

# 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.

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## **Pennsylvania Economy League Project Staff**

LeeAnne Rogers, CEO

Lynne Shedlock, Researcher

Patricia Moorhead, Financial Analyst

Gerald Cross, Senior Fellow

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**League**



## Inflexible Taxes Fail PA's Urban Municipalities

Visitors might look at the city of Lancaster's vibrant downtown anchored by a thriving arts scene, its new economic and community development projects that have transformed dilapidated blocks to retail complexes, luxury condos and neighborhood plazas, and assume the city government must be benefiting from buckets of additional tax revenue.

It is not, a fact that Lancaster Mayor Danene Sorace painstakingly points out to those who wonder why the city continues to live on the financial edge, despite the type of economic development that is regularly touted by the state as a path to financial sustainability.

In Lancaster, population 59,321, and large and small urban core municipalities like it across Pennsylvania, the state's menu of taxes has failed to keep up with both inflation and modern living. The result for many municipalities like Lancaster is deficits, service cuts and property tax increases that still cannot keep up with expenditure growth.



One hundred thirty miles northeast of Lancaster, city of Pittston Mayor Michael Lombardo launches into the downtown tour he's conducted so many times that it's second nature. Pittston, population 7,729, is in some respects a mini-Lancaster, featuring a downtown Art Loop Trail, amphitheater and public murals. There are few empty storefronts on the bustling main street that will soon be home to a rooftop bar.

*"The inability to adjust [the earned income tax], even, instead of real estate taxes is driving many of us toward a path to extinction,"*

Pittston, like Lancaster, is known for its downtown revitalization that is held up as a statewide model. But the city's other accomplishment might be more noteworthy: it has used the little flexibility permitted in state law to restructure its tax system. City residents approved a home rule charter more than a decade ago, allowing the government to increase rates on taxes like earned income that otherwise are stuck in the 1960s under state Act 511.

Now, revenue from earned income is twice the amount from property taxes at a time when most cities are over reliant on property taxes at 50 percent or more of total revenues. Pittston also raised its realty transfer tax rate with no complaints.

"We've gotten no push back at all on our earned income tax increase," Mayor Lombardo said. "It's not noticed. If we had not done home rule to reform our taxes, we would not be at the point we are now."

Pittston's success contrasts with many other municipalities like Lancaster and Lock Haven that remain stuck in the antiquated system.

"The inability to adjust [the earned income tax], even, instead of real estate taxes is driving many of us toward a path to extinction," said Lock Haven City Manager Greg Wilson, whose small city is teetering on reducing full-time police coverage.

## Home Rule is No Panacea for Tax Flexibility

Home rule demonstrates that providing more modern, flexible tax options can reap big benefits, but the home rule charter process is not a panacea. First, raising the more productive earned income tax rate on municipal residents alone fails to account for the fact that it is often the poorer residents of full-service urban cities and boroughs that already shoulder the burden of paying for costly services used by the entire region.

Second, home rule is a complex, some say onerous, process that requires a complete review of the current government and potential recommendations for a revamped government structure. The process is controlled by an elected commission, not the current municipal government. It must also be approved by residents through a referendum.

“When you open the box to home rule, you don’t know what is going to come out,” said Mayor Sorace, expressing a common frustration of elected officials encouraged to undergo home rule for tax flexibility. “It’s a long, arduous process that is fraught with a lot of risks.”

Mayor Sorace would prefer the state update the current local government tax system so that it keeps up with inflation. She favors a system that provides multiple options so that a municipality can pick and choose what works best for their community rather than being reliant on property tax hikes – the original intent of Act 511. That means lifting caps, growing flat rates with inflation and looking at more outside the box revenue opportunities like an alcohol tax for cities like Lancaster with a vibrant night life.

## Corralling the “Wild West” Tax-Anything Law with 1965’s Act 511

When Pennsylvania last approved a comprehensive update of non-real estate property taxes, a gallon of gas was 31 cents, the average annual income was \$6,450 and a loaf of bread cost less than a quarter<sup>1</sup>.

The then brand-new Act 511 of 1965 was designed to corral the wild west like atmosphere of the 1947 “tax anything law.”

Act 511 permitted an annual occupational privilege tax of \$10, a substantial sum of more than 3 times the average hourly wage at the time. Paid by those that worked within a municipality regardless of residency to support local services, the tax remained at its eventually meager \$10 level until 2004. The tax was then increased to the current \$52 and renamed the local services tax (LST). But the tax has not kept up with inflation – today it takes over \$80 to purchase what \$10 bought in 1965. Municipalities are also required to share \$5 of the \$52 with the local school district.

*The then brand-new Act 511 of 1965 was designed to corral the wild west like atmosphere of the 1947 “tax anything law.”*

The LST journey is an example of Pennsylvania’s failure to modernize local government tax laws to reflect today’s realities. The 1965 and prior laws assumed more robust and varied taxation was necessary in densely populated urban cores to support a higher level of services and residents. But the tax menu given to cities and boroughs by the state proved to be inadequate and inflexible once people and wealth migrated in earnest to often formerly rural townships starting in the 1970s.

<sup>1</sup> <https://www.thepeoplehistory.com/1965.html>

In part, that's because Pennsylvania's local government tax laws mostly focus on raising tax revenue from residents, businesses and properties located only within a municipality's borders to support services that the municipality provides.

It is easy in Pennsylvania for the wealthy to avoid higher local government taxation by living in less dense suburbs and exurbs with less costly services. Some of these high-wealth communities do not even pay for municipal police services because under the state's system they can just use state police at no cost to the municipality.

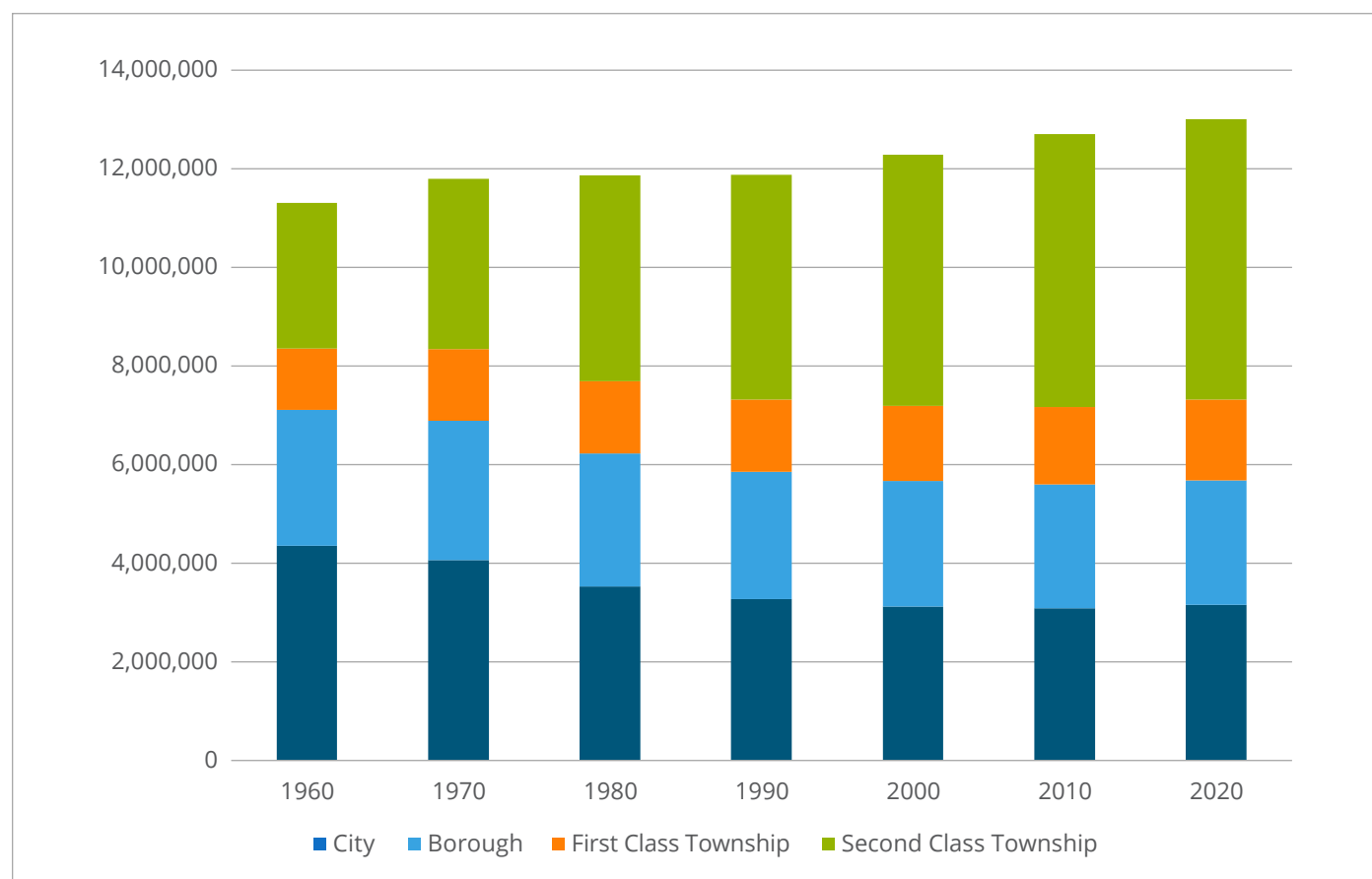
## The Impact of Suburban Sprawl

In 1960, most of the population, or 63 percent, lived in an urban environment like a city or a borough. By 2020, that had flipped, with the majority now living in townships.

Movement to townships came mostly among the affluent who were seeking large lots and new homes. They brought with them suburban business parks with free parking and sprawling buildings that further hollowed out old downtowns.

Left behind in the dense urban cores were predominantly lower income residents who were now saddled with the upkeep of expensive public services and fraying infrastructure often used by the entire region. Those expenses included items like ballooning pension and health care legacy costs for former municipal employees. All those costs remain despite a decline in the population that used to pay for it all.

