



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.

2023

Pennsylvania Economy League

Supported by the Pennsylvania Municipal League

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
- We believe healthy local governments assist in creating a sustainable Pennsylvania economy that can keep and attract residents and businesses

It's Not 1965 Anymore Presenters



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The Problem: Inflexible Taxes Fail PA's Municipalities

- PA's decades-old municipal tax menu enacted by state government has failed to keep up with inflation and modern living
- The result:
 - **Municipal Deficits**
 - **Public Service Cuts**
 - **Over Reliance on Property Taxes** that still don't keep up with expenditure growth
- The situation impacts cities, boroughs and townships, large and small, rural and urban, statewide.



How Did We Get Here?

Corralling the “Wild West” with 1965’s Act 511



- Challenge: Fix PA’s 1940s so-called 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

How Did We Get Here?

Corralling the “Wild West” with 1965’s Act 511



- Seen as progressive because it tapped sources other than property like income and business
- Taxes 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?



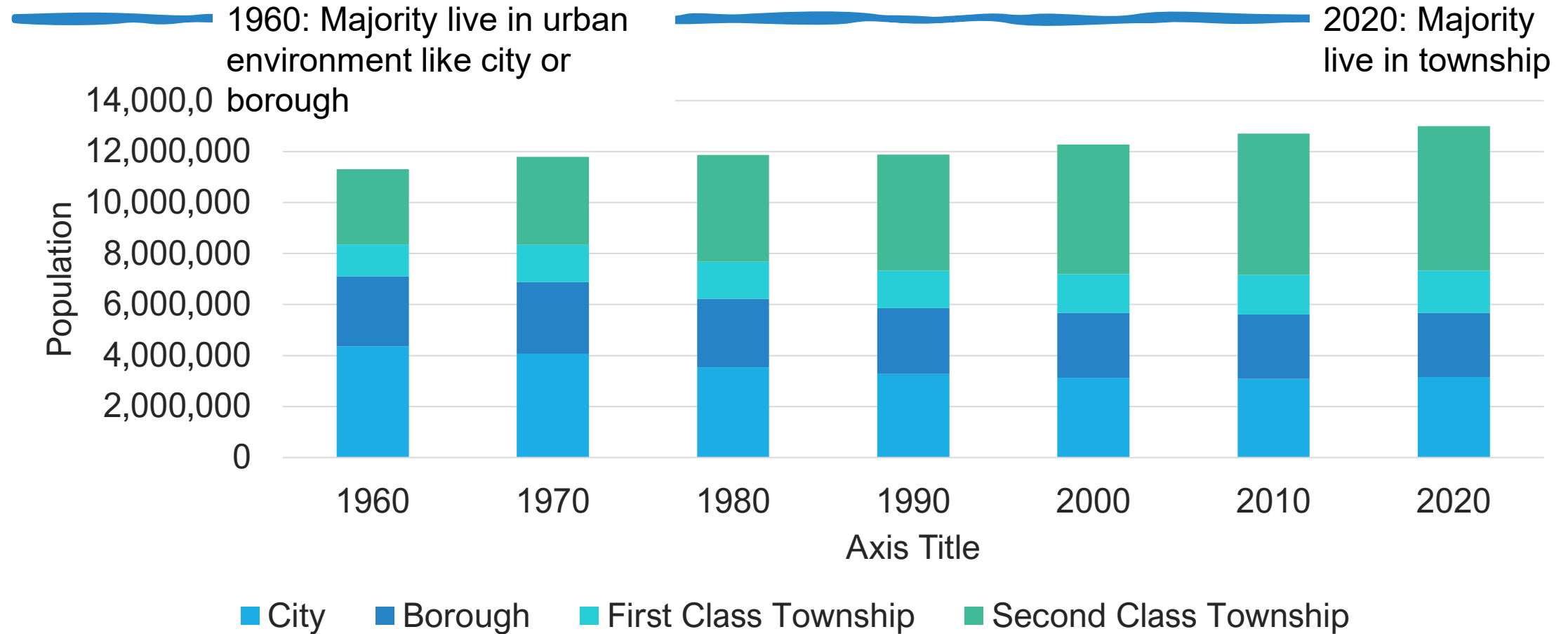
- Wealthier residents migrated to previously rural areas from dense urban core communities and took their tax money with them.
- Urban cores are left with lower income residents and older, lower value real estate while still paying for the same extensive infrastructure and robust services that are used regionally.
- The large number of tax-exempt institutions that gravitate to these hubs for business, government, medicine and education further erode urban tax bases.

