



Pennsylvania Municipal
League



PENNSYLVANIA
ECONOMY LEAGUE
Information, Insight, Integrity.

It's Not 1965 Anymore: State Tax Laws Fail to Meet Municipal Revenue Needs

Pennsylvania's municipal tax authorizations have failed to keep pace with modern realities. Municipalities need more flexible revenue options just to keep the lights on.

October 6, 2022

About the Pennsylvania Economy League

- Pennsylvania's leading independent, nonprofit, public policy research organization for more than 85 years
- We provide technical assistance and consulting to municipalities of all sizes and types throughout the state
- We foster good government through civic education, including semi-annual Issues Forums and weekly newsletter
- We conduct independent research on state and local issues impacting our communities
- PEL works toward good government that provides the most efficient core public services that meet local resident needs at the lowest cost
- We believe healthy local governments assist in creating a sustainable Pennsylvania economy that can keep and attract residents and businesses

How Did We Get Here?

“We are currently exploring the cost-saving of reducing from 24-7 to only 12-hour per day police coverage to reduce costs and looking at what PW services can be cut. We have cut administration staff ... to maintain staffing in PW and police. Currently, we have at least 6 open positions.”

**-Lock Haven City Manager
Greg Wilson.**



1965 Cost of Living

Annual Salary: \$6,450

Bread: 25 cents

Gas: 31 cents

Current Cost of Living

2020 Mean Salary: \$87,262

2022 White Bread: \$1.61

2022 Gas: \$4.77

Act 511 Tax on Workers

Then: OPT = \$10

Now: LST = \$52

With Inflation = +\$80

Corralling the “Wild West” Tax-Anything Law with 1965’s Act 511

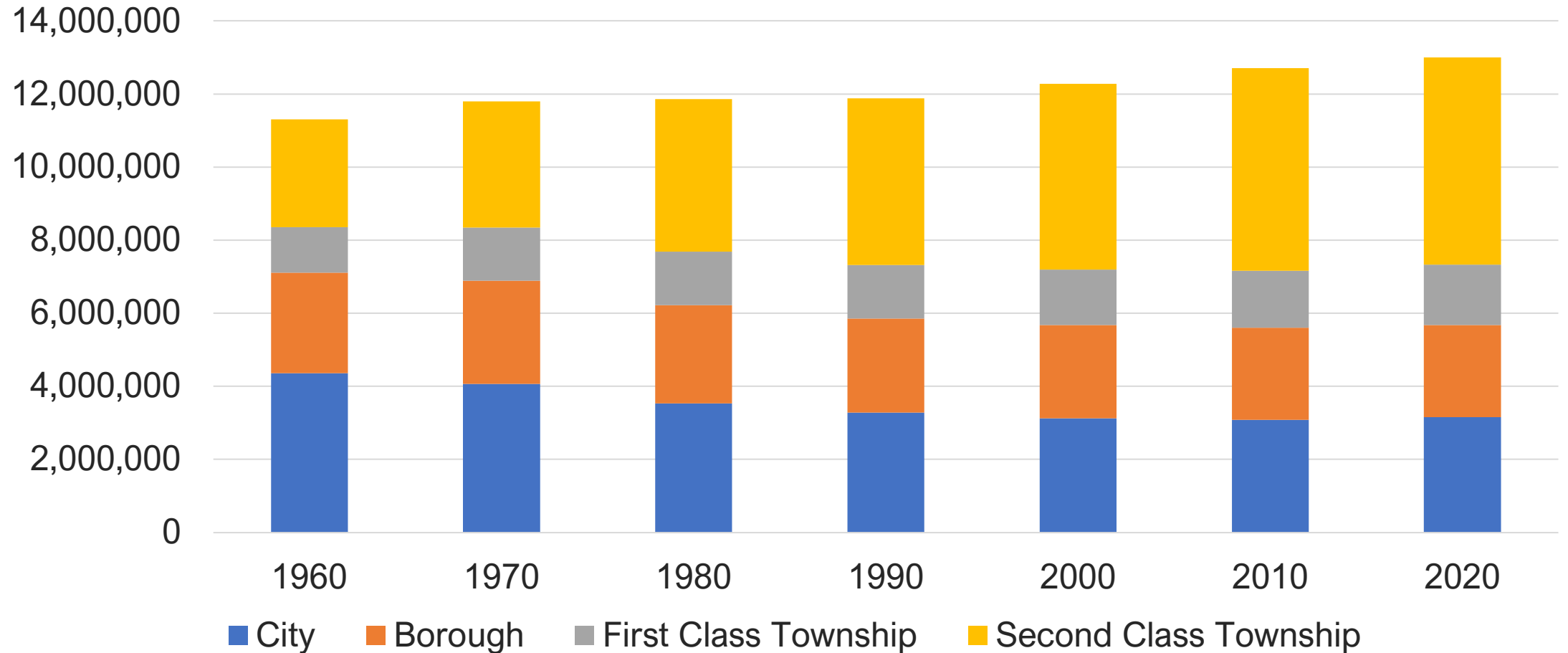
- Challenge: Fix PA’s 1940s “tax-anything” law that resulted in a proliferation of municipal taxes
- Goals of Act 511 of 1965
 - Produce additional revenue
 - Grant property tax relief
 - Spur economic development
 - Recoup the cost of services from non-resident workers
 - Provide elastic tax base that responds more quickly to economic conditions
- Seen as progressive because it tapped sources other than property like income and business
- Capped at amount or rate
- Limited tax authorization mostly to wealth within municipal borders except for non-resident workers
- Presumed more population, more commerce and more robust services in urban areas

What's Happened Since 1965?

- PA's municipal codes and Act 511 have failed to provide adequate, flexible revenue options that recognize modern regional use of services and movement of taxpayers to the suburbs
 - Wealthier residents have migrated to previously rural areas from dense urban core communities and took their tax money with them.
 - Urban cores are left with lower income residents and older, lower value real estate while still paying for the same robust services.
 - The large number of tax-exempt institutions that gravitate to these regional hubs further eroded urban tax bases.
 - Act 511's capped rates and flat tax amounts failed to keep up with inflation.
- Urban cores have become over reliant on property tax revenue because that is generally the only tax that a municipality can increase
- But property taxes on average do not keep up with expenditures in part because of PA's inadequate and uneven property assessment system



Population Trend



Recent Trends in Local Government Tax Revenue

“EIT is (the city’s) main source of revenue, and it has been historically stable. Large reason (for becoming home rule) was increased flexibility, particularly related to taxation.”

