



TO: Members, House Subcommittee on Tax Modernization and Reform

FROM: Lisa Schaefer, Director of Government Relations

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SUBJECT: CCAP Comments on Local Tax Reform

On behalf of the County Commissioners Association of Pennsylvania, a non-profit, non-partisan association providing legislative, education, research, insurance, technology, and other services on behalf of all of the Commonwealth's 67 counties, thank you for the opportunity to offer counties' recommendations to improve the local taxation system, in conjunction with the testimony of Indiana County commissioner Rod Ruddock.

For counties, our only source of locally generated general fund revenues is the property tax. Counties also have a unique role to play in the entire property tax system, as we are responsible for, or affected by, all of its administration from assessment to delinquent property tax collection. Thus, we are able to offer a number of perspectives and recommendations about the local tax system.

Diversifying the County Tax Base

Local governments rely mostly – and in the case of counties only – on property taxes as their source of locally generated general fund revenues. Yet when the public and the General Assembly talk about property tax reform, the discussion instinctively focuses on school property taxes, and county tax issues have not been included in the reform programs adopted over the past 20 years. While counties understand that school property taxes represent the largest portion of an individual's property tax burden, the reality is that Pennsylvania must look at the entire local tax system in order to achieve true, comprehensive property tax reform.

Pennsylvania's counties have long advocated for the ability to diversify their tax base beyond the property tax, including support for alternatives such as the earned income, personal income and sales taxes to proportionally reduce reliance on the property tax. Local governments must be able to use a balanced portfolio of local taxes, and allowing options will give counties the ability to decide locally what revenue sources work best and most equitably for their communities. For instance, they might consider factors such as the balance between commercial and residential payers, income demographics and the economic base – and that balance will likely look different from one county to the next.

Homestead Exclusion Implementation

Our recommendation to give counties local taxing options comes into sharper focus following last fall's approval of a constitutional amendment to expand the homestead exclusion from one-half of the

median assessed value of the homestead properties in a taxing district to 100 percent of the assessed value of each homestead property in a taxing district. However, the constitution also specifically states that a local government cannot increase its millage rate to pay for these exclusions. Thus, few if any counties had the ability to authorize a homestead exclusion under the previous threshold – having no other taxing options to pay for it – much less to expand it under the recent constitutional amendment. In order to take advantage of the tools being offered, the General Assembly needs first to update the laws that implement the constitutional provisions to reflect the new threshold, and then offer local governments the flexibility to use those tools.

Assessment Reform

Counties are responsible for maintaining assessed values of properties, and these assessment rolls form the basis of property taxation for the counties, municipalities and school districts. Several reports have been completed in the last decade, including a Legislative Budget and Finance Committee (LBFC) report and recommendations on the status of, and improvements to, the property assessment system, released in 2010. CCAP and its affiliate Assessors' Association of Pennsylvania (AAP) were also active participants in late 2011 and early 2012 on the HR 343 and HR 344 task forces, which reviewed assessment standards, assessment contracting and reform of the State Tax Equalization Board (STEB).

Those reports prompted the Local Government Commission to form an Assessment Reform Task Force in late 2016 to address these recommendations to make the assessment process more modern, efficient, transparent and fair. In the past year and a half, a considerable amount of work has been undertaken – numerous pieces of legislation are now before the General Assembly, and a model RFP and contracting guidelines for county reassessment services have been completed, as well as data collector standards, with a self-evaluation tool to help counties understand when a reassessment may be needed.

As Commissioner Ruddock noted, any commissioner who has gone through the countywide reassessment process can tell you that it can be a confusing and frustrating process for everyone involved, including property owners. The Task Force's work on these tools will go a long way in assisting our counties in better understanding their role in the process, how to assure data is properly obtained and managed and working with the public to help them understand the process and their rights.

If this subcommittee is interested in learning more about the assessment process and the Task Force work, I strongly encourage you to reach out to the Local Government Commission, and to take a closer look at all of their work products on the Commission's website at www.lgc.state.pa.us.

Tax Exemptions

Tax-exempt state and federal lands, preferential assessment under the Clean and Green program, and exemptions for purely public charities all take their toll on the tax base of local governments and on taxpayers – when one property does not pay taxes, those who continue to pay effectively take on a greater share of the tax burden. For an example of this, the Allentown Morning Call recently did a detailed series of articles on the impacts Clean and Green Law that may be of interest to this committee.

While many legislative proposals to expand exemptions are well-intended, the underlying revenue needs of local governments remain unchanged and so are spread across a smaller tax base. The impact of these policies is felt by all local governments, but it is particularly significant for county government whose local revenues are based solely on the taxability of properties. Counties would also like to see the Clean and Green statute updated to better reflect and ensure the statute continues to meet its original intent to provide a preferential assessment to those properties that are truly agricultural use, agricultural reserve or forest reserve, and have several detailed ideas that we would be happy to discuss further.

Property Tax Collection

In some of our counties, the current property tax collection system – where property taxes are collected by elected tax collectors in each municipality – has not kept pace with the needs of their taxpayers. Counties recommend giving local governments options to use the local elected tax collector or to pursue other means of collection.

Local options for property tax collection are actually not a new concept, and in fact are already used in a patchwork and piecemeal fashion under current laws throughout the state. For instance, the Local Tax Collection Law allows municipalities to enter into an agreement to have the county bill for and collect its taxes in the event there is a vacancy in the office of tax collector. There are several counties performing this role for their municipalities, particularly in areas of the state where it has become difficult to find an individual who is willing to step up to run for the office. In these situations, counties have reported cost-effective results while maintaining taxpayer satisfaction with collection administration.

Further, under special legislation, county taxes in Allegheny County are collected by the county treasurer. Other special local laws enacted in the nineteenth century and which are still in effect make the county treasurer the collector of county taxes in Beaver, Chester, Greene, Lawrence and Washington counties. Counties adopting home rule charters may opt to collect their own taxes, and Delaware, Lackawanna and Northampton counties currently collect their own taxes under their home rule authority.

However, not every local government in every part of the state has the ability to review its local tax collection system in conjunction with the needs of its taxpayers. To better recognize the diversity of our 67 counties, we recommend legislation to offer options to all of our local governments. This would mean that in communities where taxpayers prefer to have a local tax collector with whom to transact their business, they can continue to do so. At the same time, if counties, municipalities or school districts would like to explore options to an archaic system that could streamline the process and provide more efficient services to their taxpayers, they could also do so.

County Budget Drivers and Mandate Reform

We would be remiss if we failed to note the underlying issues that drive county taxing decisions. More than 80 percent of county budgets are dedicated to services they are mandated to provide – human services programs, courts and correctional facilities, and emergency response planning, for example. But while state and federal governments provide funding assistance for many of these programs, counties

have dealt with more than a dozen straight years of stagnant or decreased funding for a wide range of county-provided programs. At the same time, mandates, service demands and caseloads continue to increase. Counties have done all they can to cut administrative costs and operate programs more efficiently, but in the face of inadequate funding, many have nowhere else to turn and thus are making the difficult decision to raise county property taxes.

In addition to supporting adequate and durable state and federal funding for county programs and services, county government and the commonwealth must develop and maintain the close working relationship necessary to cooperatively meet the state's challenges, looking for solutions that better reflect needs, reduce cost, increase local flexibility and assure quality services.

Conclusion

We look forward to working with you on matters affecting county government and the way we fund the critical programs and services we provide in our communities every day, and would be happy to discuss these comments further and answer any questions you may have at your convenience.