What's Happened Since 1965?



- Act 511's capped rates and flat tax amounts failed to keep up with inflation or acknowledge migration patterns.
- Urban cores become over reliant on property tax revenue because that is generally the only tax that a municipality can increase
- Property taxes on average do not keep up with expenditures in part because of PA's inadequate and uneven property assessment system

The Impact of Suburban Sprawl



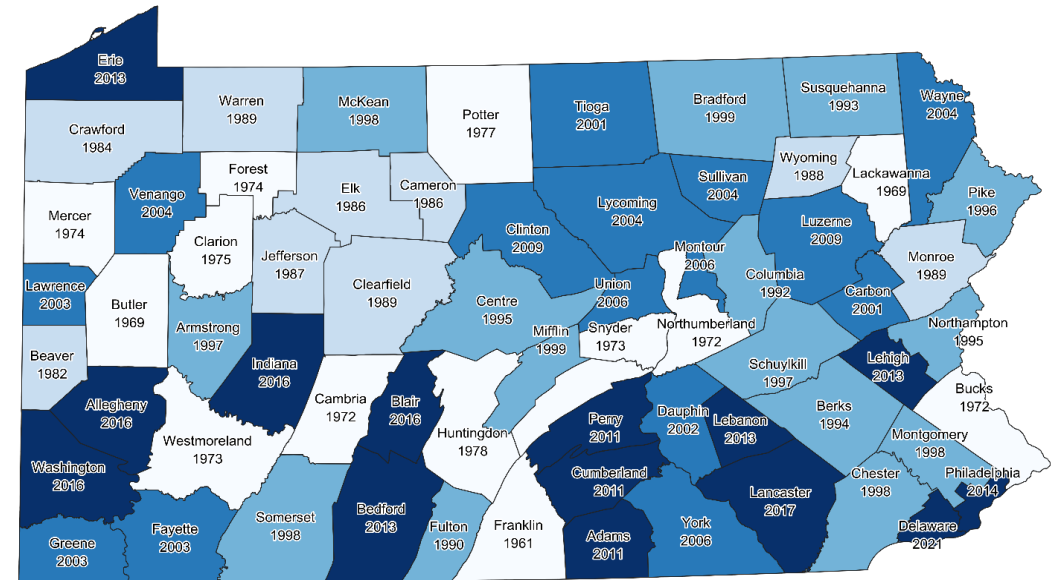
Pioneering Act 511 Weakened by Inflation and Migration Patterns

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 and are no longer available as a new tax
- 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

Property Assessment

- No direct mechanism in PA to force a new county property assessment
- No reassessment on sale of property
- Old assessments depress the value of a mill and raise questions of tax fairness
- Municipal tax revenue stagnates under old assessments and is unable to keep up with growing expenditures