**FIGURE 1: POPULATION BY MUNICIPAL CLASS, 1960 TO 2020**



## Pioneering Act 511 Weakened by Inflation and Migration Patterns

Local governments in Pennsylvania receive the bulk of taxation authority from two main sources: municipal codes (real estate taxes) and Act 511 (non-real estate taxes). Neither has experienced a major overhaul in terms of taxing authority since the 1960s.

Real estate taxes have long served as a main revenue source for local government. But in the years after World War II, municipalities sought other forms of taxation to produce additional revenue, grant property tax relief, spur economic development, and recoup the cost of services from non-resident commuters. Municipalities were also seeking a more elastic tax base since property taxes do not respond as quickly to economic conditions as income or business taxes.

At the time, Pennsylvania was seen as a pioneer for the broad discretion that it gave to local governments through Act 511 to use a wide variety of taxes, with a local sales tax being the major exception.

In theory, municipalities could select from the Act 511 framework to tax appropriately for their demographics. For instance, the occupation tax, originally based on county “value” assessments of a person’s occupation, was expected to take pressure off real estate property taxes particularly in second class townships, where much of the land was agricultural and thus had less value than developed property.

Boroughs and third-class cities that served as population centers could levy the per capita “head tax,” a flat rate of \$5 to \$10, which like the former occupational privilege tax was not tied to inflation. Cities, as centers of commerce, could also enact mercantile and business privilege taxes, which are levied on business gross receipts.

But none of the flat taxes were designed to grow with inflation. The earned income tax allowed for some growth since it was pegged to wages that generally increase over time, but the rate cap and loss of wealth in urban municipalities has limited its usefulness.

### Glossary of Key Statutory and Act 511 Tax Sources

**Property or real estate tax:** millage levied on property owned within the municipality; value established by county assessment; statutory rate caps

**Earned income tax:** up to 1% levied on wages; subject to 50/50 split with school district; rate cap; mostly limited to residents

**Local services tax:** flat tax of \$52 to recoup cost of local services; subject to \$5 for school district; levied on workers within a municipality; formerly occupational privilege tax

**Per capita tax:** flat head tax; ranges from \$5 to \$10; residents only

**Occupation tax:** flat rate of up to \$10 or use of county assessment schedule to determine millage; residents only

**Real estate transfer tax:** up to 1% levied on real estate sales; subject to 50/50 split with school district; statutory rate cap

**Business Privilege/Mercantile tax:** percentage levied on wholesale and retail gross business receipts within the municipality; no longer available

**Amusement/Mechanical Devices tax:** percentage of gross receipts

For more detailed information, see **PA’s Taxation Manual**.

<sup>2</sup><https://dced.pa.gov/download/Taxation%20Manual/?wpdmdl=56385>

<sup>3</sup>As noted, there have been a few definition and rate updates such as to the local services tax, although it still lags inflation. Millage caps for third-class cities and boroughs have also recently been raised from 25 to 30 mills, in recognition of widespread stagnation in assessment values

## Outdated but Still on the Books

Altoona City Manager Omar Strohm chuckled over the reaction he gets to the city's \$10 per capita tax. "People come here from another state and they're like, 'why do I have to pay the city \$10?'" he said, noting that another non-productive Act 511 tax on amusements remains in effect but is not actively collected, in part because city leaders do not want to discourage economic activity.

The per capita tax has been widely used by municipalities, as well as mostly small counties and school districts, since the 1960s. But although per capita accounted for an average of 9 percent of total tax revenue for second-class townships in 1967, it was less than 1 percent by 2019.

The fact that it has fallen out of favor is reflected in the state's 2019 Taxation Manual, which notes that per capita has a high collection cost in relation to its yield in revenues and a growing number of municipalities are eliminating it.

Of the eight communities surveyed for this report, five have considered or have eliminated the per capita tax, mostly because of the low collection amount. Four cities have also considered doing away with the amusement tax, another often non-productive tax.

Occupation taxes have never been a significant revenue source for municipalities, based on the historical data, although the tax has been productive for school districts. The tax is levied at a flat rate to a maximum of \$10, or on a millage rate applied against the assessed value of occupations. There is no limit on occupation taxes levied on a millage basis leading some local governments, mostly school districts, to set extremely high rates.

Assessment values for the occupation tax, set by counties, do not reflect changes over time and job classifications are often lumped together. The state Taxation Manual gives examples of \$700 for accountants, \$500 for government employees, \$200 for factory workers, and \$0 for homemakers.

Almost half of boroughs and over one-quarter of second-class townships used the occupation tax in 1967, even though revenue was not significant even then. Currently, only 17 percent of boroughs and 4 percent of second-class townships bother to levy the tax.

Lancaster swapped its occupation millage for a 0.1 percent increase in EIT as allowed by legislation and approved by referendum. Even so, that effective adjustment had a short window; municipalities seeking to make that change now under Act130<sup>4</sup> are limited to replacing the revenues produced in 2001 or 2008, whichever is higher.

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## Trying to Raise the EIT

In the last two decades, third-class cities have increasingly turned to authorizations that allow them to raise the capped earned income tax rate. From 1990 to 2019, EIT as a percentage of total taxes grew by more than 10 points in cities. Sixty-four percent of third-class cities, plus the second class 2A city of Scranton, now levy earned income taxes over the Act 511 limit.

<sup>4</sup> 53 Pa. Stat. § 6924.401 – 6924.409



Unfortunately, two of the methods municipalities use to exceed the EIT rate cap require the municipality to show financial distress – Act 47 for distressed municipalities and Act 205 for distressed pensions. Both authorizations end once the distress is no longer present.

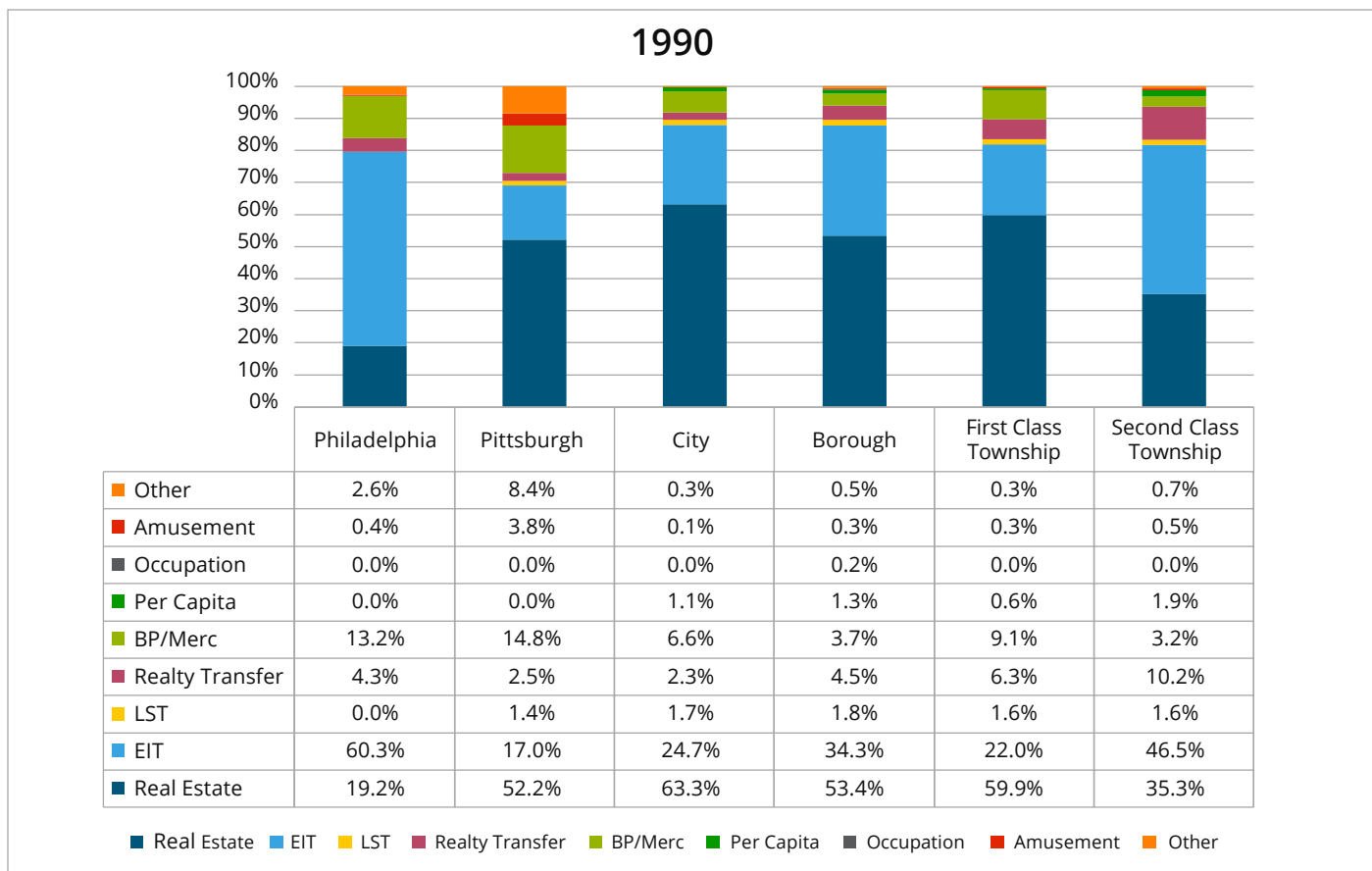
The difficulties of home rule, probably one of the ways most used to increase EIT, have already been discussed. In addition, home rule, unlike the other two options, only permits a higher EIT on the municipality's own residents<sup>5</sup>.

Boroughs, in contrast to cities, slightly increased their reliance on real estate tax revenue as a percentage of total taxes from 1990 to 2019 since that is generally the only tax that can be raised for additional revenue under state municipal codes.