**-Hermitage City Manager
Greg Hinkson**



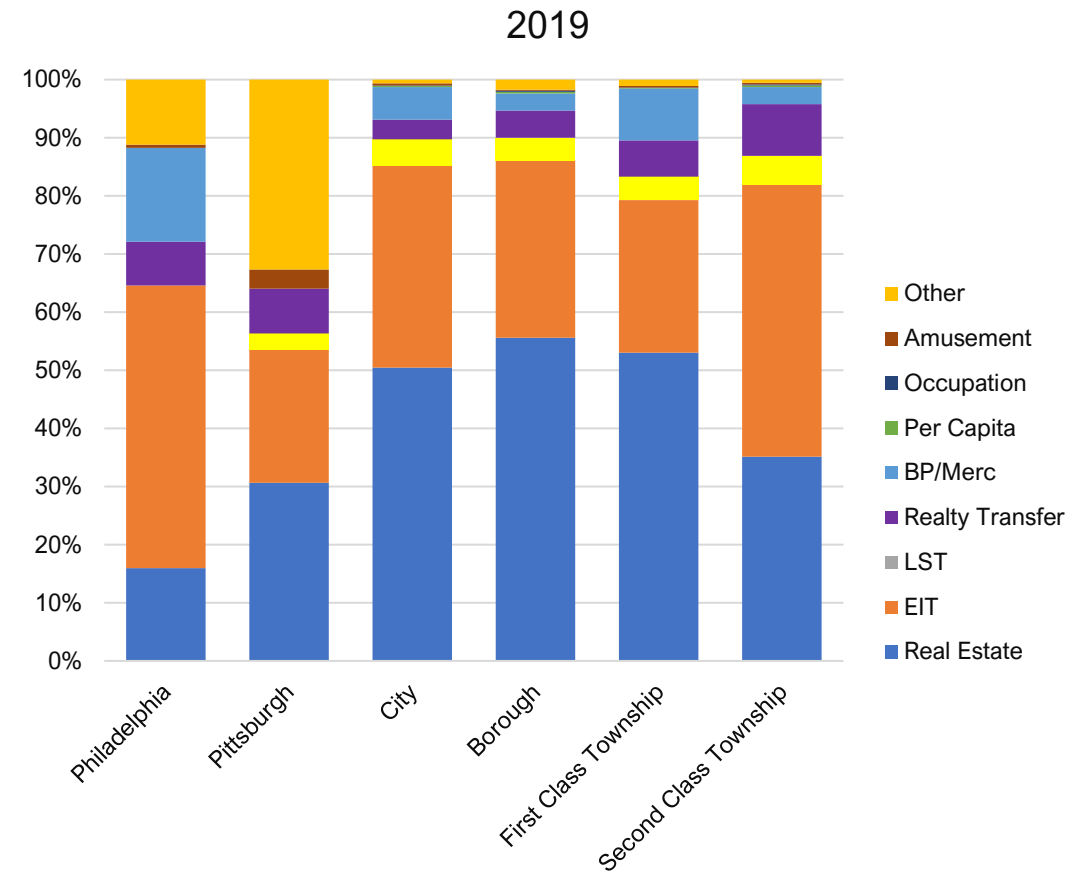
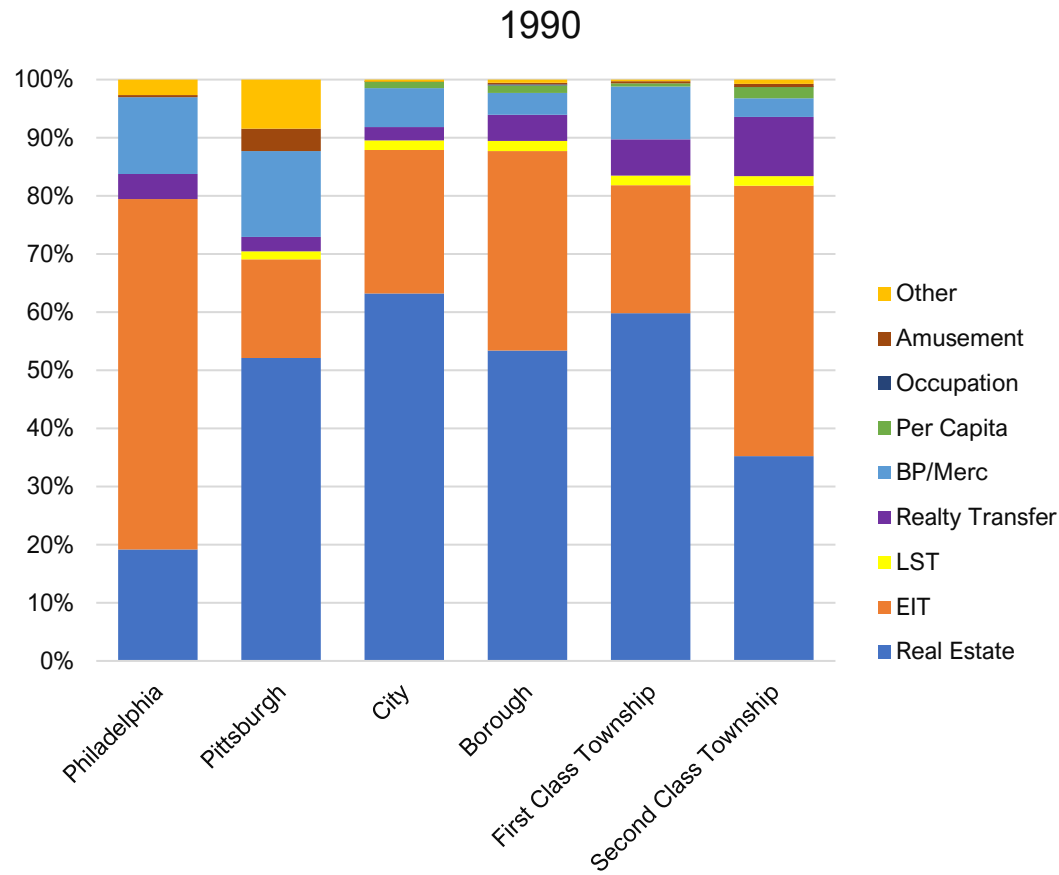
Productive versus Non-Productive Act 511 Taxes

