

*The following Report was prepared for the
Lehigh Valley Partnership as a discussion
for an optional 1% county sales tax.*

EXECUTIVE SUMMARY
CREATION OF A REGIONAL ASSET DISTRICT FOR
LEHIGH AND NORTHAMPTON COUNTIES

FINAL REPORT

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EXECUTIVE SUMMARY
CREATION OF A REGIONAL ASSET DISTRICT FOR
LEHIGH AND NORTHAMPTON COUNTIES
AND
ANALYSIS OF THE IMPACT OF
TAX-BASE SHARING PROGRAMS ON
MUNICIPALITIES IN THE LEHIGH VALLEY

Introduction

The Lehigh Valley Partnership Alliance Building Committee has asked PEL to examine the implications of the creation of a Regional Asset District (RAD) that would encompass Lehigh County and Northampton County. The proposed RAD would be funded by a portion of an additional one percent sales tax to be collected in these counties. PEL estimated the annual amount of RAD funding for this one percent sale tax would be nearly \$6,000,000, based upon a portion of the sales tax to the RAD. In addition, there would be \$21,000,000 available for direct municipal revenue sharing for each municipality in the Lehigh Valley, as well as \$21,000,000 available for direct reduction of municipal property taxes.

PEL was directed to examine the estimates of revenue to be derived from the collection of the one percent sales tax; which regional assets might be included in the Regional Asset District; and, how the proceeds of the one percent sales tax could be shared among municipalities, the two counties and the Regional Asset District. PEL participated in several meetings with the members of the Lehigh Valley Partnership in which discussion and debate were held over the types of regional assets to be assigned to the RAD. The consensus of these discussions and debates was that the RAD funded regional assets would be comprised initially of regional assets in two categories: public health and a bi-county crime center.

These regional assets were selected as the initial functional areas that could best be funded on a regional basis by the RAD, and would be functions that are not now adequately funded on a regional basis by the municipalities in the two counties.

Regional Asset District Description

The Lehigh Valley RAD would be a special purpose, area wide unit of local government established specifically to support, finance, and coordinate the operation and development of regional assets and financed through the levy and collection of an additional one percent sales tax in Lehigh County and in Northampton County. The RAD would be governed by a board of

directors selected from Lehigh County, Northampton County, the cities of Allentown, Bethlehem, and Easton, and other representatives, both elected and appointed. The RAD has no direct taxation powers. The RAD will have the authority to receive and disburse the proceeds from the one percent sales tax.

The objectives of the RAD are:

- To stabilize the funding for identified regional assets: for the initial study the assets identified are public health and the bi-county crime center;
- To provide additional fiscal relief through revenue sharing to the municipalities in the RAD; and
- To further establish a precedent for regional cooperation and municipal shared services.

The beneficiaries of the RAD are:

- Citizens and taxpayers of all the municipalities in the RAD, and
- The visitors, businesses, and other users of the services provided through the RAD.

Determination of Regional Assets

Public health and a bi-county crime center were selected as the two functional areas that the regional asset district would initially fund as regional initiatives. In addition, RAD money would be available to provide relief for the concentration of tax-exempt property in the three cities.

Public health as a regional asset will expand what is now a limited service area for these functions to the entire area covered by the RAD. These current public health functions include those provided by the cities of Allentown, Bethlehem, and Easton. In addition, such public health services as restaurant inspections, vector control, insect spraying, and other public health activities can be funded by the RAD throughout the Lehigh Valley.

The bi-county crime center would serve all of the Lehigh Valley as a regional information facility. The Center would gather and analyze crime data in “real time” and provide this information to local police departments. The bi-county crime center would focus on gang activity and on regional crimes such as drugs and robberies.

Estimating the Fiscal Impact

Based on the most recently available reports, an estimated one percent sales tax would produce approximately \$48 million in the two county area. PEL estimated that the receipts from this tax would be allocated as follows: \$21 million to fund municipal property tax relief, \$6 million to the Regional Asset District; \$21 million in revenue sharing to the municipalities in the two counties. Of the \$6 million allocated to the RAD, \$2 million would be earmarked for public health services, \$4 million would be earmarked for the bi-county crime center.