Local services taxes as a percentage of total taxes grew in all classes of municipalities that collect the tax after it was raised to \$52 in the early 2000s. There were minor fluctuations in the importance of other Act 511 taxes such as per capita, amusement and occupation, but none of those taxes constitute even 1 percent on average of total taxes in most municipalities.

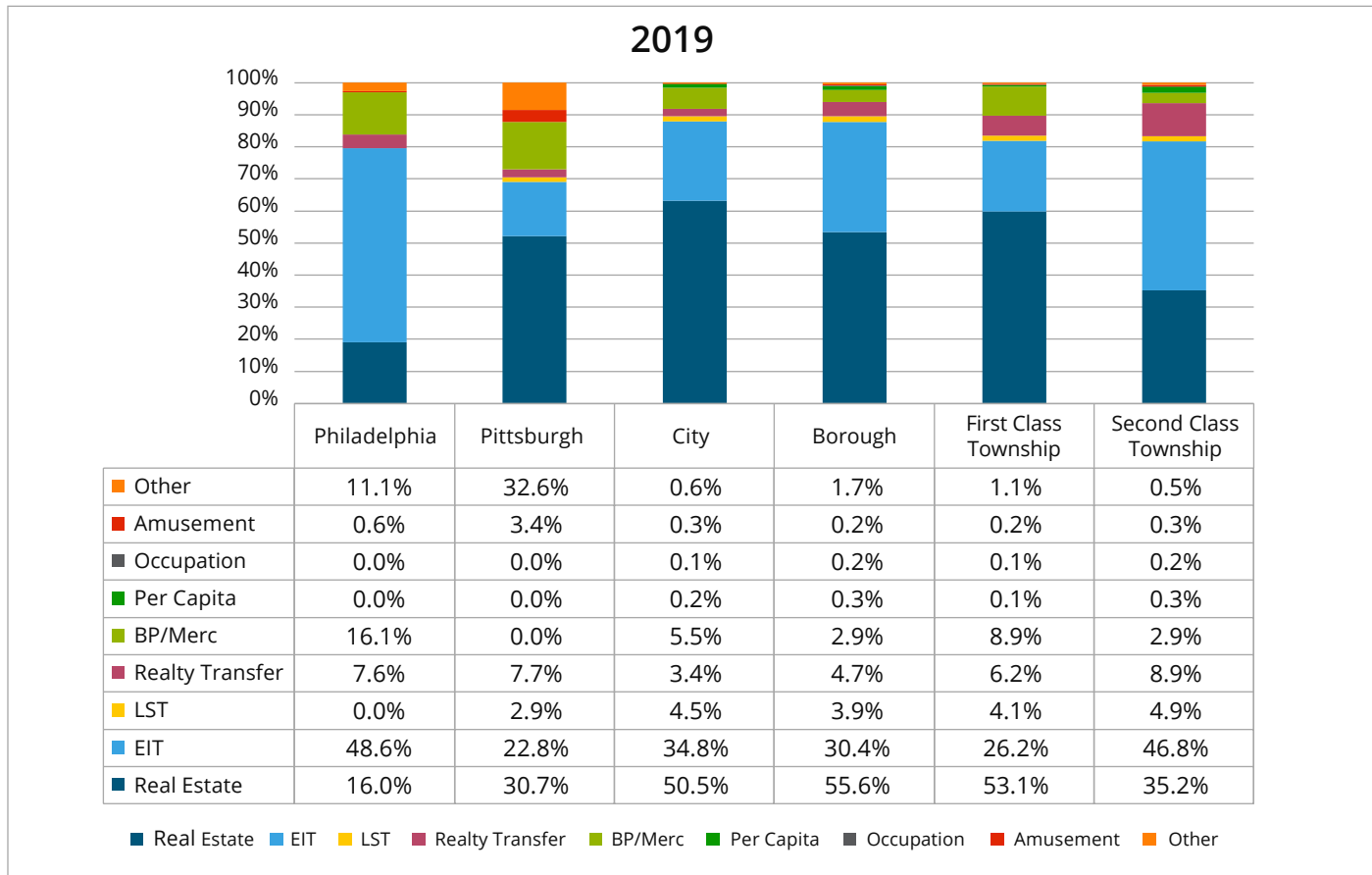
Business privilege/mercantile taxes dropped slightly for all municipalities as a percentage of total taxes during the 20-year span, while realty transfer taxes grew somewhat for all but second-class townships. The decrease in business taxes as a percentage of total taxes came despite inflation increases in consumer prices that would presumably increase the amount of gross sales value and therefore tax revenue, raising questions of whether some in this sector moved to outlying areas without the tax.

**FIGURE 2: TAX REVENUE DISTRIBUTION BY MUNICIPAL CLASS, 1990**



<sup>5</sup>Other authorizations for higher EIT include municipalities where voters approve an additional tax for open space purposes, school districts where voters approve increased earned income taxes under Act 50, and school districts and municipalities where voters approve increased earned income taxes under Act 24. Under both Act 50 and Act 24, the higher earned income tax rate comes with the elimination of local occupation taxes. School districts have been the main users of trading the occupation tax for an increased EIT rate.

FIGURE 3: TAX REVENUE DISTRIBUTION BY MUNICIPAL CLASS, 2019



## New Tax Authorizations for Pittsburgh

Meanwhile, the city of Pittsburgh's reliance on property taxes dropped as the state extended authorization for exclusive new taxes or increased existing tax rates to help the second-class city, the only one with that designation in the state, dig itself out of municipal distress. This benefited other municipalities. For instance, the increase of the then occupational privilege tax from \$10 to \$52 was primarily done to help Pittsburgh but other municipalities also received the higher rate as a result.

For Pittsburgh, the largest growth has come in the "other tax" category, which includes the Allegheny Regional Asset District (RAD) sales tax and the payroll tax, as well as the city's parking tax. The "other tax" category accounted for approximately one-third of total taxes in pre-pandemic 2019, with real estate tax revenue dropping from over 50 percent of total taxes to only 30 percent. Neither the sales nor the payroll tax is available to most Pennsylvania municipalities.

The state authorized Allegheny County to enact a 1 percent sales tax under Act 77 of 1993. At the time, Pittsburgh and the surrounding region struggled with municipal distress from population loss and industrial decline. Pittsburgh was also on the hook to support a variety of cultural and recreational assets that were used by the entire region, which is a plight shared by many urban core municipalities. Act 77 assisted the city with that burden by devoting half of the sales tax proceeds to the zoo, aviary, conservatory, libraries, parks, arts organizations, and sports and civic facilities<sup>6</sup>.

<sup>6</sup> <https://www.radworkshere.org/pages/history>

The other half of the tax is distributed to Allegheny County and its over 100 municipalities. The county receives 25 percent, and the remaining 25 percent is distributed to the municipalities based on a state calculated formula weighted to favor distressed communities<sup>7</sup>.

In typical Pennsylvania fashion, however, municipalities were forced to reduce or eliminate other taxes to tap into Act 77, including providing tax relief for low-income seniors. Pittsburgh received \$22.8 million from the RAD in 2019, based on available records.

The payroll preparation tax was phased in by Pittsburgh starting in 2005 as part of its state Act 47 municipal distress recovery plan. The city eliminated two other taxes - the outdated business privilege and mercantile taxes - and reduced a third - the parking tax - to levy the new payroll tax. Non-profits remain exempt from the 0.55 percent tax, which collected \$68.3 million for Pittsburgh in 2019. The average annual growth for the payroll tax from 2011 to 2019 was 4 percent.

*"In recent years we have needed to make multiple 'one-time fixes' to fill the deficit," he said. "These one-time fixes have been exhausted,"*

## Over-Reliance on Property Taxes

Since most municipalities are already at the maximum rate for productive Act 511 taxes like earned income and local services, Pennsylvania's urban areas tend to be over reliant on property tax revenue, because that is generally the only tax that a municipality can increase. This is true even though Pennsylvania's property assessment system — which underpins the entire real estate tax system— is itself fraught with problems that often result in stagnate real estate tax revenues.

"The city of Bradford has been forced to reduce services and delay much needed enhancements to [avoid raising] our current property tax rate, which is already the highest in our area," Bradford City Manager Chris Lucco said. In Bradford, property taxes make up 70 percent of general fund revenue.

Lucco pointed to tax flexibility options given to municipalities that undergo home rule or that are in municipal distress programs.

"In recent years we have needed to make multiple 'one-time fixes' to fill the deficit," he said. "These one-time fixes have been exhausted, and we need the flexibility given to other municipalities to remain solvent moving forward."

Property taxes provide Lancaster with almost 50 percent of its general fund revenue (\$29 million in 2020) but do not even cover the costs of city public safety services, which were almost \$38 million in 2020. Local services taxes, which are paid by residents and commuters that work in the city, raised a meager \$1.5 million in 2020. Lancaster spent almost \$60 million on total general fund expenditures in 2020<sup>8</sup>.

<sup>7</sup>Ibid

<sup>8</sup> State Annual Financial Report

Although property taxes remain a significant source of tax revenue in Pennsylvania, the assessment system that determines millage value and how much individual property owners must pay is inadequate. Counties are generally responsible for assessing property. However, there is no state requirement or other incentive for counties to conduct regular reassessments to properly represent present day real estate value and ensure fairness.

As assessment values become increasingly distanced from market values, municipalities are unable to secure naturally occurring growth. The value of a mill over time does not reflect increases in market value. Municipalities must levy additional mills just to keep up with expense growth.