Act 511 authorized nine taxes other than property BUT

- Flat rate taxes have not kept up with inflation and produce little revenue if they are collected at all
- Municipalities are prohibited from raising the earned income rate; it is the most productive Act 511 tax for all municipal classes
- Business taxes have not been modernized to fit the current economy
- Five of the nine taxes produced less than 1% of total tax revenues in 2019
- All sources are subject to sharing with the school district except occupation millage

Act 511 Tax	Rate	
Per Capita	\$10	Flat rate not increased since 1965. Accounted for less than 1% of total tax revenues for all municipal classes in 2019.
Occupation (Flat Rate)	\$10	Flat rate not increased since 1965. Accounted for less than 1% of total tax revenues for all municipal classes in 2019.
Occupation (Millage)	no limit	Based on county assessments that do not change over time. Accounted for less than 1% of total tax revenues for all municipal classes in 2019.
Local Services Tax	\$52	Flat rate set in 2004 has not increased with inflation; only practical source of non-resident income
Earned Income	1%	Most productive of the Act 511 taxes; range of 25% to almost 50% of total taxes
Realty Transfer	1%	Depends on real estate transactions
Mechanical Devices	10%	Accounted for less than 1% of total tax revenues for all municipal classes in 2019.
Amusement	5%	Accounted for less than 1% of total tax revenues for all municipal classes in 2019.
Business Gross Receipts	1 mil wholesale; 1.5 mills retail	No longer available as a new tax

Revenue Distribution by Tax Category



Current Paths to Tax Flexibility

- **Home Rule**
 - Complex process to review and potentially redesign the current government.
 - Removes municipal code caps on real estate, earned income and realty transfer taxes.
 - No tax authorization for non-resident workers
 - Can be risky procedure with many uncertainties including what kind of government comes out at the end
- **Act 47**
 - Requires demonstration of fiscal distress and state approval
 - Provides great tax flexibility that is removed once the municipality exits Act 47
 - Options include enhanced property, earned income and local services taxes
 - Tax authorization for non-resident workers
 - Option to move to payroll tax
- **Act 205**
 - Requires demonstration of pension distress
 - Removes caps for real estate and earned income taxes if those taxes are at the maximum
 - Tax authorization for non-resident workers
- **Act 130**
 - Permits increase in resident earned income tax in exchange for elimination of occupation tax
 - Limits rate to revenue levels from 2002
 - No tax authorization for non-resident workers

Property Taxes and Assessment

“Current legislation is not structured to allow for all municipalities to assess the same taxes and fees. This places an unfair burden on property owners, and not only hampers the growth of our municipality but puts us in a less desirable position to attract residents and business.”

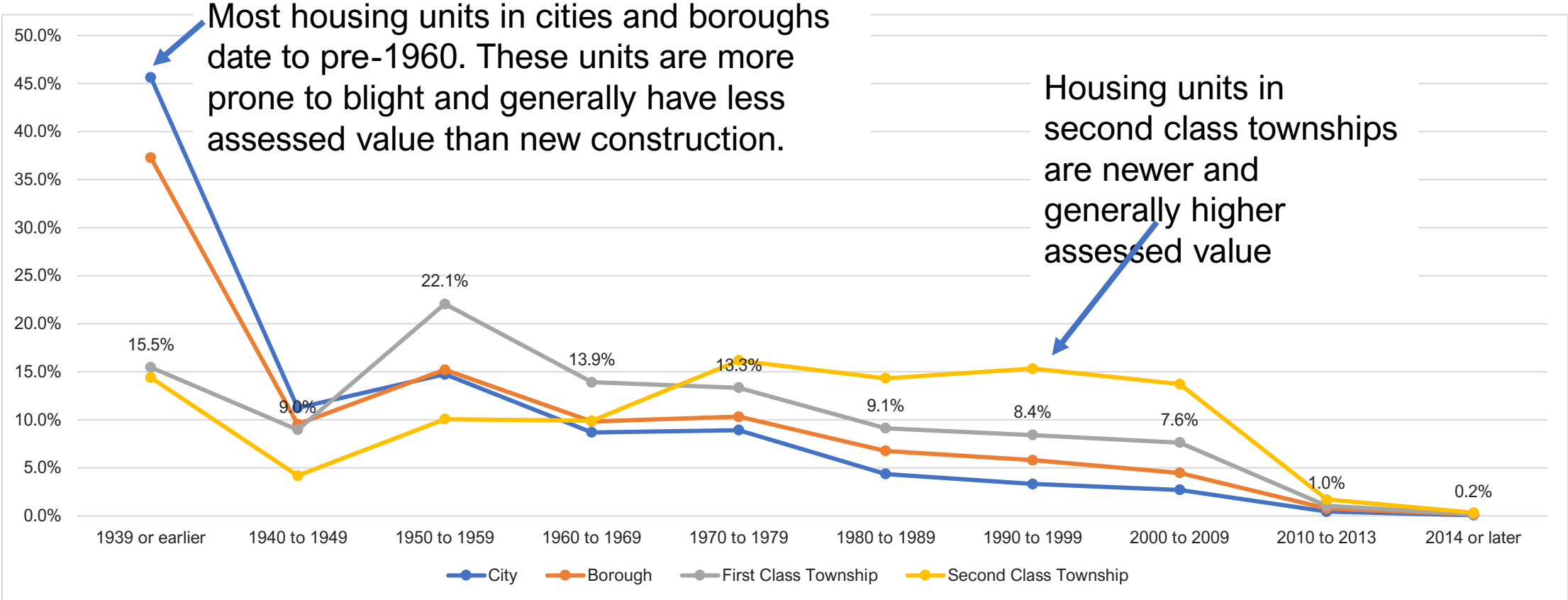
-Bradford City Manager Chris Lucco

“Revenue growth has typically been @ 1% (without property tax increase) and expenditure growth has been @ 3% annually.”

**-Lancaster City Business Administrator
Patrick Hopkins**



Age of Housing



Municipal Case Studies

“The City of Bradford has been forced to reduce services and delay much needed enhancements to maintain our current tax rate which is already the highest in our area.

“In recent years we have needed to make multiple ‘one-time fixes’ to fill the deficit. These one-time fixes have been exhausted, and we need the flexibility given to other municipalities to remain solvent moving forward.”

