Freeman's bill and the  
2 commonwealth.

3 MR. NOWALK: This is a bill that  
4 benefits mayors and I'm happy to do whatever I  
5 can to get this bill passed.

6 CHAIRMAN FREEMAN: Your support is  
7 much appreciated.

8 MR. NOWALK: We will monitor if you  
9 let me know when we need to contact our  
10 members, say please contact your  
11 representatives, I would be happy to do that.

12 REPRESENTATIVE WALKO: A brief  
13 question, are boroughs part of your group?

14 MR. NOWALK: Yes, boroughs and  
15 cities. We actually started as a, initially a  
16 borough association then embraced cities. But  
17 we have quite a sizable number of cities as  
18 well as boroughs. I'm very pleased with the  
19 response and as I say, we consider ourselves  
20 representing all whether they are actual  
21 members or not I should point out there are a  
22 lot of municipalities, boroughs in particular  
23 that have less than 1,000 in population. They  
24 may or may not be able to afford our meager



1 membership dues, but we consider ourselves  
2 representing them.

3 If we don't speak for them, who  
4 else is going to speak for the them? We are  
5 very much, we are not affiliated with any kind  
6 of other governmental organization. We are  
7 strictly mayors and that is how we, you know  
8 our conference Representative Freeman said he  
9 attended, all of the items at our conference  
10 are all geared towards mayors. How to become  
11 a better mayor and better represent your  
12 municipality.

13 So, I'm very pleased with what we  
14 have been able to do so far and we would like  
15 to do more and that is why I'm here today.

16 REPRESENTATIVE WALKO: Thank you,  
17 Mayor Nowalk.

18 CHAIRMAN FREEMAN: Thank you for  
19 your support of the legislation and assistance  
20 through the legislative process. I think  
21 every Representative welcomes the input of  
22 their community mayors, they know you are in  
23 the trenches, front lines so when you speak,  
24 we listen. Nice to have your support.

1 MR. NOWALK: Thank you.

2 CHAIRMAN FREEMAN: This concludes  
3 our list of testifiers. I want to thank  
4 members for being in attendance today to hear  
5 the testimony we received. Thank our staff,  
6 Democratic staff and Republican staff for  
7 being here and giving their support to today's  
8 community hearing. Our stenographer for his  
9 willingness to put up with my long-winded  
10 questions.

11 Also for all those who testified in  
12 attendance today. We do intend to move this  
13 legislation forward hopefully will bring it up  
14 for a vote in early April. We need to refine  
15 some key points of the formula on the whole  
16 moving forward want to let the public know.

17 We also would ask Representative  
18 Walko as host whether he has any closing  
19 comments.

20 REPRESENTATIVE WALKO: Thank you  
21 Mr. Chairman, no thank you.

22 CHAIRMAN FREEMAN: I declare this  
23 hearing of the committee adjourned.

24 (Adjourned at 12:35 p.m.)

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1 I hereby certify that the foregoing is a  
2 correct transcript from the record of  
3 proceedings in the above entitled matter.  
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7 \_\_\_\_\_  
8 William E. Weber, RDR, CRR  
9 Court Reporter  
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