Tax Based Revenue Sharing

A sales tax based revenue sharing analysis has been developed based on the assumption that the program in the Lehigh Valley would closely parallel the Allegheny County model. Each municipality would receive a check based upon a formula that compares the fiscal effort of that municipality to all the municipalities in the Lehigh Valley. Estimated amounts to be distributed can be found in Table S-1.

Sales Tax Revenue Potential

As reported by the Department of Revenue, the Commonwealth collected—at a six percent rate—\$282.5 million in sales taxes from Lehigh and Northampton counties in the 2005-06 fiscal year. As such, the annual sales that would be subject to the tax is slightly more than \$4.7 billion. An increase of 1.0 percent in the sales tax would generate almost \$48 million in new tax receipts, administrative costs for both Department of Revenue Collection and Local RAD would reduce the amount to approximately \$47,000,000. If a portion of these revenues were used to reduce municipal property taxes, the savings to taxpayers would be approximately \$21,000,000. An additional approximately \$21,000,000 would be available for distribution to the 62 municipalities and the two counties.

PEL estimated a total of approximately \$21,000,000 would be available for mandatory, direct property tax reductions for residential taxpayers in each city, borough, and township in the Lehigh Valley. The share of taxes paid to the counties and school districts in Lehigh Valley would not be subject to reduction from this fund and those municipal entities would not be mandated to reduce their property taxes. The tax savings were estimated at 27.6 percent of the municipal residential property tax bill.

PEL did not estimate the method for the following year’s tax reduction. It will be necessary to prepare a formula that considers the local tax bill and the amount of mandatory reduction and carries those credits forward so that the real estate tax reduction is based upon current year municipal budgets.

The **Municipal Revenue Sharing Allocation** formula estimates that approximately \$16,000,000 will be available for the municipal “pool” distribution. In addition, PEL has allocated approximately \$1,000,000 each per county and approximately \$3,000,000 for tax-exempt property relief in each of the cities of the Lehigh Valley.

The distribution of approximately \$3,000,000 in tax-exempt property relief is designed to lessen the fiscal burden of the Valley cities in their role as regional “hosts” for many of the buildings and organizations of tax-exempt entities that do not pay real estate taxes but nevertheless receive full services as a “resident” of the cities.

A summary table of the impact of the three proposed distributions is shown in Table S-1. The table displays each distributed amount but does not add the mandatory municipal tax reduction as a new revenue source. The table also ranks municipal population and the amount of municipal assistance with the cities ranking as the top three, as expected, while the fourth through tenth ranked beneficiaries receive from \$228,912 to \$667,629 on an annual basis from the proposed revenue sharing of the additional one percent sales tax.

Operating Assumptions

2005-06 Tax year

Taxable value of sales activity:		\$4,708,200,000
Rate of taxation:	1%	
Proceeds from the tax:		\$47,082,000
Pennsylvania Revenue Department Service Charge		521,478
Local Administrative Costs/Office Expense		100,000
Net Available Estimate		46,460,522

Distribution of proceeds based upon net revenue year 2005-06

To a Regional Asset/Service District:		\$5,807,565
To Municipal Property Tax Relief:		20,326,478
To County and Municipal Revenue Sharing:		20,326,478

Table S-1

Summary of Distribution of Funding for All Lehigh Valley Municipalities
Based Upon Estimated \$48,000,000 Allocated for Distribution