-Bradford City Manager Chris Lucco

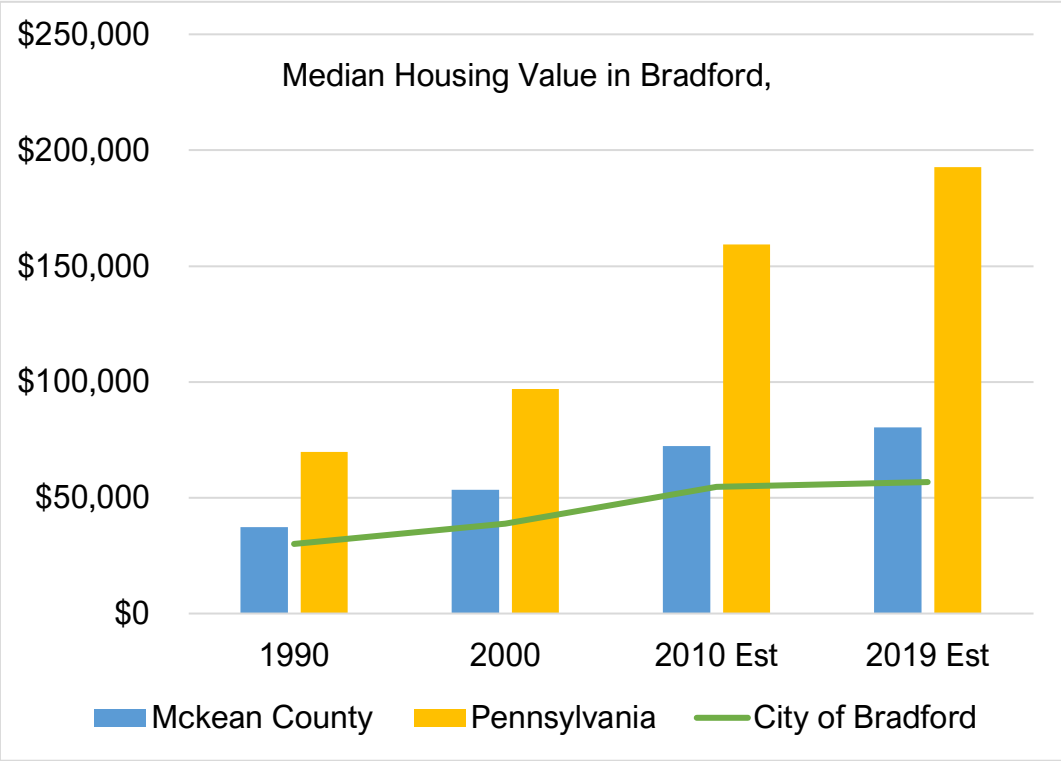
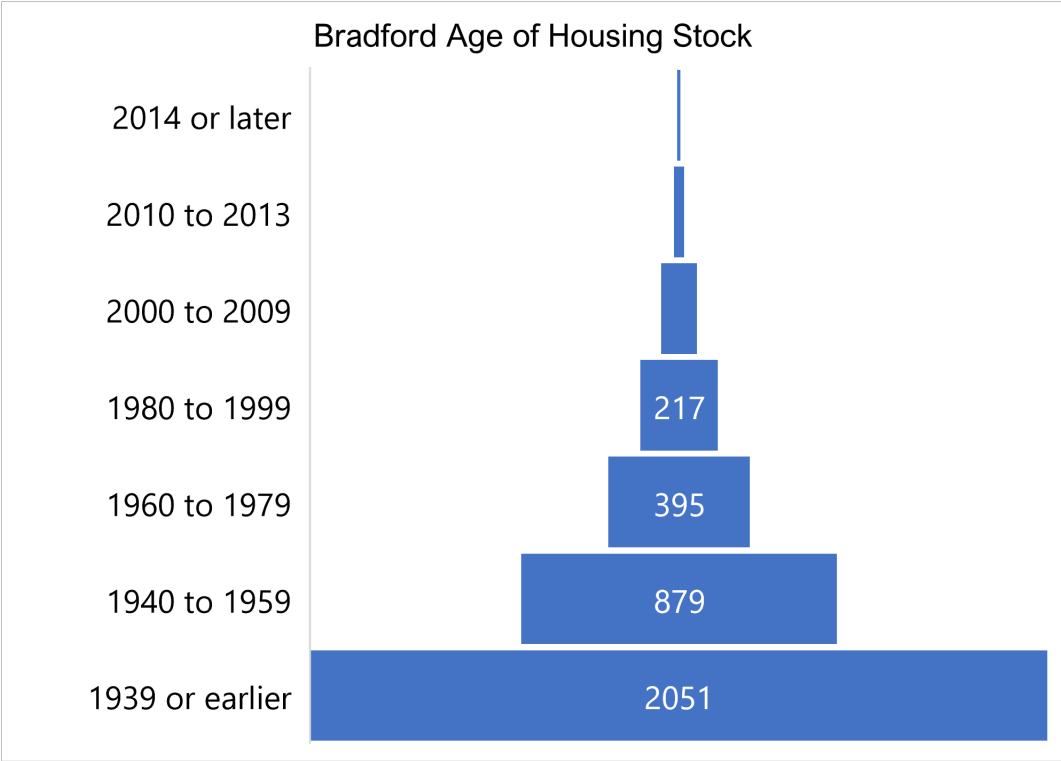


