

## MEMORANDUM

**To: Act 47 Subcommittee on Finance/Indebtedness**

**From: Pennsylvania Economy League**

**Date: May 31, 2013**

**Subject: Implement tax-base sharing for distressed municipalities and neighboring communities**

Creation of a special service delivery area funded through tax base sharing would permit neighboring municipalities to provide their residents with efficient service delivery that is supported by dedicated revenue. While municipalities can and do share services on various levels now, such arrangements currently lack a mandatory taxing mechanism.

Pennsylvania's incorporation boundaries significantly impact the revenues that are available for municipal taxation. Municipalities cannot reach beyond their borders to capture real estate taxes. Taxation of non-resident earnings by municipalities is allowed only in limited circumstances or under special state legislation. Since revenue is fundamental to service delivery, these limitations hamper the ability of local governments to provide services that span municipal lines. As a result, they are unable to secure the advantages that come with an economy of scale.

One alternative is the development of special service delivery areas that would operate with a unified budget funded by special purpose taxes levied uniformly and jointly by member municipalities. Such districts could be adopted through approval of the respective municipal boards. The use of special area and purpose taxation is currently allowed under the Home Rule and Optional Plans Law, and legislation could be passed to expand the provision to other local governments. The existing county solid waste legislation is one possible model for creation and funding of such service districts.

Municipalities that form a consolidated service delivery area would provide assessed value to be taxed regionally by a uniform dedicated millage that would be used to pay the costs of the shared service delivery. This approach would result in redirecting a portion of each municipality's general fund income. However, the loss would likely be offset by savings in service delivery, an increase in the service provided or the prevention of service reductions through efficiencies gained from the regional service area.

Townships that have wide scale industrial or commercial developments would be donating a portion of that valuation and older municipalities could be expected to provide taxable value from their resident homes and businesses. While there is a level of tax disparity in the use of assessments, the proposal continues the Pennsylvania practice of property taxation as a fair and representative means to pay for services — such as public safety and public works — that are provided to all citizens equally regardless of the amount of taxes paid.

Another option is to use sales tax as the source of revenue for consolidated service areas. While legislative action would be necessary, there is precedent in Allegheny County's use of a local option one percent sales tax that is distributed among local governments, the county and selected "regional assets." Legislature could grant a county-level local option sales tax with a service delivery area as a required component.

By providing a funding mechanism, tax-base sharing would remove one impediment to creation of service delivery areas that could allow distressed municipalities and their neighbors to provide adequate and efficient delivery of services while preserving the local civic identity inherent in Pennsylvania's local governments.