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TESTIMONY ON HOUSE BILL 2230

PRESENTED TO THE
HOUSE FINANCE COMMITTEE

BY

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Good morning. I am Lisa Schaefer, Government Relations Manager for the County Commissioners Association of Pennsylvania. The CCAP is a non-profit, non-partisan association providing legislative and regulatory representatioii, education, research, insurance, technology, and other services on behalf of all of the Commonwealth's 67 counties I am pleased to appear before you today to present our comments on House Bill 2230.

Counties provide a broad and expanding variety of services to Pennsylvania's citizens. They preserve democracy by administering the election process, improve health and welfare by providing those in need with human services, respond in times of emcrgcncy, keep our streets safer with local courts and corrections programs, and preserve and showcase Pennsylvania's natural, cultural and historic resources through careful and effective planning and economic development.

However. because the same inequitable tax base has been in place throughout the commonwealth's history, counties are forced to fund an increasing local share of this broad spectrum of responsibilities with the real property tax. This is a taxation system that neither equitably nor adequately reflects a homeowner's economic condition, and that places an unfair burden on many property owners. For that reason, Pennsylvania's counties have long advocated a diversification of their tax base beyond the property tax – in fact, revenue options and tax fairness have been one of our members' top prioritres for scvcral yews, including 2012

It is important for local governments to use a balanced portfolio of local taxes, matching the strengths and weaknesses of different taxes to spread the tax burden fairly across taxpayers and to ensure a reliable source of revenue. In addition, the economic base is different throughout Pennsylvania, and local officials should be empowered to choose the right mix of taxes based on local conditions and to diversity the tax base to better absorb changing economic conditions. For instance, property taxes may actually be the most equitable measure based on economic condition, rate of development and demographics. Where thcrc is a strong tourism industry, the sales tax works well to distribute the tax burden to non-residents who also benefit from government services Income taxes are considered more equitable than the property tax, but if a large portion of the local community consists of retirees, this source of revenue may be less appropriate.

However, counties are dependent on state law to authorize the use of these options, and so county governments currently lack any effective alternaties to the real property tax, and have fewer local tax options than do municipalities and school disbicts. Although the legislature has dealt repeatedly with property taxes over the last two decades, the focus has been on schools only, and county tax issues have not been included in the reform programs adopted to date. Complete property tax reform will not be achieved until counties arc also included in these discussions, and we appreciate the opportunity for such dialogue that the introduction of House Bill 2230 is offering

Counties have expressed their support for alternatives such as the camedincome, personal income and sales taxes. Two of these, the earned income tax and the personal income tax, are included as options for counties in House Bill 2230; an optional one percent sales tax for counties has been the focus other recent legislative efforts, and is incorporated in HB 2042 by Rep. Sturla. Senator Blake has circulated a cosponsorship memo for a companion to HB 2042 in the Senate.

While CCAP supports the option for counties to levy an earned income tax or personal income tax, at their discretion. and that the revenues generated would be designated for corresponding property tax reductions, tlie Association's legislative platform opposes statutory local spendmg limits Counties belicvc that locally elected officials should have the sole responsibility for determining and levying the taxes necessary to fund public services. However, House Bill 2230 would cap any future increases in the earned income tax or personal tax rate to what is essentially the inflationary Act 1 index imposed for school district property tax rate increases under the Taxpayer Relief Act of 2006.

Spending or taxation controls are an illusion. Like the state, local budgets must be balanced. Local elected officials are accountable to their constituents, seeking first to ensure that they are being good stewards of the taxpayer dollars they receive and providing programs in the most effective and efficient manner, and increasing taxes only as a last resort. However, many local costs are not under the direct control of elected officials, including state and federal mandates. court decisions, and economic conditions that establish specific services that must be offered (e.g. entitlement services for abused or neglected children, mental health and mental retardation services), the level of services to be provided (e.g. adverse economic conditions directly affect levels of judicial and human services). how services must be provided (e.g. bidding requirements, and prevailing wage requirements), and how employees arc paid (e.g. pension expenses, collective bargaining agreements). Mandates then become the driving force in local decision-making, and often the spending or taxation controls make rcvcnues inadequate to deal with these responsibilities.