City of Bradford



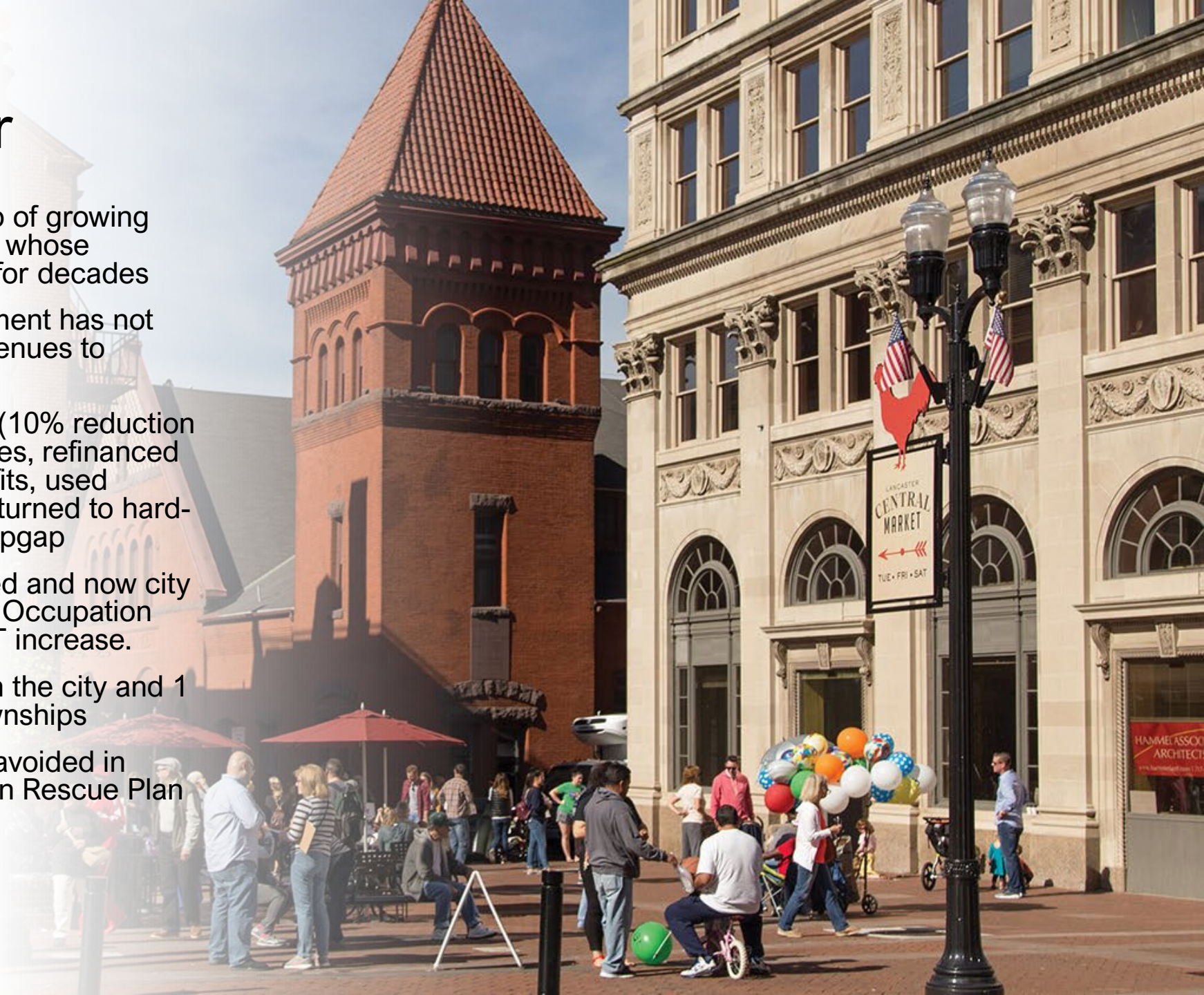
- Full service, urban hub of rural county has lost 11,000 people since its population peak in 1930 including almost 1,000 loss in 2020 Census
- Residents poorer than neighbors but pay higher property taxes for higher service level that is used regionally, particularly FT police
- Overly reliant on property taxes at 70% of total taxes
- City has cut staff, reduced services, deferred capital and maintenance projects, and obtained a pension bond to lower costs
- The city raised taxes twice in five years producing less than \$130,000 in new annual revenue compared to pension costs that ballooned by \$450,000 in two years
- Increasing annual deficits are projected over the next five years

City of Bradford

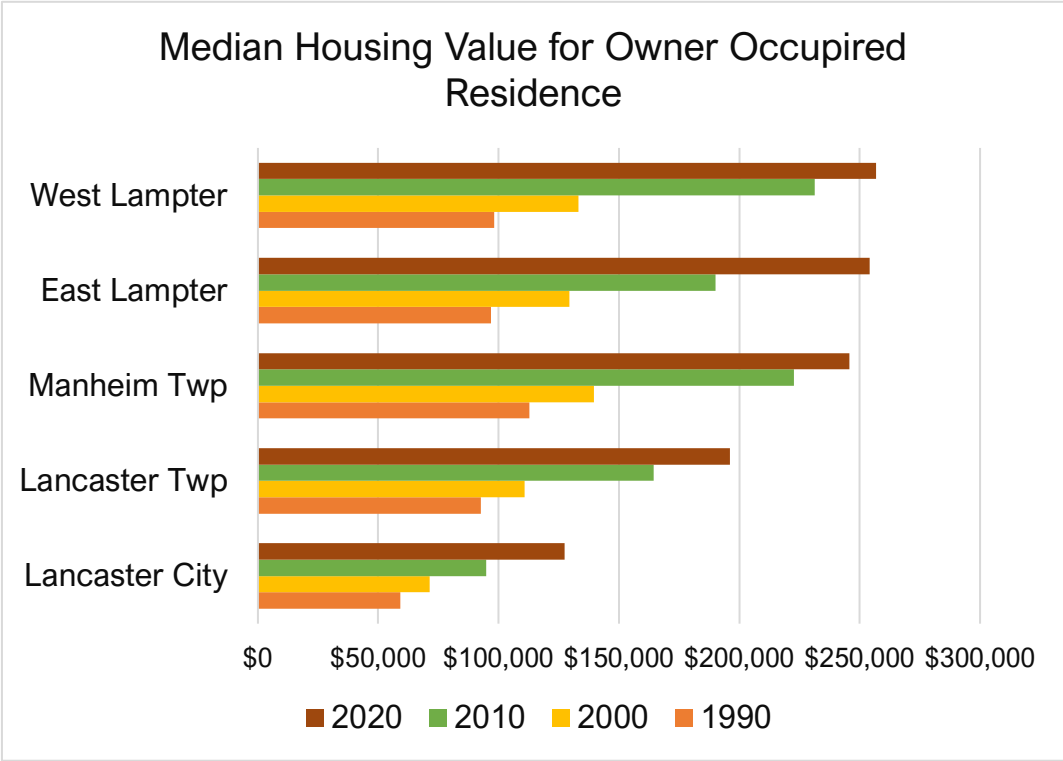
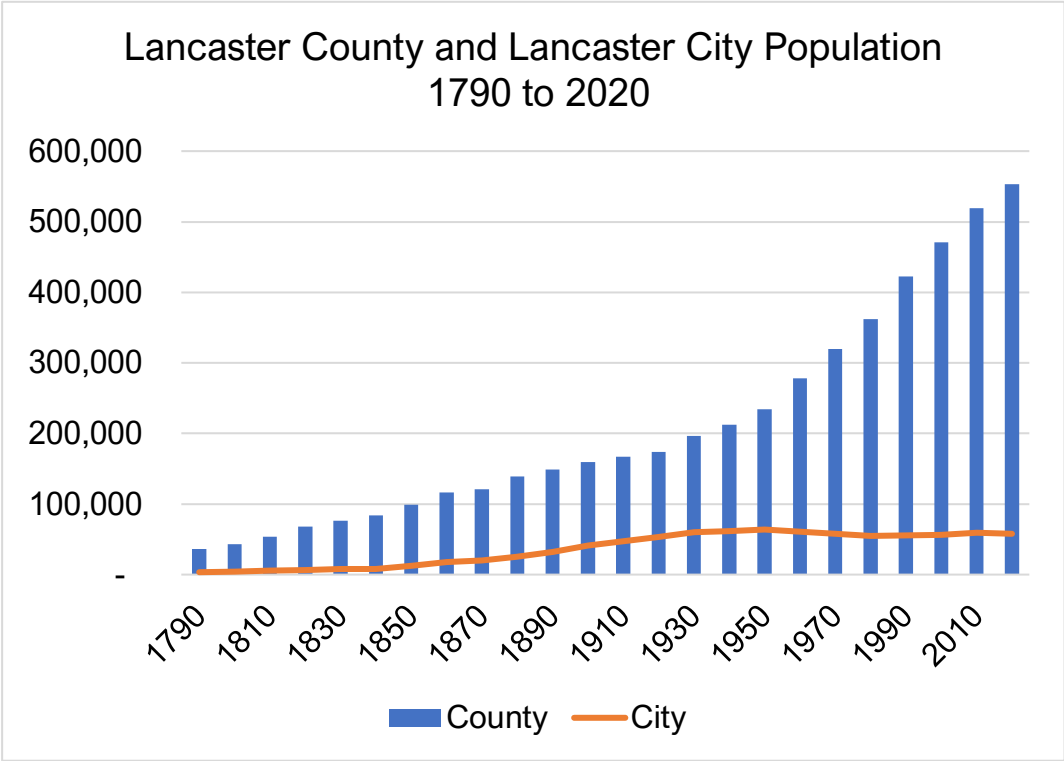