	<u>2000 Population</u>	<u>Mandatory Municipal Tax Reduction</u>	<u>Municipal Revenue Sharing</u>	<u>Municipal Tax Exempt Relief</u>	<u>Total New Municipal Assistance</u>	<u>Rank In Municipal Assistance</u>	<u>Rank In Municipal Population</u>
Lehigh County			\$1,000,000				
City:							
Allentown City	106,632	\$5,202,080	5,328,898	\$1,440,000	\$6,768,898	1	1
Boroughs:							
Alburtis	2,117	83,886	53,919	–	53,919	44	50
Catasauqua	6,588	291,781	185,842	–	185,842	14	23
Coopersburg	2,582	126,061	58,965	–	58,965	40	49
Coplay	3,387	123,608	73,943	–	73,943	30	41
Emmaus	11,313	495,127	305,005	–	305,005	8	13
Fountain Hill	4,614	181,432	159,060	–	159,060	19	32
Macungie	3,039	81,344	63,984	–	63,984	34	44
Slatington	4,434	129,102	144,394	–	144,394	22	34
Townships:							
Hanover	1,913	1,290	39,071	–	39,071	53	52
Heidelberg	3,279	28,230	51,339	–	51,339	47	42
Lower Macungie	19,220	–	189,638	–	189,638	12	6
Lower Milford	3,617	53,704	45,793	–	45,793	52	39
Lowhill	1,869	31,503	24,790	–	24,790	57	54
Lynn	3,849	24,101	49,843	–	49,843	49	38
North Whitehall	14,731	95,623	164,094	–	164,094	17	9
Salisbury	13,498	356,347	170,787	–	170,787	15	11
South Whitehall	18,028	718,190	404,512	–	404,512	5	7
Upper Macungie	13,895	114,264	54,961	–	54,961	42	10
Upper Milford	6,889	13,197	62,654	–	62,654	36	22
Upper Saucon	11,939	454,555	189,353	–	189,353	13	12
Washington	6,588	22,161	72,652	–	72,652	31	23
Weisenberg	4,144	48,875	50,659	–	50,659	48	37
Whitehall	24,896	788,244	667,629	–	667,629	4	4

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Northampton Co.			\$1,000,000				
Cities:							
Bethlehem City	71,329	\$3,680,163	\$2,479,650	\$870,000	\$3,349,650	2	2
Easton City	26,263	1,639,768	1,234,178	690,000	1,924,178	3	3
Boroughs:							
Bangor	5,319	263,310	218,555	–	218,555	11	29
Bath	2,678	126,751	62,473	–	62,473	37	47
Chapman	234	3,381	2,645	–	2,645	62	62
East Bangor	979	35,390	28,627	–	28,627	55	57
Freemansburg	1,897	113,411	54,040	–	54,040	43	53
Glendon	367	9,139	4,411	–	4,411	61	61
Hellertown	5,606	458,217	167,670	–	167,670	16	28
Nazareth	6,023	120,329	153,791	–	153,791	21	26
Northampton	9,405	143,300	228,912	–	228,912	10	17
North Catasauqua	2,814	330,091	75,766	–	75,766	29	45
Pen Argyl	3,615	127,645	90,870	–	90,870	26	40
Portland	579	26,830	12,609	–	12,609	60	60
Roseto	1,653	60,254	30,327	–	30,327	54	55
Stockertown	687	48,857	15,697	–	15,697	59	59
Tatamy	930	50,699	22,965	–	22,965	58	58
Walnutport	2,043	126,370	68,960	–	68,960	33	51
West Easton	1,152	47,833	27,337	–	27,337	56	56
Wilson	7,682	300,329	290,872	–	290,872	9	20
Wind Gap	2,812	96,113	59,373	–	59,373	39	46
Townships:							
Allen	2,630	93,489	47,646	–	47,646	51	48
Bethlehem Twp.	21,171	738,347	400,583	–	400,583	6	5
Bushkill	6,982	218,585	114,253	–	114,253	25	21
East Allen	4,903	122,756	52,100	–	52,100	46	31
Forks	8,419	393,443	159,615	–	159,615	18	19
Hanover	9,563	347,655	154,075	–	154,075	20	16
Lehigh	9,728	261,402	119,981	–	119,981	24	15
Lower Mt Bethel	3,228	65,971	63,872	–	63,872	35	43
Lower Nazareth	5,259	126,162	71,585	–	71,585	32	30
Lower Saucon	9,884	299,871	140,373	–	140,373	23	14
Moore	8,673	100,274	87,793	–	87,793	27	18
Palmer	16,809	601,828	342,012	–	342,012	7	8

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Northampton County Townships (cont'd):							
Plainfield	5,668	\$ 32,853	\$56,273	—	\$56,273	41	27
Upper Mt Bethel	6,063	90,097	84,065	—	84,065	28	25
Upper Nazareth	4,426	93,067	61,478	—	61,478	38	35
Washington	4,152	96,201	49,617	—	49,617	50	36
Williams	4,470	42,359	53,168	—	53,168	45	33