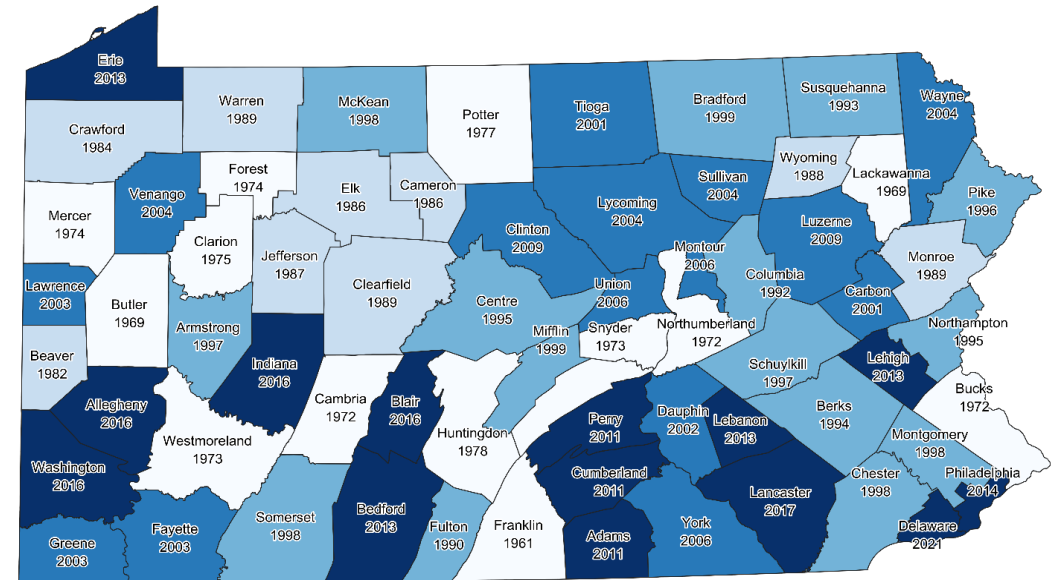


Last Reassessment

Before 1980 1980 - 1989 1990 - 1999 2000 - 2009 2010 or Later

Property Assessment

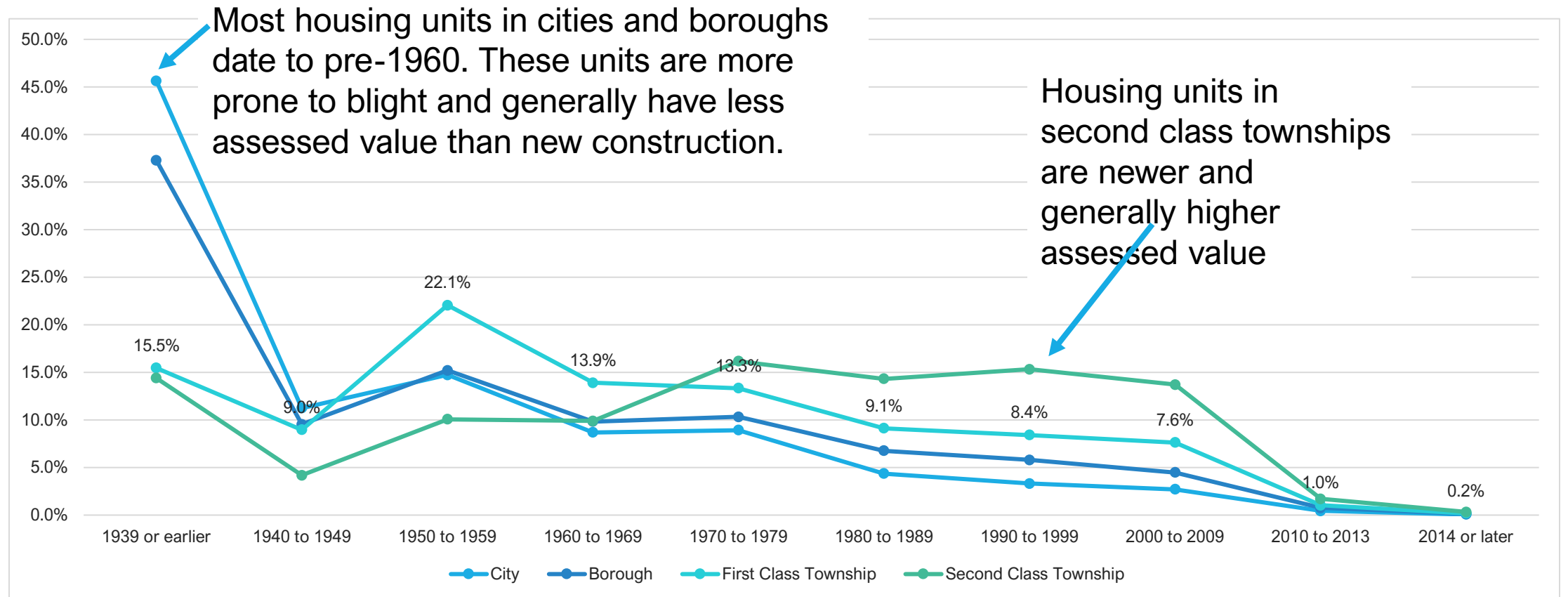
- Municipalities can bump up against millage caps because so many lower value mills are needed to maintain revenues.
- PA raised millage for cities, boroughs and first-class townships in recognition of the problem – one of the system modernizations
- Despite these issues, **most PA cities and boroughs are dependent on property taxes for 50 percent or more of revenue**