City of Lancaster

- Thriving full service, urban hub of growing Lancaster County in southeast whose population size has stagnated for decades
- Significant economic development has not translated to increased tax revenues to support services
- Lancaster has eliminated staff (10% reduction in 2009 alone), reduced services, refinanced debt, reduced employee benefits, used revenue from utility funds and turned to hard-won financial reserves as a stopgap
- Business tax was never enacted and now city is prohibited from levying one. Occupation tax was eliminated for a 0.1 EIT increase.
- Property taxes are 11.7 mills in the city and 1 to 2 mills in the contiguous townships
- Another city property tax was avoided in 2022 only because of American Rescue Plan dollars



City of Lancaster

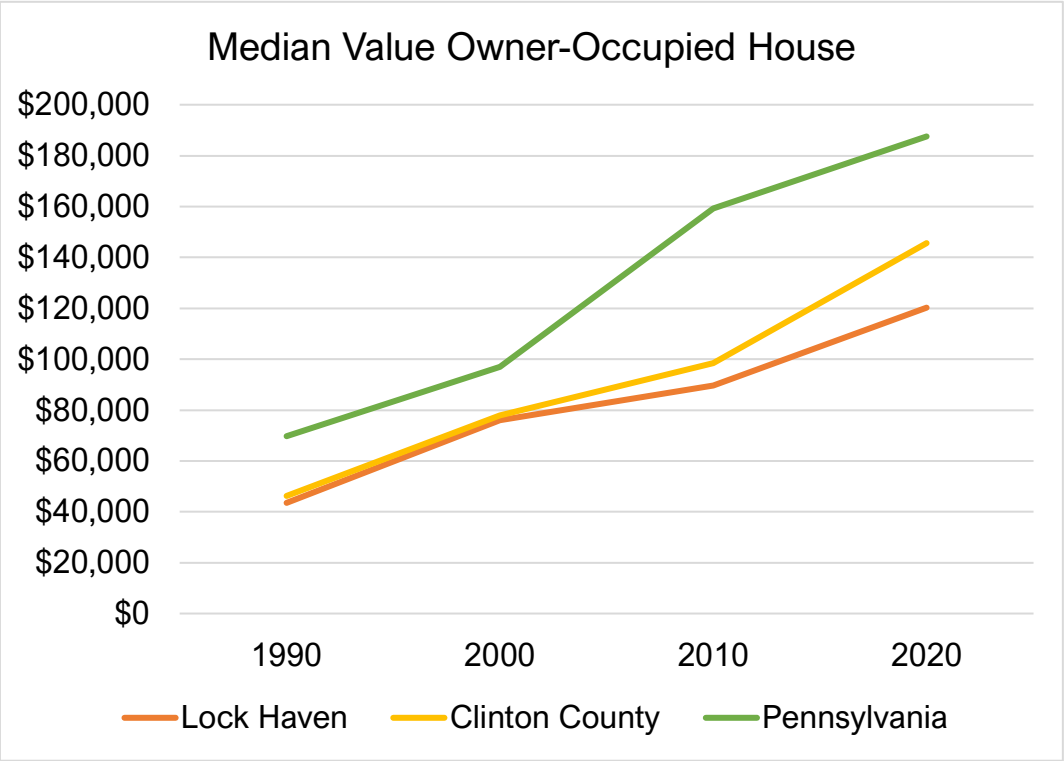
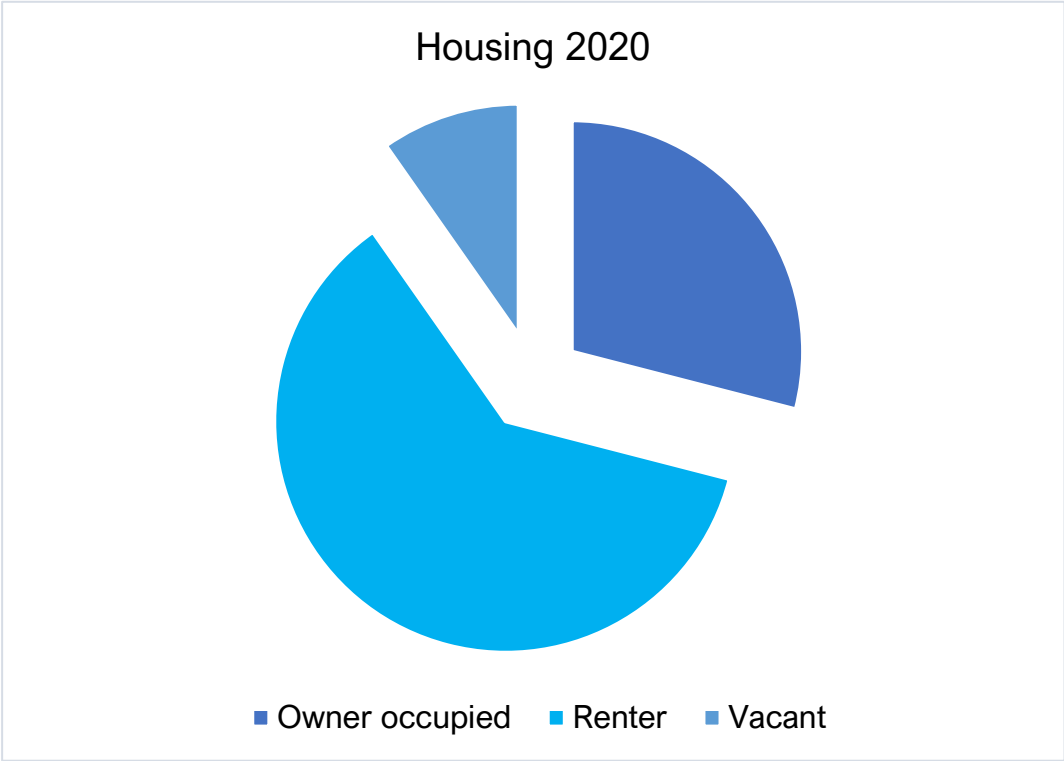