**Last Reassessment**

Color	Period
Lightest Blue	Before 1980
Light Blue	1980 - 1989
Medium Blue	1990 - 1999
Dark Blue	2000 - 2009
Darkest Blue	2010 or Later

Counties and their last reassessment years (by color group):

- Before 1980 (White):** Mercer (1974), Butler (1969), Beaver (1982), Westmoreland (1973), Cambria (1972), Huntingdon (1978), Franklin (1961), Delaware (2021).
- 1980 - 1989 (Light Blue):** Warren (1989), Elk (1986), Cameron (1986), Jefferson (1987), Clearfield (1989), Monroe (1989), Northampton (1995), Berks (1994), Chester (1998), Montgomery (1998), Bucks (1972), Schuylkill (1997), Northumberland (1972), Snyder (1973), Mifflin (1999), Centre (1995), Lycoming (2004), Sullivan (2004), Wyoming (1988), Lackawanna (1969), Pike (1996), Monroe (1989).
- 1990 - 1999 (Medium Blue):** Crawford (1984), McKean (1998), Potter (1977), Tioga (2001), Bradford (1999), Susquehanna (1993), Wayne (2004), Forest (1974), Clarion (1975), Armstrong (1997), Indiana (2016), Blair (2016), Bedford (2013), Fulton (1990), Adams (2011), York (2006), Lancaster (2017), Philadelphia (2014), Lehigh (2013), Schuylkill (1997), Berks (1994), Montgomery (1998), Bucks (1972), Northampton (1995), Carbon (2001), Luzerne (2009), Columbia (1992), Montour (2006), Union (2006), Snyder (1973), Mifflin (1999), Centre (1995), Lycoming (2004), Sullivan (2004), Wyoming (1988), Lackawanna (1969), Pike (1996), Monroe (1989).
- 2000 - 2009 (Dark Blue):** Lawrence (2003), Venango (2004), Erie (2013), Allegheny (2016), Washington (2016), Fayette (2003), Somerset (1998), Blair (2016), Bedford (2013), Fulton (1990), Adams (2011), York (2006), Lancaster (2017), Philadelphia (2014), Lehigh (2013), Schuylkill (1997), Berks (1994), Montgomery (1998), Bucks (1972), Northampton (1995), Carbon (2001), Luzerne (2009), Columbia (1992), Montour (2006), Union (2006), Snyder (1973), Mifflin (1999), Centre (1995), Lycoming (2004), Sullivan (2004), Wyoming (1988), Lackawanna (1969), Pike (1996), Monroe (1989).
- 2010 or Later (Darkest Blue):** Erie (2013), Allegheny (2016), Washington (2016), Fayette (2003), Somerset (1998), Blair (2016), Bedford (2013), Fulton (1990), Adams (2011), York (2006), Lancaster (2017), Philadelphia (2014), Lehigh (2013), Schuylkill (1997), Berks (1994), Montgomery (1998), Bucks (1972), Northampton (1995), Carbon (2001), Luzerne (2009), Columbia (1992), Montour (2006), Union (2006), Snyder (1973), Mifflin (1999), Centre (1995), Lycoming (2004), Sullivan (2004), Wyoming (1988), Lackawanna (1969), Pike (1996), Monroe (1989).



## Tax Exempt Properties and Old Housing Erode Value

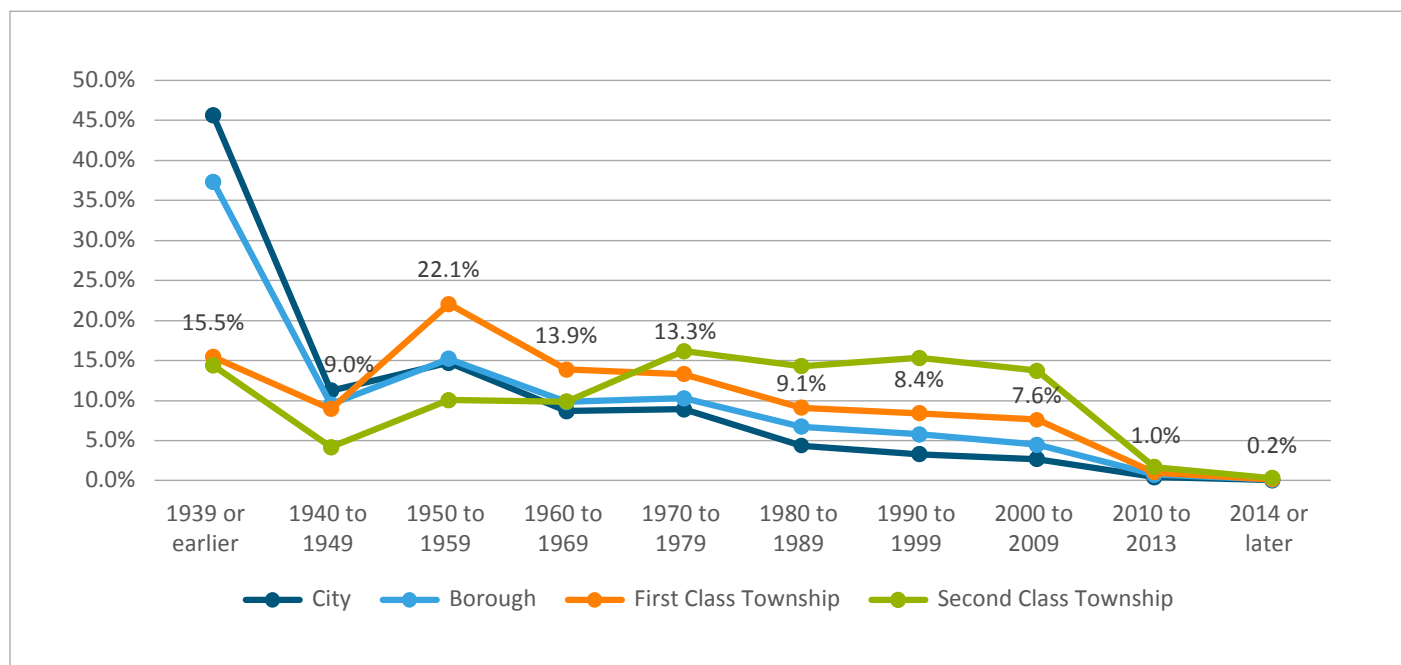
Non-profits like hospitals and colleges, while often an economic engine, have gobbled up more available land in urban centers, in effect erasing those properties from the tax base. Federal, state and local government buildings are also tax exempt, which particularly impacts cities like Lancaster and Lock Haven that are the county seat. In both Lancaster and Bradford cities, for example, approximately 30 percent of properties are tax exempt.

In Lock Haven, the city's largest property taxpayer, a for-profit hospital was purchased by a non-profit system that filed for tax exempt status in 2019. At the time, taxes from the property accounted for 3 percent of the city's budget. The hospital system is currently making an annual \$40,000 payment in lieu of taxes, \$32,000 less than it would pay in property taxes. Lock Haven is also home to Lock Haven University, another large property owner that is also tax exempt. Thirty-seven percent of the city is now exempt from taxes.

The age of housing stock is another influencing factor. Most of the housing stock in cities dates to pre-1940. There is much less development of vacant land within older urban areas to increase assessed values through new buildings. This older housing stock is also subject to blight, particularly as the number of renters and vacant units increase. Thus, values would be expected to be lower on these properties.

In contrast, in second-class townships almost 60 percent of housing stock was built since 1970, representing the flight out of cities and resulting suburban sprawl. These newer homes in some cases reflect the trend of larger houses in comparison to smaller older homes. However, the nearly fifty-year trend has slowed considerably since the Great Recession.

**FIGURE 5: HOUSING UNITS BY YEAR BUILT BY MUNICIPAL TYPE**



Source: 2016 American Community Survey

## The Sting of Eliminating Reassessment at Sale

Contrary to popular belief, the assessed value of a property does not increase with the sale or transfer of the property.

In the decades before the 1990s, counties routinely re-valued a property upon sale. This practice was in addition to increases in assessed values due to construction of new buildings, improvements, and expansions of existing properties. The property's sale price would be used along with the county's predetermined or common level ratio to set a new assessed valuation that was different and likely higher than the prior owner's valuation.

This practice led to higher assessment values and corresponding higher tax revenues, as well as capturing the dynamics of the local real estate market. However, re-evaluation on sale caused inequities since it resulted in similar properties being assessed at different rates. In 1989, federal courts held that the exclusive use of sales price to change a property's value violated the 14th Amendment's equal protection clause. Consequently, re-assessment on sale was discontinued and is prohibited by Pennsylvania assessment law.

Beyond the correction of an unconstitutional inequity, the end of re-assessment on sale appears to have slowed the yearly increase of assessed values in Pennsylvania's counties. As a practical consequence, the only way for taxing bodies to increase revenues significantly when assessments stagnate is to raise real estate millages.

## Market Value Grows; Assessment Value Stagnates

The lack of consistent and meaningful annual growth in property assessments must be contrasted with the increase in market value for the same period. The assumption would be that assessment growth tracks market value growth. That assumption in Pennsylvania is incorrect.

Table 2 below shows the average annual municipal change in the market value of taxable property for the 30-year period of 1980 through 2010. Comparing growth in the market value of property with growth in the taxable assessed value of the same municipality often shows that assessment does not keep pace with market value. The result is the artificial and necessary over-reliance on increasing tax millage rates for all levels of local government—county, municipal and school district.

**TABLE 2: MARKET VALUE, 1980 AND 2010**

	1980	2010	COMPOUND ANNUAL GROWTH RATE
Philadelphia	\$11,893,449,300	\$44,280,754,635	4.48%
Pittsburgh	3,601,038,500	13,372,527,429	4.47%
City	8,998,109,200	31,504,391,208	4.27%
Borough	22,313,277,600	110,899,670,974	5.49%
Township - 1st Class	18,257,413,100	119,221,434,721	6.45%
Township - 2nd Class	46,875,226,600	426,317,265,402	7.64%

# RECOMMENDATIONS TO MODERNIZE THE TAX SYSTEM

## Use Existing Models

Limitations on Act 511 taxes mean municipalities that need revenue often have little choice than to raise property taxes. But there are issues with this overreliance on a single revenue source. First, municipalities are not the only governing bodies that tap into real estate. School districts and counties make heavy use of property taxes, which strains the local tax base, particularly for low-income residents.