Last Reassessment

Before 1980 1980 - 1989 1990 - 1999 2000 - 2009 2010 or Later

Old Housing Erodes Value



Current Paths to Tax Flexibility

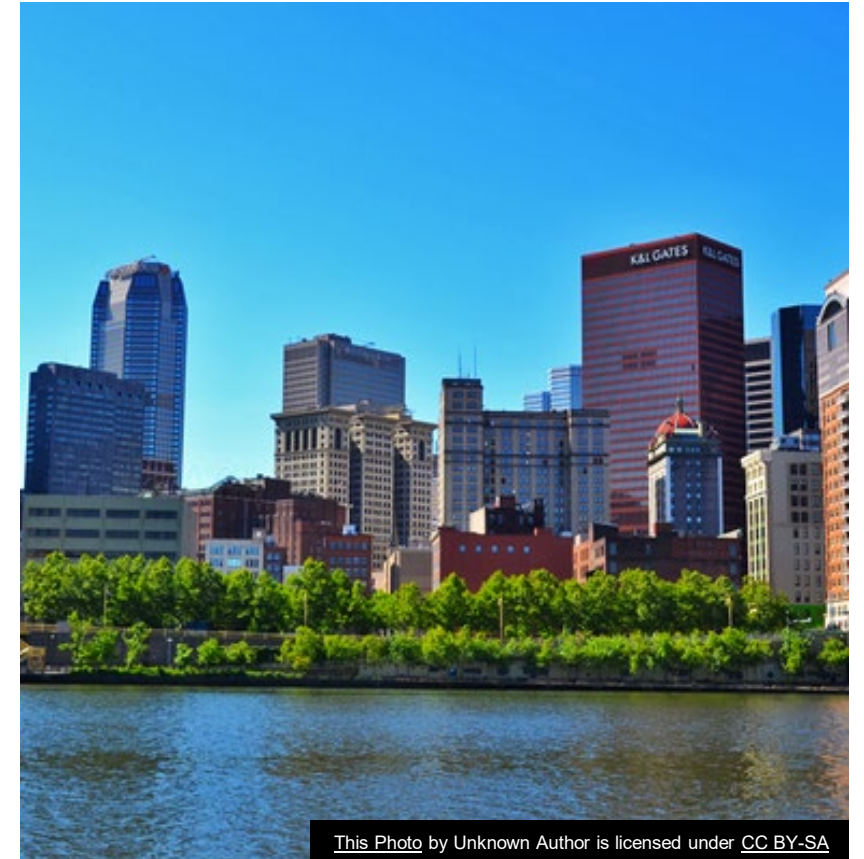
- **Home Rule**
 - Complex process to review and potentially redesign the current government.
 - Removes municipal code caps on real estate, earned income and realty transfer taxes.
 - No tax authorization for non-resident workers
 - Can be risky procedure with many uncertainties including what kind 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

Current Paths to Tax Flexibility

- **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 2001 or 2008
 - No tax authorization for non-resident workers