City of Lock Haven

- Full service, urban hub of rural Clinton County that serves as home for Lock Haven University, one of the city's biggest employers.
- Tax-exempt university means the city misses out on over \$500,000 in property taxes. Students also contribute little to no tax revenue to the city.
- PEL research has found college towns on average receive less revenue than municipalities without a university.
- The city supports state House Bill 2475, which would remove universities from the tax-exempt list.
- Over 60 percent of the city's housing is renter-occupied, which is prone to blight, and wealth measurements are below the county and state.
- Lock Haven has used asset sales, fund transfers, debt refunding, more part-time staff, and fund balance dollars to plug holes and avoid property tax increases.
- The city has faced structural deficits, unexpected revenue loss and unexpected expenditures. Grants and shared services are used as much as possible.
- Substantial service cuts are now looming in public safety and public works.



City of Lock Haven

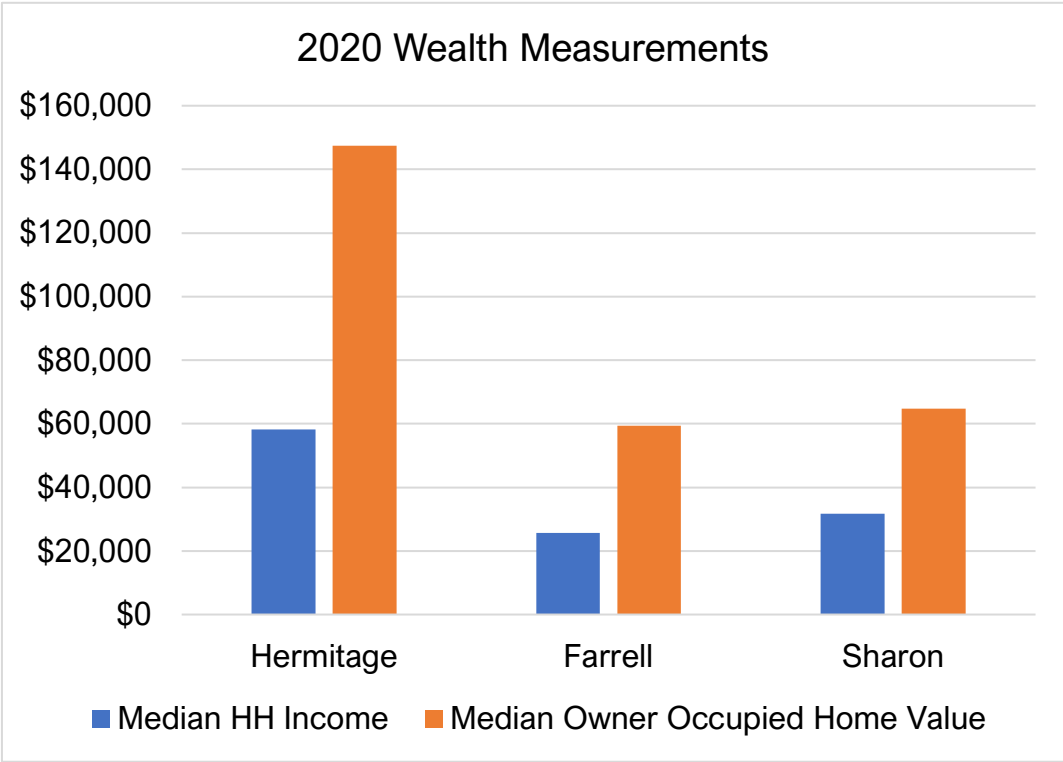
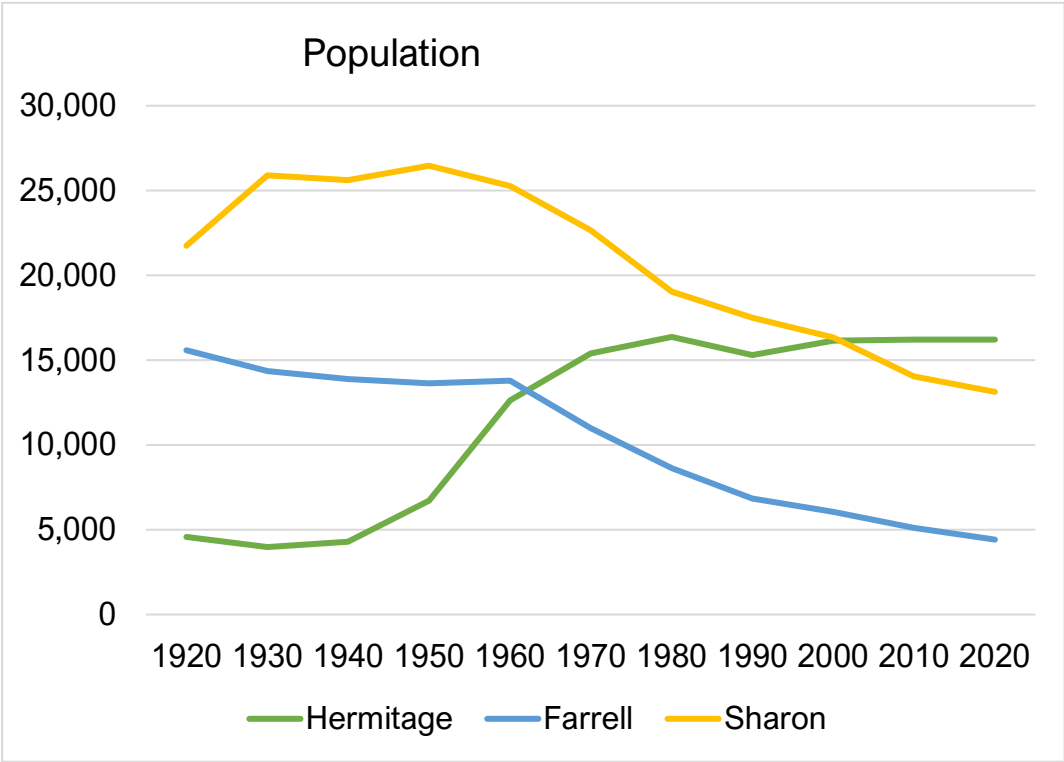


