

THE PENNSYLVANIA STATE ASSOCIATION OF BOROUGHES

House Local Government
Committee Hearing on
House Bill 678
County Optional Sales Tax



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Good morning, Chairman Freeman, Chairman James, and members of the House Local Government Committees. My name is Ron Grutza and I serve as the Senior Director of Government Affairs at the Pennsylvania State Association of Boroughs (PSAB). Thank you for the invitation to testify today before the Committee on Chairman Sturla's House Bill 678, the County Optional Sales Tax.

PSAB is a statewide, non-partisan, non-profit organization dedicated to serving 955 borough governments and thousands of elected and appointed borough officials in Pennsylvania. Since 1911, PSAB has represented the interests of boroughs and helped to shape the laws that laid their foundation. With more than 2.6 million Pennsylvanians residing in borough communities, our members strive to deliver quality leadership and municipal services to citizens across the Commonwealth.

Pennsylvania's municipal funding mechanisms that fund local government operations must be updated. Municipalities currently have a menu of taxing options to fund their local governments. These include the property tax, earned income tax, local services tax, realty transfer tax, per capita tax, occupational tax, business privilege or gross receipts tax, mercantile tax, amusement tax, mechanical device tax, and a few special purpose taxes, e.g. open space, and libraries.

Boroughs across the Commonwealth have used property taxes to finance the operations of their governments for many years. It's an important revenue generator as it adds stability and predictability for municipal revenue. However, not every property contributes their fair share when it comes to property taxes. Many communities are burdened with high rates of properties that are tax exempt. For example, Gettysburg Borough, Adams County has almost 38% of the properties as tax-exempt. Clarion Borough, Clarion County has almost 70% tax exempt properties. This equates to the inequity of higher taxes on residents who pay for tax exempt entities to use municipal services.

Boroughs that host large tax-exempt organizations shouldn't be forced into cutting local services to their citizens, nor should they be required to raise taxes to cover costs for services to tax exempt organizations within their boundaries. We believe borough council members and municipal leaders shouldn't be put in this catch 22. Local governments need a funding source to stabilize municipal budgets which are suffering from the lost revenue from tax exempt properties.

PSAB has long supported the idea of an optional sales tax at the county level. In 1988, the General Assembly passed the Local Tax Reform Act, which included a county optional sales tax, but was ultimately defeated by voter referendum. In 2010, Governor Ed Rendell proposed a county optional sales tax and PSAB supported that proposal, sponsored by Chairman Sturla, to provide additional revenue and property tax relief.

PSAB fully supports the concept of an optional 1% sales tax to help fund municipal operations and fill the gaps from missing revenue due to tax exempt properties. We believe House Bill 678 has many positive aspects to enable counties and municipalities to utilize this new tool. However, we suggest making a few changes to the bill to enhance the viability at the local level. PSAB suggests the following changes to the bill.

1. Voter Referendum – We believe the county should levy the tax by a simple majority vote and not subject to referendum unless the county would choose that option.

2. County vs Municipal Share – The bill currently does not provide a percentage share for the county or the municipalities. We suggest the allocation of the 1% sales tax for each county be 50% for the county and 50% to be distributed to the municipalities.

3. Municipal Allocation – We suggest that the formula to allocate the municipal share be based on the value of tax exempt properties in each municipality and each municipality's tax effort, i.e. total tax revenues from all sources of a municipality divided by the ratio of its per capita market value to the per capita market value of its county.

In closing, PSAB would like to thank the committee for the opportunity to present our perspectives on House Bill 678 and the importance of assisting municipalities with the problem of tax exempt properties. We believe that diversifying our taxing options and not relying so much on the property tax will help better fund essential municipal services. PSAB fully supports House Bill 678 and urges members of the Committee to support it. I will be happy to answer any questions the members may have.