Pittsburgh and Allegheny County

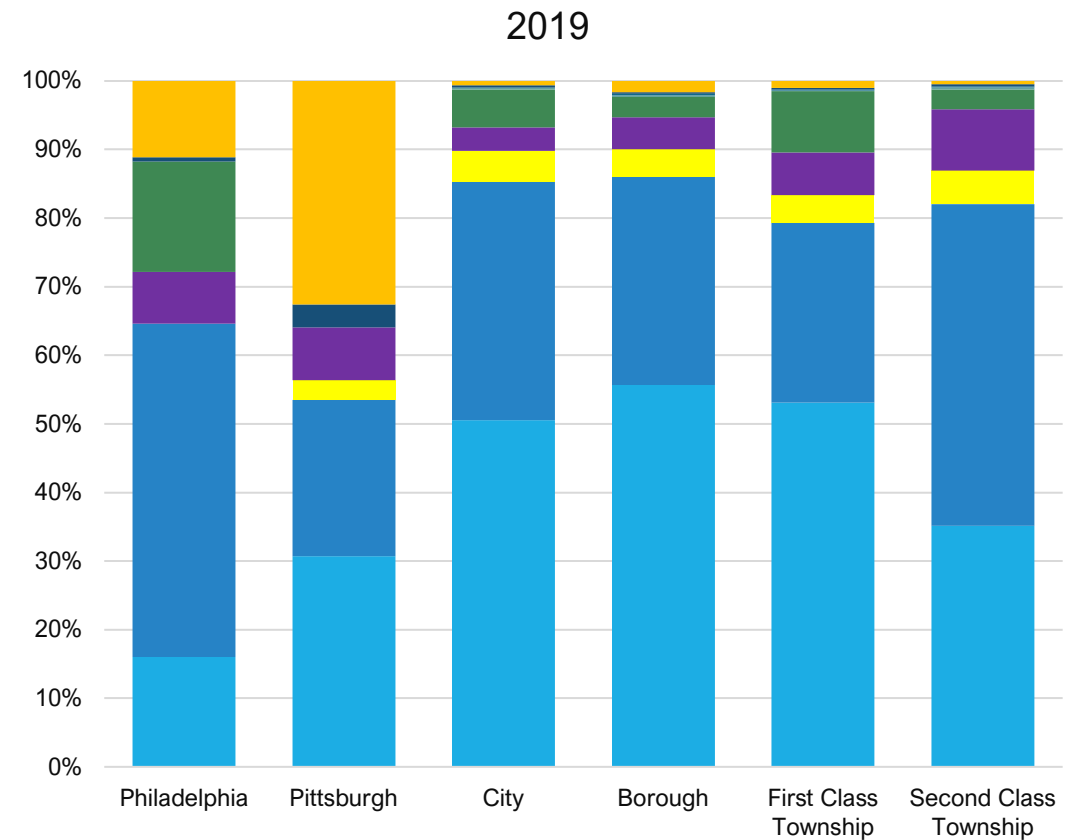
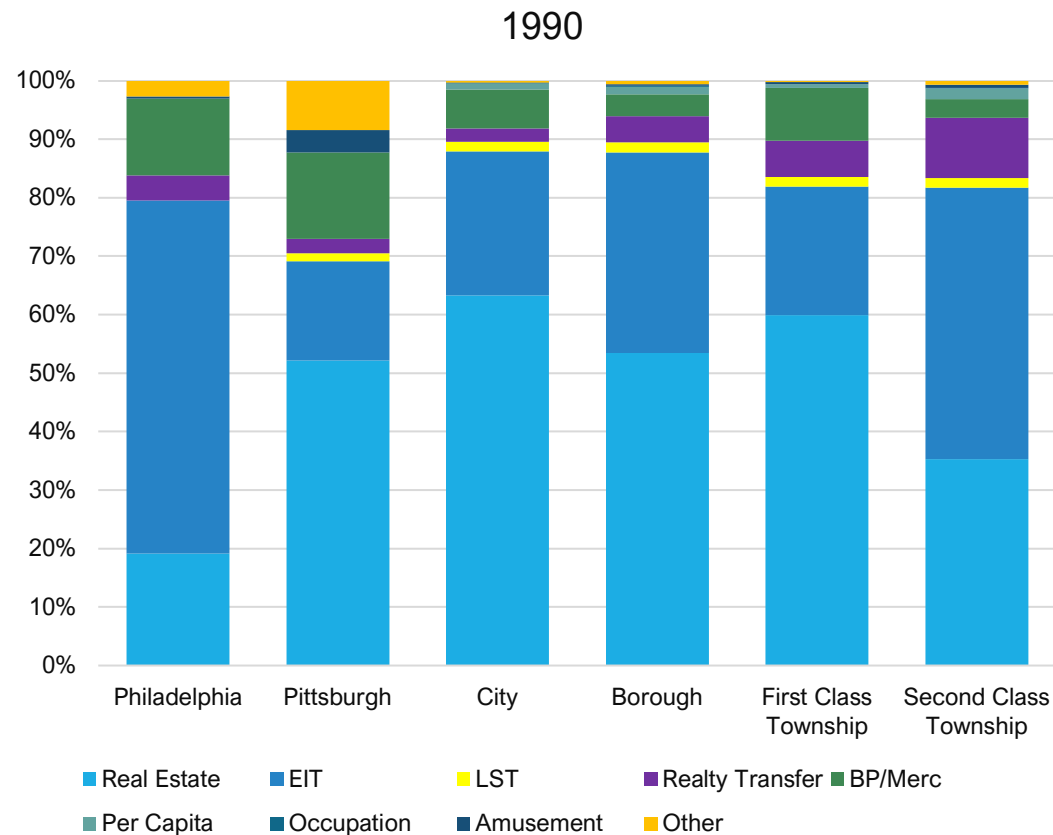
- State provided new revenue options to Pittsburgh in the wake of massive industry closure and huge population loss
 - Increased and renamed the local services tax to \$52: **extended to all PA municipalities**
 - Authorized a regional sales tax that also pays for parks, stadiums and other city assets: **extended to all of Allegheny County based on formula**
 - Updated business taxes to payroll rather than gross receipts: **extended to Act 47 municipalities**
- Allegheny County drink tax funds Port Authority



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Seeking Tax Flexibility: Change in Total Taxes, 1990 to 2019

- EIT % grew by more than 10 points in cities.
- LST % increased because of bump in flat rate
- Pittsburgh's wider tax menu decreased reliance on property taxes.





Recommendations Based on Existing Models

- Eliminate or raise rate caps
 - Increase flat fees so they grow with inflation
 - Provide additional authorization to tax non-resident commuters
 - Offer a modern version of the business tax
 - Consider new options like a sale or a drink tax
 - Mandate regular property assessments
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