City of Hermitage

An aerial photograph of a suburban neighborhood. A wide, paved road runs vertically through the center. To the right of the road, there is a large, modern commercial building with a dark roof and a parking lot. A white truck is parked in the lot. Further right, there are several residential houses with grey roofs and green lawns. The background shows more trees and a hazy sky.

- Full service, fiscally healthy city in Mercer County that abuts the older industrial cities of Sharon and Farrell
- Started as a township, became home rule in 1974 and a city ten years later.
- Size and wealth measurements are consistent with a second-class township as opposed to a city like neighboring Farrell or Sharon, which are significantly smaller and poorer.
- Main tax source is 1.75% earned income tax (\$7 million) with no increase in 5 mill property tax (\$1.3 million) for decades. The city has no per capita, occupation, residency, amusement or business taxes.
- Both Sharon and Farrell are also home rule and have comparable earned income rates. However, property taxes are 29.51 mills for Sharon and 32.17 mills for Farrell. Farrell was also in Act 47 for decades and received a commuter tax.
- Unlike Sharon, Hermitage does not have a full-time fire department. Hermitage also extensively contracts services to its neighbors. Farrell pulled out of a regional police department with Hermitage.

City of Hermitage



Potential PA Models for Tax Flexibility

“The inability to adjust EIT, even, instead of RE is driving many of us toward a path to extinction,”

***-Lock Haven City Manager
Greg Wilson***

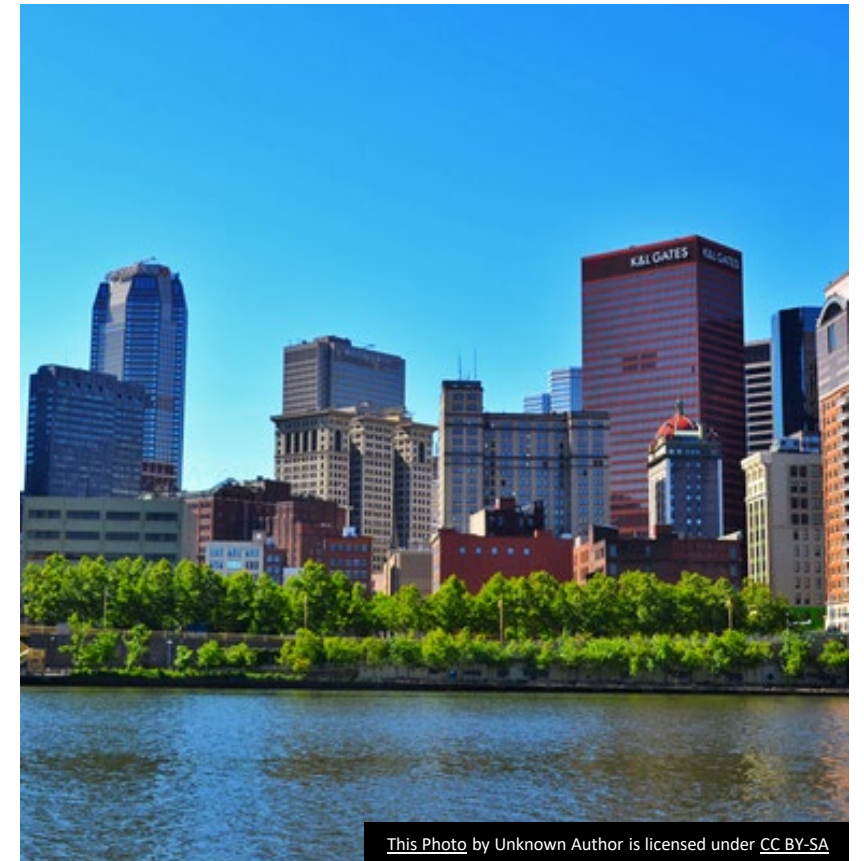
“Not just other Act 47 communities – but all of us” question why some Act 47 municipalities were allowed to keep a higher EIT or LST under the state’s practice of “fail first and then get help.”

-Lancaster Mayor Danene Sorace



Pittsburgh Model

- State provided new revenue options to Pittsburgh in the wake of massive industry closure and huge population loss
 - Increased and renamed the local services tax to \$52: **extended to all PA municipalities**
 - Authorized a regional sales tax that also pays for parks, stadiums and other city assets: **extended to all of Allegheny County based on formula**
 - Updated business taxes to payroll rather than gross receipts: **extended to Act 47 municipalities**
- Pittsburgh's revenue mix changes substantially by 2019
 - Property tax drops from 50% of total taxes to 30%
 - "Other" category rises to 30% of total taxes
 - Other category includes sales, payroll and parking taxes
- Allegheny County drink tax funds Port Authority



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Additional Recommendations for Tax Flexibility

Eliminate

- Eliminate or raise rate caps like earned income
 - Available through limited authorizations like Act 47 for distressed municipalities, Act 205 for distressed pensions, and home rule

Increase

- Increase flat fees like the local services tax so they grow with inflation
 - Available to Act 47 municipalities while in the program

Provide

- Provide additional authorization to tax non-resident commuters
 - The \$52 LST, subject to sharing with the school district, is an inadequate amount to provide modern public services
 - Both Act 47 and Act 205 allow for an EIT extended to non-resident commuters

Mandate

- Mandate regular property assessments
 - Some citizens have been forced to seek court action to obtain a new assessment