

**TESTIMONY BEFORE THE  
COMMITTEE ON LOCAL GOVERNMENT  
February 28, 2008**

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Chairperson Freeman, members of the Committee on Local Government, and distinguished participants of these hearings, the Board of the Pennsylvania Economy League thanks you for the invitation to participate today.

House Bill No. 2018 addresses the important, and *increasing* effects upon local governments, of properties exempt from property taxes. This bill also begins a dialogue, long overdue, about the effect of property tax exemptions upon our municipalities. The main problem of today's property tax is its disconnect between the actual cost for shared municipal services with the *concept* that only some owners of property are required to pay for those services. This concept made sense 200 years ago when only the wealthiest residents owned homes or other property.

From the founding of our Commonwealth, churches, schools, and cemeteries were exempt from taxation. The prevailing view assumed these amenities were an extension of the already taxed population of a municipality. There was no vision two centuries ago of large universities and colleges; vast medical facilities; charities with large administrative offices and multiple service facilities; federal/state parks and other public lands; nursing homes; airports; or sports stadiums—to name a few of the establishments we value so highly in today's world.

Still, the reality remains that the initial sovereignty of the church and school has been extended to hundreds, more likely thousands, of organizations in Pennsylvania. Indeed, there seems to be no aggregate listing of tax-exempt organizations or facilities for the state. By requiring full assessment of *all* properties in a county, HB 2018 will provide valuable information and annual reports to guide future policy and actions. A review of the locations and reasons for current property tax exemptions will also be very useful.

However, we do have relevant examples of the effects of property tax exemptions, such as the in-depth study for the City of Williamsport by the Central Division of the Pennsylvania Economy League (under Gerry's leadership.)

With a population of just under 30,000, Williamsport is a small city that also serves as the county seat of Lycoming County, which is the largest in land area of all 67 counties in Pennsylvania. Almost half the tax-exempt property, based upon valuation, of all Lycoming County is located within the city limits of Williamsport. In total, these tax-exempt properties represent \$425 million, or about one third of the entire city's assessed valuation of \$1.37 billion.

As is typical, colleges and hospitals account for much of the exempted land. Educational and medical facilities tend to be located in the urban centers of a region, and Williamsport is no exception. Williamsport is host to a College of Technology and 92 percent of the schools in the Williamsport Area Joint School District.

By the way, the location of tax-exempt facilities also causes significant changes in other types of municipal taxes, including the EIT, where, for instance, wage taxes based upon employment of college students in Williamsport will follow the student to his/her hometown. On the side of the local tax equation is the beneficial effect of job creation by not-for-profit institutions within the municipality. In Williamsport, the Local Services Tax (LST) paid by employees of all kinds of employment nearly equaled the amount of Earned Income Taxes paid by the citizens of Williamsport City. Many of the jobs in center city Williamsport are provided by not for profit institutions. Nonetheless, the LST was one of the few new revenue sources available to municipalities and cannot be considered a replacement for lost property tax revenues. But that discussion is for another day.

A second relevant example is the Pennsylvania Economy League study often referred to as the "Town/Gown Study." It is not only the largest municipalities that gain from the establishment of the Tax-Exempt Property Municipal Assistance Fund. Look, for instance, at five towns that host state universities. In Bloomsburg the university accounts for almost two-thirds of all exempt assessed valuation in a town where almost 40 percent of total assessed valuation is tax exempt. For Edinboro those figures are even higher where the university accounts for just over 90 percent of all exempt assessed valuation where, again, tax-exempt property accounts for over 40 percent of all property.

Similar patterns are seen for West Chester, Lock Haven and Millersville. Hence, the 17 percent floor included in HB 2018 will target those municipalities, regardless of size, in most need of financial help, often because of the location of tax-exempt enterprises.

This bill can have positive effects beyond direct assistance to municipalities. Beginning to level the property tax base across properties has a direct impact upon individuals on fixed incomes. Further, beginning to address the inequalities of mileage rates among neighboring municipalities helps those with high concentrations of tax-exempt properties attract new development or enhance economic prospects. And, in the end, assisting municipalities with tax exemptions eventually also assists school districts and counties.

However, the Pennsylvania Economy League believes there is still much to be done to more permanently fix the problems of property taxes in the Commonwealth. To that end, the implementation of HB 2018 should be carefully designed to:

- o Prevent some tax exempt organizations from receiving a "get out of jail free" ticket through the use of state subsidies
- o Not increase municipal dependence upon the property tax
- o Strive to provide future increases that keep pace with inflation and the growing number of not-for-profit organizations

- Work with municipalities to fairly distribute costs of services, perhaps by moving from the property tax to fee-for-services (as is often done for water, trash pickup, inspections, and sewer)
- Consider, in the future, the types of exemptions and approval process

It is clear that HB 2018 presents a start to assisting municipalities with the growing challenge of tax-exempt properties. However, other considerations remain important, with a number of problems still to be addressed, including:

- The increasing number of tax exempt properties
- The unequal *distribution* of exempt property, which may be concentrated in all areas of the state (large cities to small college towns)
- Review of laws that provide tax exceptions, which is necessary at the state level and remains beyond the responsibility of the municipality

In summary, we at the Pennsylvania Economy League think most will agree that property tax exemptions:

- Remain good public policy for certain properties
- Are applied in 2007 in ways not envisioned by the original intent of the law
- Shifts the tax burden from the tax exempt land to the remaining tax-paying land
- Does not reflect actual municipal costs attributed to land use
- Are becoming more commonplace
- Hit hardest those municipalities least likely to afford reductions in property taxes

Let me conclude by stating that each of our neighboring states is facing the same dilemma as addressed in HB 2018. Some, like Maryland and New York, are seeking solutions very similar to this approach. Others, like New Jersey where almost 98 percent of municipal revenue is collected through property taxes, face a more drastic need for change. While the Pennsylvania Economy League does not take specific positions on proposed legislation, it does fully support the ongoing review and analysis of the effects of tax-exempt properties on municipalities. The status quo is not acceptable.