Challenges with the current assessment system as outlined in this report can make it difficult to obtain sufficient revenue even if a municipality decides to increase property tax rates. For instance, low millage values from old assessments can fail to produce adequate revenue even when rates are increased, while property tax collection rates sometimes decline when rates grow.

Fortunately, the state already has numerous models to consider when looking at modernizing the local government tax system.

- ▶ **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**

## Pittsburgh

As this report demonstrates, numerous local government reforms have been introduced by the state since 1990 to help Pittsburgh in the wake of massive industry closure and huge population loss. These include increasing the former occupational privilege tax to \$52, authorizing a regional sales tax, and updating business taxes. The new \$52 local services tax was granted to all municipalities, but the assistance ended there.

Pittsburgh's experience that led to the sales tax is not unlike the experience of Pennsylvania's third-class cities. The sales tax was enacted in part to relieve Pittsburgh residents of the burden for paying what are in effect regional assets – the zoo, parks, stadiums, and the like. Many third-class cities are in that same predicament on a smaller scale. The same principle could be extended to other urban core municipal services and infrastructure that benefit the entire region.

*The sales tax was enacted in part to relieve Pittsburgh residents of the burden for paying what are in effect regional assets — the zoo, parks, stadiums, and the like. Many third-class cities are in that same predicament on a smaller scale.*

In addition to taking expensive asset upkeep off the city's plate, the sales tax also gave Pittsburgh a new revenue stream that was able to grow by \$2 million in 10 years. Allegheny County and its municipalities get a share, but the regional asset district (RAD) is not authorized anywhere else in the state.

Similarly, the payroll tax, a modernization of the antiquated business privilege and mercantile taxes, has produced even more significant growth

for Pittsburgh. Authorization for a payroll tax has been extended only to those in the Act 47 municipal distress program. As of the writing of this report, two Act 47 municipalities have made the switch.

Pittsburgh's tax mix is striking in terms of its more balanced approach compared to third-class cities and boroughs. Approximately 30 percent of Pittsburgh's total taxes is real estate, roughly one-quarter is earned income and about one-third is a mix of payroll, parking, and sales tax.

## Eliminate or Raise Rate Caps

The Pennsylvania Economy League has demonstrated through our research and boots-on-the-ground technical assistance that minor adjustments on earned income tax rates can have a big impact on revenues. Small EIT increases are often preferable to property tax increases and respond better to changing economic conditions.

Pennsylvania allows municipalities to raise the EIT limit under certain circumstances, but most are either complicated, like home rule, or require distress and are only temporary, like Act 47. Pennsylvania's cities have been more successful at tapping into enhanced EIT than other municipal classes, although that also might reflect greater distress than other municipal classes.

## Increase Flat Taxes

Probably even more important is to tackle flat taxes that fail to keep pace with inflation and so are rendered almost meaningless with the passage of time – or else eliminate these so-called nuisance taxes that do not make up a significant portion of municipal revenue and provide more productive options.

The state recognized the situation when, for example, it updated the occupational privilege tax to the local services tax and increased the amount. But the tax has stagnated over the past 17 years since then because there is no trigger for it to grow with inflation.

Act 47 municipalities have the option of tripling the \$52 LST. For the most part, that authority ends when a municipality leaves Act 47. However, the state has allowed the cities of Harrisburg and Scranton to maintain the triple LST after leaving Act 47, to the consternation of other municipalities, including other Act 47 municipalities, that are not so lucky.

## Non-Resident Options

The LST is the only “non-distressed” way that most municipalities can capture revenue from non-residents that work in the municipality and hence make use of municipal services such as roads and public safety. It is only \$1 per week – a drop in the bucket compared to the cost of municipal services.

Pennsylvania's tax system for the most part ignores the fact that residents and businesses operate regionally rather than within only one municipality's borders. This is a particular problem for urban cores with high concentrations of low-income residents and blighted, older housing that often provide services used, but not paid for, by the entire region.

These urban cores are regional hubs for commerce, education, the arts, social services, medicine, the courts, religious institutions and other non-profits. Urban core communities do not need to be huge cities. The core community could be a small borough in a rural county that serves as the regional hub. The same challenges exist.



Currently, non-resident taxes other than LST are again limited to municipalities that are demonstrably distressed by being in Act 47 or have pension distress as outlined in Act 205. An Act 47 distressed determination is not something many municipalities voluntarily seek because of its negative connotation.

### Drink Tax

Allegheny County was authorized by the state to enact a 10 percent tax on the retail sale of alcoholic drinks, later lowered to 7 percent, that funds the Port Authority of Allegheny County. In 2014, a drink tax was considered as part of reforms made to Act 47 for distressed municipalities but faced criticism. Even state legislators questioned its value, particularly in small communities. The proposed 10 percent drink tax was jettisoned from the reform package.

### Regular Property Assessment

There is no question that Pennsylvania's property assessment system needs an overhaul. In some cases, residents have sued counties to force them to update assessments that are decades old. The consequence of stagnate assessments is tax millages that fail to produce naturally increasing revenue to pay for expenditures that grow with inflation.

As a result, municipalities must raise taxes simply to keep up or else cut services. Since elected officials are loathe to raise taxes, municipalities might decide to cut down on filling potholes or not replace police officers. In the case of public safety, the impact can be to further strain state resources as municipalities rely more on the already stretched state police.

Not all counties are created equal when it comes to assessment. Some counties have maintained a practice of more regular assessments that track more closely with the reality of market values. Other states like Maryland could also serve as a model for reforming property assessment.

## City of Altoona, Blair County

The city of Altoona is the quintessential former railroad town, literally founded by the Pennsylvania Railroad in the mid-1800s. Population peaked in 1930 at over 80,000 people and has been in decline ever since, dropping by almost half. Like many urban cores, city residents are poorer and less educated than the surrounding county and the state.

By 2011, the city was facing an annual court battle to gain approval for the 5 mills of general-purpose real estate taxation that it could not operate without. The county's stale assessment meant Altoona had already hit its property tax millage cap of 25 mills. In addition to the general-purpose millage, the city also levied multiple special purpose millages.



None of it was enough. Altoona experienced numerous deficits starting in 2006 that it filled with unreserved fund balance. Since millage was already at its maximum, the city had no choice but to cut services in the police department and public works. As a result, Altoona entered state Act 47 for distressed municipalities in 2011. Altoona has since exited Act 47 and its finances have improved, although in a city with a stagnate tax base and expenditures that grow every year, the city continues to be as innovative as it can.

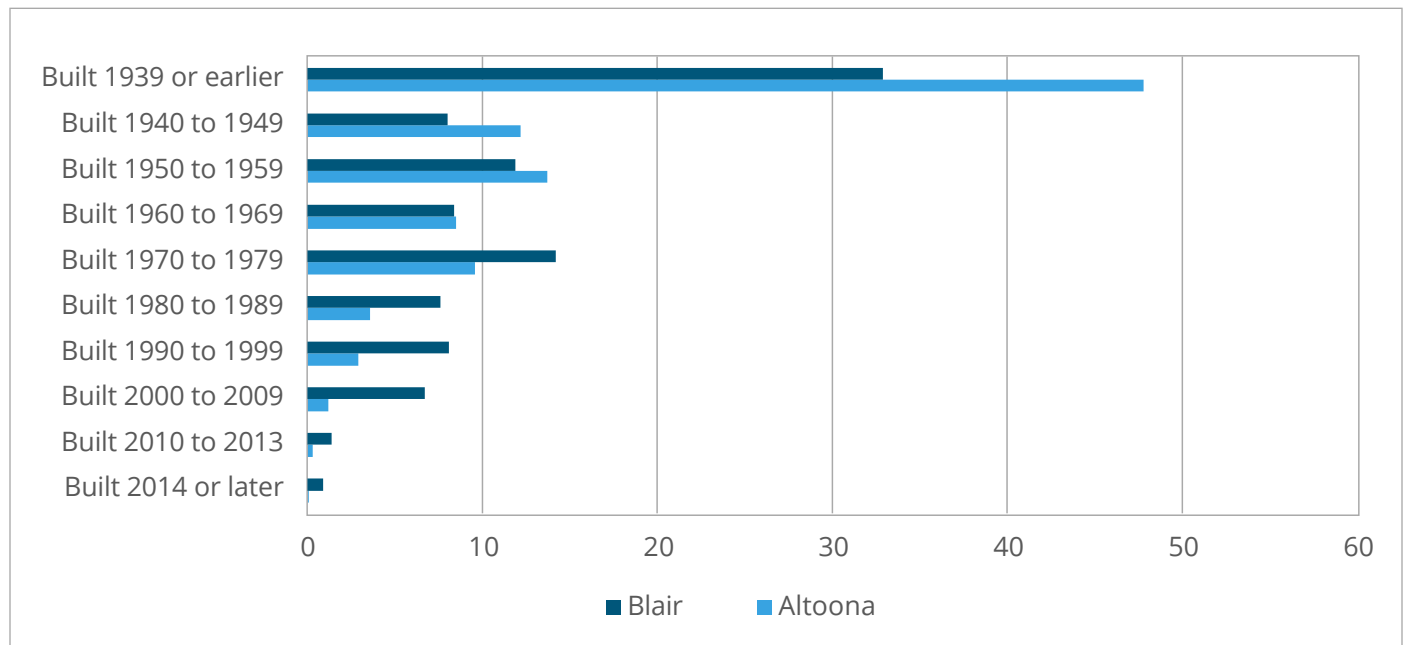
There were several factors that helped Altoona. One was the ability to raise the earned income tax above the municipal code limits. The authority came mostly from the city's distressed pension under state Act 205; however, the city has also used Act 47 (including a short-lived elevated non-resident EIT) and is now home rule. The county also reassessed, so the city was able to lower its property tax rate with the new values.

