Pennsylvania Municipal League
President – Douglas Baker, Mayor, City of Franklin

Pennsylvania State Association of Township Commissioners
President – John J. Jablowski, Jr., MPA, Councilman, Wilkes-Barre Township

Testimony Before the House Local Government Committee

Regarding House Bill 678 – Providing for a County Option Sales Tax

Pennsylvania Municipal League and
Pennsylvania State Association of Township Commissioners

Presented By: Amy Sturges, Deputy Executive Director for Advocacy

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On behalf of the Pennsylvania Municipal League (The League) and the Pennsylvania State Association of Township Commissioners (PSATC), thank you for the invitation to testify today on the concept of a County Option Sales Tax. I am Amy Sturges, Deputy Executive Director for Advocacy. Together, the municipal membership of The League and PSATC represent over 200 full-service, core communities serving over 5 million Pennsylvanians.

I am confident in saying that all of our members believe local taxation in Pennsylvania needs an overhaul. In fact, modernization of the municipal taxing structure is a long-standing legislative priority of both organizations.

The revenue tools available to cities, boroughs and townships were developed in the 1960's. As you know, much has changed in the administration of local government in 60 years. For instance, as services have grown and evolved, expenses have naturally increased; technology is more sophisticated and needs to be updated regularly; the population has shifted away from the older, urban core leaving fewer people to pay for the same level of services; the housing stock in the urban core has aged; and frequent unfunded mandates from federal and state government create more costs that are passed along to taxpaying residents and businesses. Despite these changes, the way local government services are funded has remained largely unchanged with the Property Tax and Earned Income Tax (EIT) making up the bulk of local revenue. It is not uncommon for expenses to outpace revenue.

For many of Pennsylvania's citizens, the archaic Property Tax is a burden that makes it a challenge to both pay the tax and maintain their biggest asset – their home. This is especially true in older, full-service municipalities where higher property taxes, often at the maximum allowable rate, are common. First time homeowners, senior citizens and low-income families are particularly impacted by this regressive tax – levied by three separate levels of local government – schools, counties, and municipalities.

The EIT is less regressive; levied on workers' income and capped at one percent of earned income. This tax is shared equally with the school district if the district chooses to levy the tax. There is some revenue growth with the EIT, but it is minimal, especially when shared. The inability to levy a rate higher than the combined one percent cap is frustrating for many municipalities. Only if a municipality is distressed or has a distressed pension plan, is it allowed to increase its EIT rate above the cap. Home Rule municipalities also have this option, but the lengthy and confusing process to become Home Rule is a significant drawback to entertaining that avenue to raise the cap.

When these outdated tax options stop covering the costs of providing today's services, local officials are faced with a precarious balancing act of poor choices – raise taxes and risk chasing away current and future residents. Or, cut services and risk chasing away current and future residents. These options are untenable when trying to foster safe, attractive communities that young professionals and families want to call home.

As advocates for a more modern and flexible local taxing structure, The League and PSATC support the concept of a one percent County Option Sales Tax. In 2009, we worked extensively with Representative Sturla, CCAP, PSAB and PSATS to move legislation similar to HB 678 forward. We welcome the opportunity to revisit Pennsylvania's local taxing structure and the concept of a County Option Sales Tax shared by a county and its municipalities.

The Sales Tax is based on consumption and grows with the local, state, and national economies. Raising municipal revenue via a County Option Sales Tax provides a broader base and allows everyone in the county to benefit from the economic activity across the region. House Bill 678 distributes that revenue based on the assessed value of tax-exempt property in the county and each municipality. This formula is a reasonable approach that will direct the revenue to municipalities with higher amounts of tax-exempt property which usually signals higher property taxes shouldered by the residents and businesses that do pay taxes.

In previous versions of this legislation, to receive a distribution of sales tax revenue, municipalities were required to pass a resolution expressing support for their county's intention to levy the tax. This version does not require municipal support. We continue to support municipalities taking affirmative action to support their county's levy as a precursor to receiving a distribution of the revenue generated.

As stated earlier, the revenue distribution formula drives the Sales Tax revenue where it is needed most. Further, HB 678 requires all of the distributed revenue to be used for specific expenditures. Municipalities must use the revenue to first pay the minimum municipal obligation (MMO) on moderately or severely distressed pension plans. Or, if their plans are minimally distressed or fully funded, the revenue must go to supporting the municipality's core services or reducing its property tax rate. We support the requirement to put all of the tax revenue toward these specific municipal expenditures. Funding for core services is always needed and covering MMO costs both frees up funds for services and allows Property Tax rate reductions.

As we know, the levy of an additional Sales Tax percent in Philadelphia and Allegheny County has been in existence for some time. The additional revenue has benefited those counties without causing an undue burden on residents. We would advocate for Allegheny County and its municipalities to have access to this additional one percent tax to be used as outlined in this legislation or to follow the formula already established in the county's Regional Asset District legislation.

Finally, I would be remiss not to point to the excellent work of the PA Economy League in outlining the need for a new approach to local revenue in its publication – *It's Not 1965 Anymore: State Tax Laws Fail to Meet Municipal Revenue Needs*. I urge you, as members of the Local Government Committee, to review this publication and the eight case studies that demonstrate the vast differences across the Commonwealth in municipal revenue needs and how the 1960's approach is no longer viable.

In closing, we would like to thank Representative Sturla for reintroducing his legislation again this session; and Chairman Freemen and Chairman James for holding this hearing.

Thank you and I am happy to answer any questions you may have.