There arc useful lessons to be learned about the role of mandates in all local jurisdictions' budgets and tax increases from the impact of the implementation of Act 1 on school districts, which focused solely on the revenue side. Act 1 made all Pennsylvania school districts subject to a backend referendum, requiring voter approval for tax increases when they exceed an inflationary index, but provides escape mechanisms for some mandates and other non-local costs. The relatively high percentage of districts that have received these cxcmplions suggests that school district budgets arc often driven by costs that are out of the control of the district.

More important, while spending and taxation controls may hold down costs, they are an artifice that instead takes away the ability of locally elected officials to do the jobs for which they were elected – to deal with problems, issues and priorities established in the community. Simply cutting the tax revenue local jurisdictions can raise ultimately forces budgets to focus first, and potentially exclusively, on meeting mandated costs, at the expense of locally determined priorities (discretionary programs). While local officials can control the discretionary programs, programmatic spending mandated by state and federal law is outside the local official's control The practical result is a disproportionate effect on locally determined priorities, since spending and taxation controls take away the ability of local jurisdictions to set them. True control of local budgets and taxation comes by giving local jurisdictions greater flexibility in whether and how they respond to state and federal priorities, both programmatically and fiscally, and by providing full reimbursement from state or federal funds to pay for such mandates.

For a matter ofperspective, local non-tax revenue includes departmental earnings. Interest income, and intergovernmental transfers from the state and federal governments. Intergovernmental transfers are particularly important for Pennsylvania county governments, accounting for almost half (46 percent) of their revenues in 2004, but these transfers have decreased in recent years. These transfers to counties are relatively large, in part, because counties formally administer many state and federal programs, such as drug and alcohol treatment. and children and youth services, although they have little discretion about whether or how to dchver those services. These intergovernmental transfers help pay for mandated services, but how completely these funds cover the programs' costs is often a source of debate between the General Assembly and local officials. Counties' heavy dependence upon intergovernmental transfers helps keep local taxes lower than they would be otherwise, but also means county governments are especially vulnerable to changes in the state and federal budgets.

If a county elects to impose an earned income tax or personal income tax, the legislation caps any future increases to the equivalent of the Act 1 index for school districts. In recent years, tlie base Act I index has been 1.7 percent (2012-2013), 1.4 percent (2011-2012) and 2.9 percent (2010-2011) and just over four percent in the two years prior to that. These caps proposed by House Bill 2230 would almost entirely remove the ability of county governments to have any say over their own budgets or respond to changes in state and federal funding, as well as economic conditions. In the event that state and federal governments fail to meet their funding obligations for mandated programs, this could leave counties with no choice but to cut service'; to our most vulnerable populations. This is not a farfetched notion – we note that counties have endured a series of ongoing cuts and reduction.; to state and federal allocations over the past decade With local reserves depleting and demand for services increasing. even counties that have been able to get by without increasing taxes over the last two to three years now stand on the threshold of having to do so

Furthermore, if a county elects to impose an earned income tax or personal mcome tax under House Bill 2230, the legislation also freezes the newly reduced real property tax millage rate in perpetuity, except to ensure tax uniformity in a political subdivision lying in more than one county, or to ensure lax uniformity following **a** countywide reassessment. There may, though, be other equitable reasons in the future, based on local conditions, to raise the property tax instead of tlie income tax. Also, generally in investing, it is best to diversify, so that when one segment of your portfolio suffers losses, your entire investment does not suffer. In local budget-making, the concept is the same, and CCAP accordingly supports both flexibility and alternatives in local taxing options. For the same reason, we support the notion that we can increase the income tax; historically, tax authorization legislation has given us a flat rate sales or income tax alternative, relegating any necessary future tax increases to the property tax.

The Association appreciates this opportunity to continue a meaningful dialogue on tax fairness and revenue options for local governments. Because of tlie diversity of this commonwealth in all 67 counties, our members support a menu of local laxing options, but not at the expense of local discretion and decision making on community programs and priorities. We express our commitment to working with you on passage of legislation on this issue, and would very much appreciate the General Assembly's assistance in addressing those mandates that are beyond their control, We would be happy to discuss these comments further and answer any questions you may have.