One Act 47 benefit to the municipality was the ability to make changes to its collective bargaining agreements that held down the base wage growth for a period.

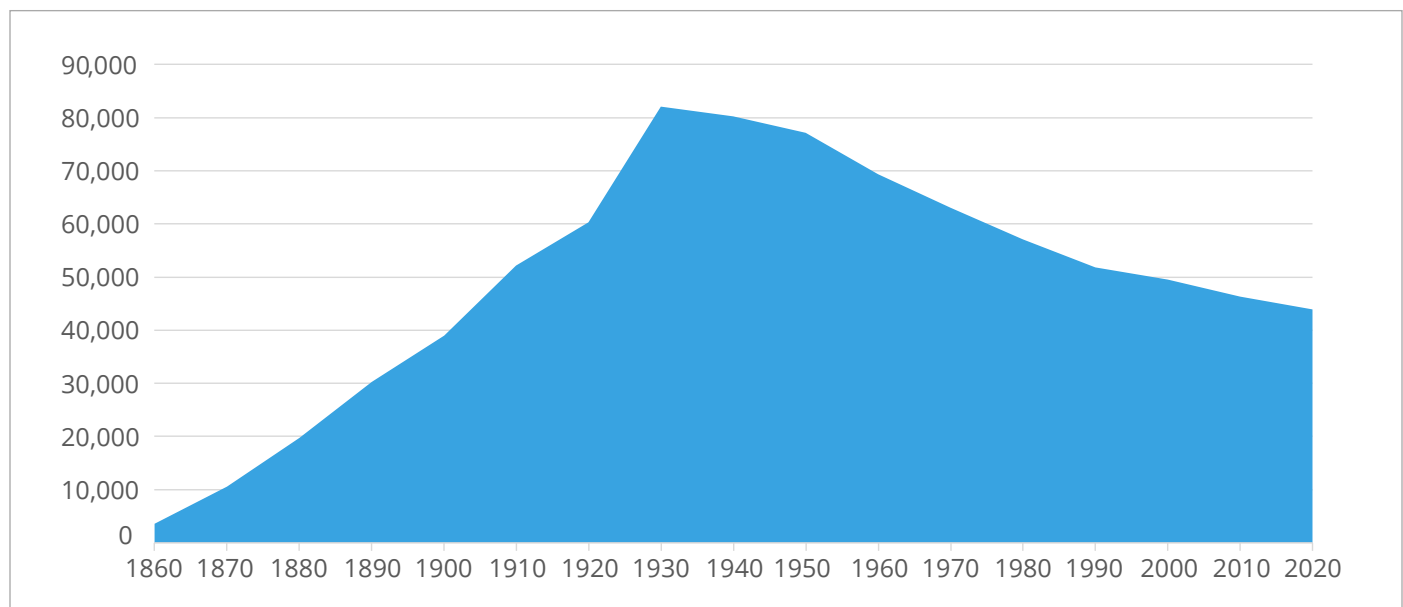
Another large factor in Altoona's success was not in the Act 47 recovery plan: the city entered into an agreement to receive payments from its water and sewer authority to recoup the city's initial investment in creating the system. The 20-year deal currently gives the city \$6.9 million annually through 2024.

Altoona recently refinanced to save on debt service and is making use of one-time American Rescue Plan revenue for its 2022 general fund budget. The city has a five-year capital improvement plan on the books but struggles to fund it. City officials have discussed elimination of the amusement and business privilege/mercantile taxes to encourage more economic development, although the amusement tax in particular lags in collections. So far there has been little appetite regionally to engage in shared services or other intergovernmental cooperation agreements.

## AGE OF HOUSING



## ALTOONA POPULATION



Payments from the Altoona Municipal Authority account for what percentage of the city's budget?

**18.4%**

The authority agreed to deed the system to the city and pay rent rather than face privatization.



How many Altoona residents have a BA degree or higher?

**18.1%**

The rate is 32.3 percent in the state.



Public safety makes up what percentage of total expenditures?

**41%**

The high cost of public safety leaves little room for capital costs like fixing roads.



What is the median value of an owner-occupied home?

**\$92,900**

The median value of a home in Altoona is half the state value of \$187,500.

## City of Bradford, McKean County

The city of Bradford serves as the urban hub of rural McKean County, the only municipality in the county to offer full-time, paid public safety services including fire and police.

Bradford's residents are poorer than their neighbors, but they pay higher property taxes for a higher level of services that is needed in the more densely populated city. Meanwhile, towns that abut the city often use no-cost mutual aid from Bradford's robust public safety services.

Bradford has other issues typical of a third-class city like steady population loss, blight from housing stock that often dates to pre-1939 construction when the city was at its height, stagnate market and assessed values that produce little to no natural growth in property tax revenue, and a high number of non-profit institutions not subject to property taxes.



While the tax laws of the 1960s assumed a varied tax menu so that no one source was strained, Bradford is now over reliant on property tax while all its other taxes are at statutory limits. A home rule effort in the 1990s would have given the city more flexibility, but home rule was narrowly defeated.

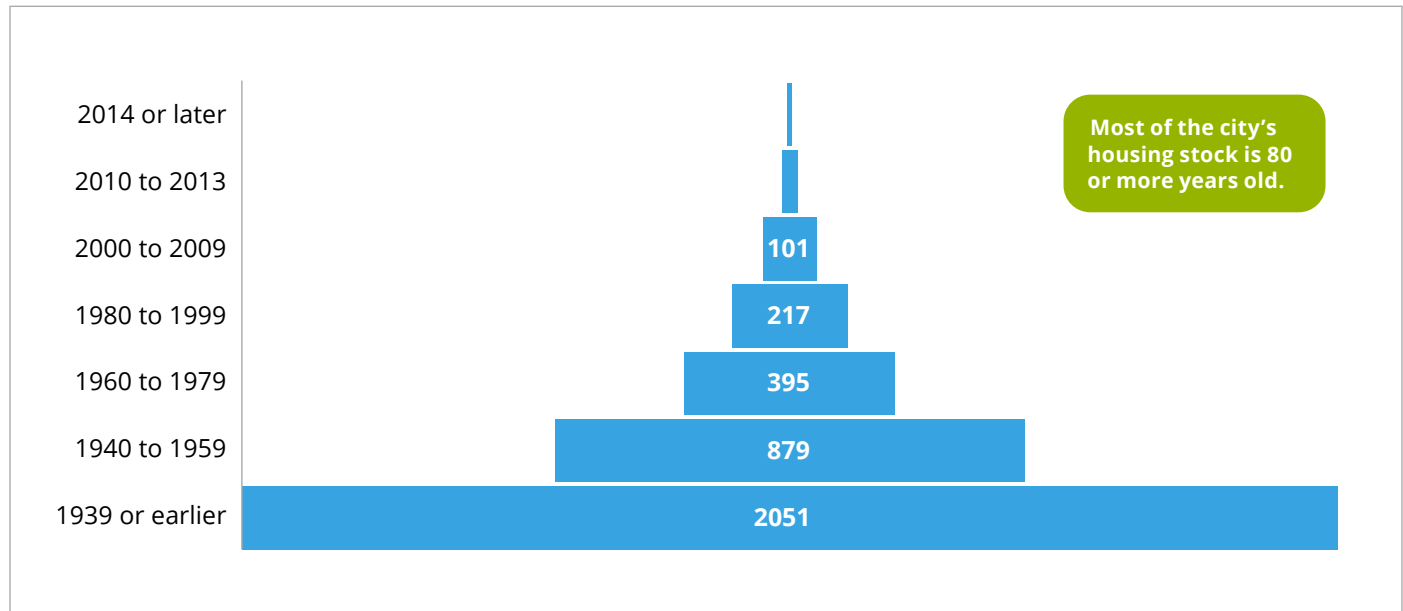
The city has used a variety of ways to control expenditures including leaving vacant positions open, reducing personnel by attrition and through layoffs, and reducing public works and other services, although public safety services have remained largely untouched. The use of overtime, part-time staff and technology has increased. Capital projects and maintenance are being deferred. Ballooning pension costs across the board caused the city to enter a pension bond deal to lower annual expenditures. It has not been enough.

The city gains revenue through agreements with outside municipalities for ambulance service, timber money from its watershed, and reimbursements from municipal utilities. Bradford leased its storm water system for a quick one-time financial hit but then lost out on ongoing fee revenue that could have reduced operating budget costs.

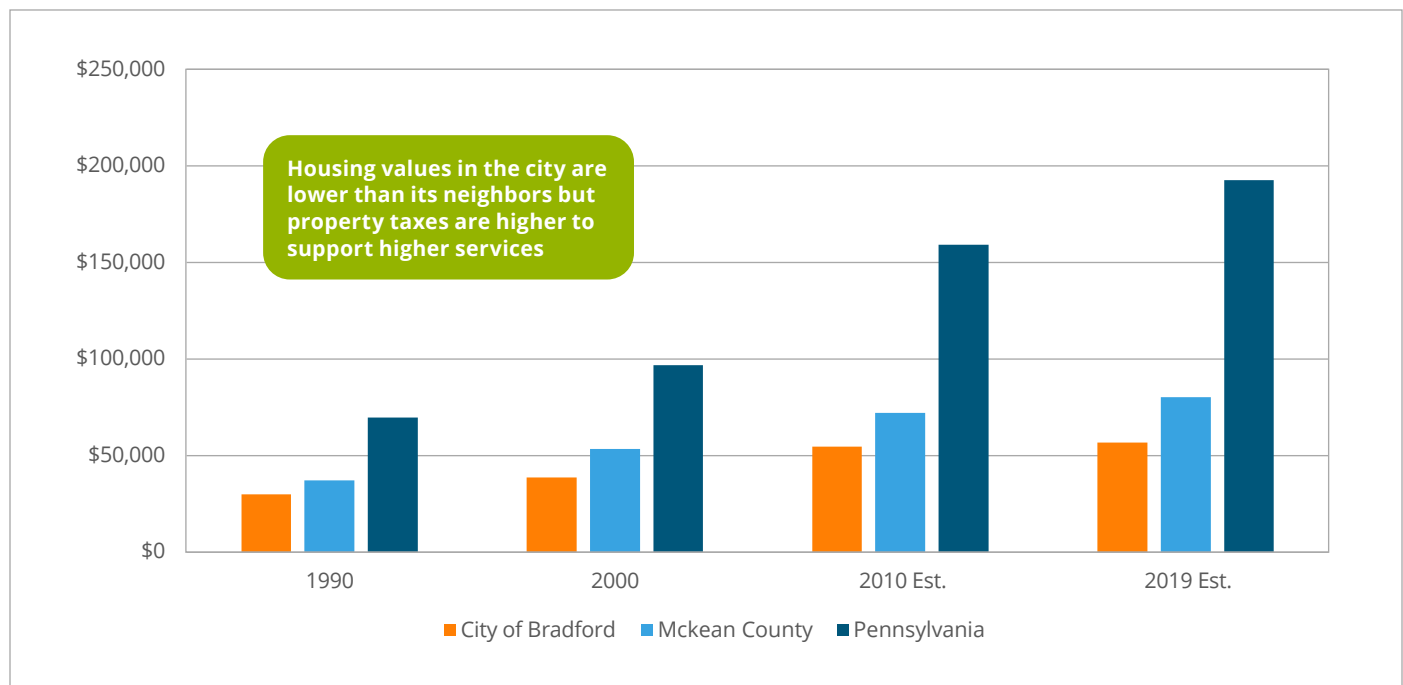
The city's revenues cannot support its current expenditures with increasing deficits projected over the next five years that are expected to be filled in part with one-time American Rescue Plan dollars and General Fund reserves. Raising property taxes again would place an additional burden on the city's low-income residents and could contribute to the city's sinking population, which lost almost 1,000 residents in just the last 10 years.



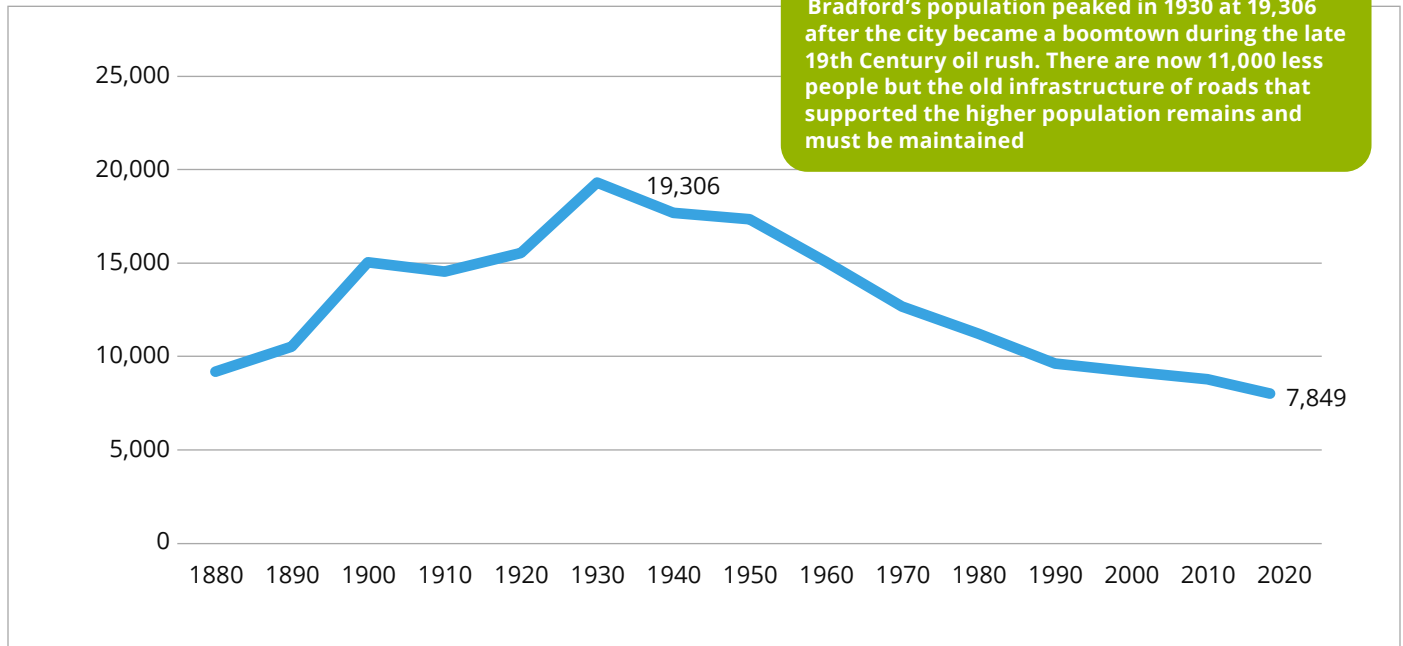
## BRADFORD AGE OF HOUSING STOCK



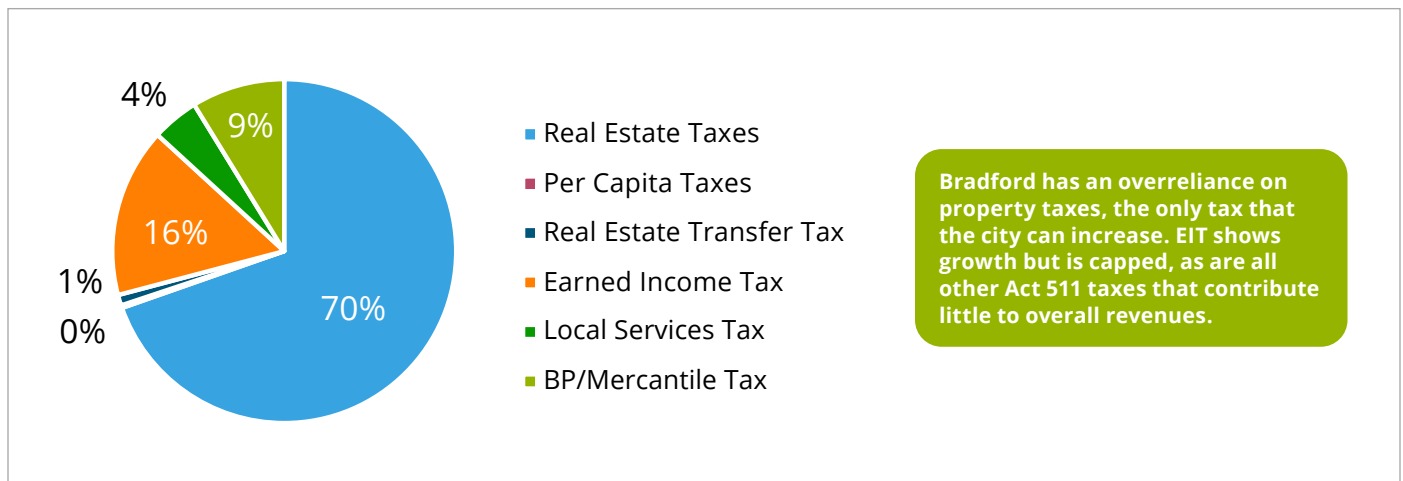
## HOUSING VALUES



## BRADFORD AGE OF HOUSING STOCK



## 2020 BRADFORD TAXES BY PERCENTAGE



How much tax revenue makes up total revenues?

**60%**

Bradford's top revenue source remains local tax revenue.



How much tax revenue covers total expenditures?

**49%**

As the amount of tax revenue fails to grow, the city looks for other revenue options (add operational supplement).



How much tax revenue covers the cost of public safety?

**88%**

Only 12 percent of tax revenue remains for other expenditures



How many tax hikes in the last five years?

**2**

Bradford's pension contribution jumped \$450,000 from 2016 to 2018; the two tax hikes produced less than \$130,00 in new revenue.

## City of Hermitage, Mercer County

Hermitage is a tale of three Mercer County cities – Hermitage, Farrell and Sharon — and how demographics, geography and the state's municipal tax laws impact tax flexibility.

The city of Sharon is the oldest of the three, becoming a city in 1918. Farrell was next in 1932. Hermitage is the youngest, starting as a first-class township and becoming a city in 1984.



Hermitage is fiscally healthy. There has been no property tax increase for decades. The bulk of Hermitage's tax revenue is from a higher earned income tax rate authorized under home rule. The home rule cities of Farrell and Sharon also have higher earned income tax rates, but property taxes in Farrell and Sharon are five times higher than in Hermitage.

Mercer County's old property assessment means the value of a mill is low. In that situation, municipalities often must pile on millage to get sufficient revenue. Sharon turned to home rule in 2008 for tax flexibility as its millage skyrocketed. Sharon's property taxes were reduced by 13 mills as a result, while its earned income tax was increased above the prior maximum of 0.5 percent.

Sharon and Farrell are poorer, more diverse and have older housing stock than Hermitage. Sharon and Farrell are also much smaller at only several square miles each. Hermitage dwarfs them at 30 square miles, leaving plenty of room for higher value new residential and business construction.

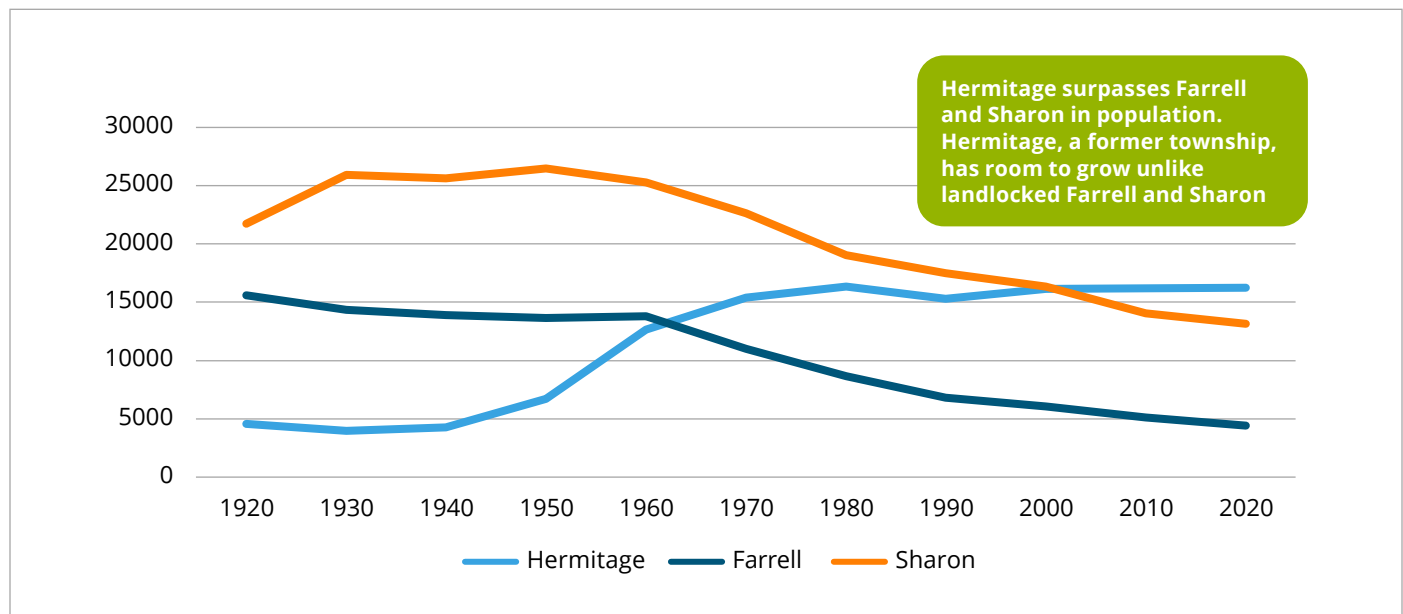
Although Sharon and Farrell can tap into higher earned income tax rates, that flexibility only applies to their own poorer residents and not commuters or other regional users of city services. Farrell had a commuter tax for decades until it exited the Act 47 municipal distress program in 2019. The city has increased property taxes by 4 mills since then.

Meanwhile, wealthy Hermitage has had no asset sales, transfers from other funds, debt restructuring or use of fund balance to overcome deficits. The city reports no deferred capital or maintenance issues.

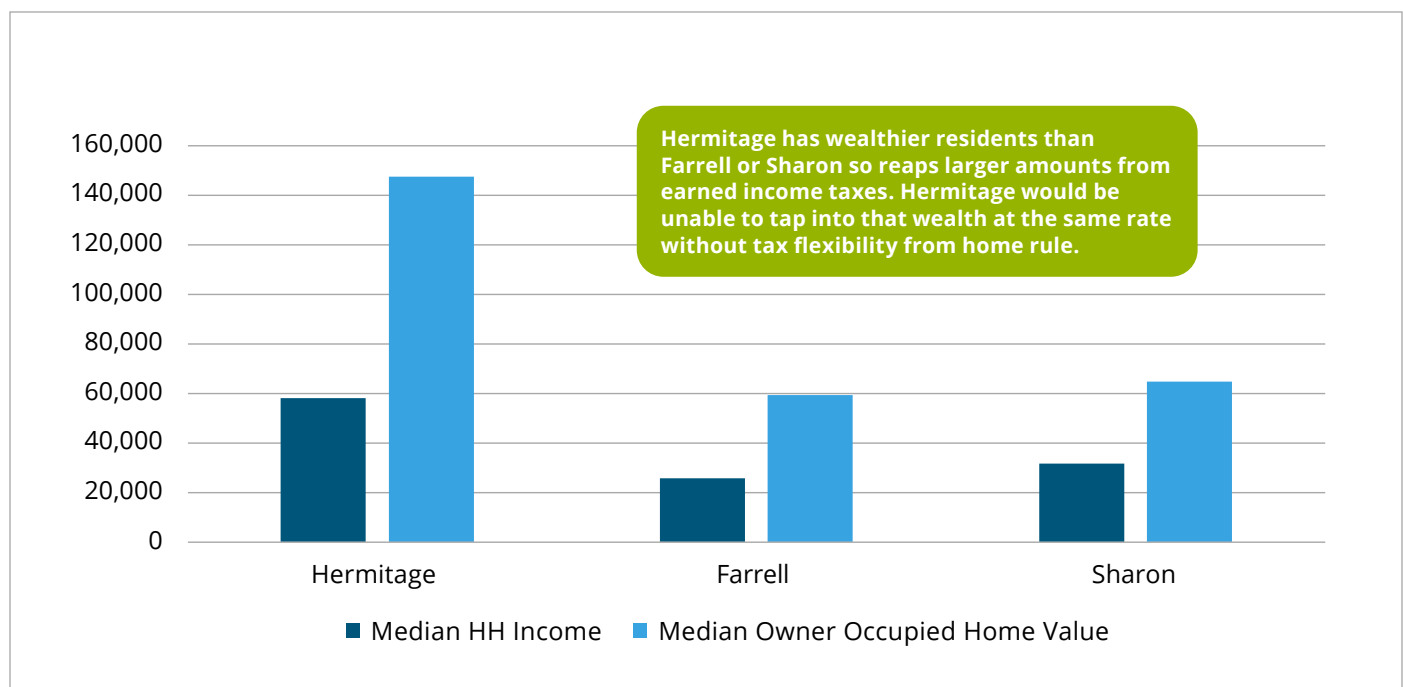
Hermitage also contracts services to neighboring communities to gain revenue and partners with non-profits, the school district and other municipalities to reduce expenditures. Unlike Sharon, it does not have a full-time paid fire department. Farrell was in a regional police department with Hermitage but pulled out.

Hermitage moved to home rule mostly to increase tax flexibility. The gamble worked. However, it is important to note that Hermitage has demographic and geographic characteristics more like the township from which it came as opposed to a more typical third-class city like Sharon or Farrell.

## POPULATION



## 2020 WEALTH MEASUREMENTS





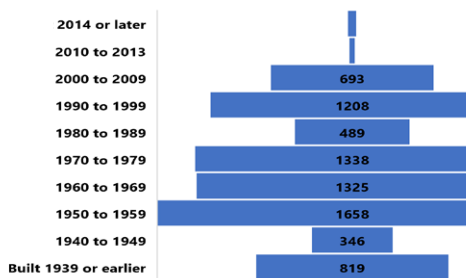
## MILLAGE RATES IN HERMITAGE AND CONTIGUOUS MUNICIPALITIES

MUNICIPALITY	MILLAGE RATE
Lackawannock Twp	3.333
<b>Hermitage City</b>	<b>5.000</b>
Jefferson Twp	7.000
South Pymatuning Twp	8.325
Clark Boro	12.670
South Pymatuning Twp	14.000
Wheatland Boro	24.750
Sharpsville Boro	25.170
Sharon City	29.510
Farrell City	32.170

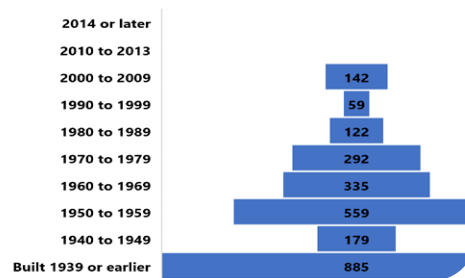
Hermitage has the second lowest property tax rate compared to its contiguous municipalities; however, its earned income tax rate is the second highest, tied with Sharon. Farrell has the highest property and earned income tax rates of this grouping.

## AGE OF HOUSING STOCK:

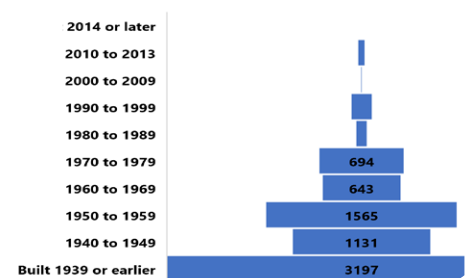
Most of the housing stock in Farrell (63%) and Sharon (78%) is pre-1960. Only one-third of Hermitage's housing stock is pre-1960. Older housing stock is more prone to blight and tends to have less value than newer construction.



Hermitage Housing Stock



Farrell Housing Stock



Sharon Housing Stock



How many personnel or service reductions in Hermitage?

**0**

Unlike many cities, Hermitage has seen no staffing or service reductions in the past five years.



How much revenue does Hermitage collect from earned income taxes?

**\$7M**

Property taxes collect \$1.3 million.



How much is Hermitage's earned income tax rate?

**1.75%**

Sharon's rate is 1.75%; Farrell's rate is 2%. Municipal codes limit most municipalities to 0.5%.



When was Mercer County's last property assessment?

**1974**

Old assessments typically mean the value of a mill is very low resulting in millage rates that can be very high in full-service cities.

## City of Lancaster, Lancaster County

The city of Lancaster is a welcoming, diverse community for residents and tourists alike drawn to its booming downtown and walkable neighborhoods. There is a vibrant arts scene and thriving local restaurants featuring a multitude of styles and cuisines. Over 1,200 housing units are now in the city's development pipeline.

The success does not stop there. The city has attracted a wide range of economic development projects.

A sampling. The 101NQ project repurposed a long vacant former iconic department store into street-level retail spaces, two upper floors anchored by a local software company, 15 upscale residential units, and indoor parking spaces. Lancaster Square, a victim of urban renewal that tore down historic buildings and replaced them with a failed concrete shopping mall, now includes a renovated hotel and will soon feature a new library with a unique public art façade. The Conestoga River Plaza, a public private partnership, redeveloped the site of a former landfill in southeast Lancaster into a plaza featuring a locally owned supermarket.



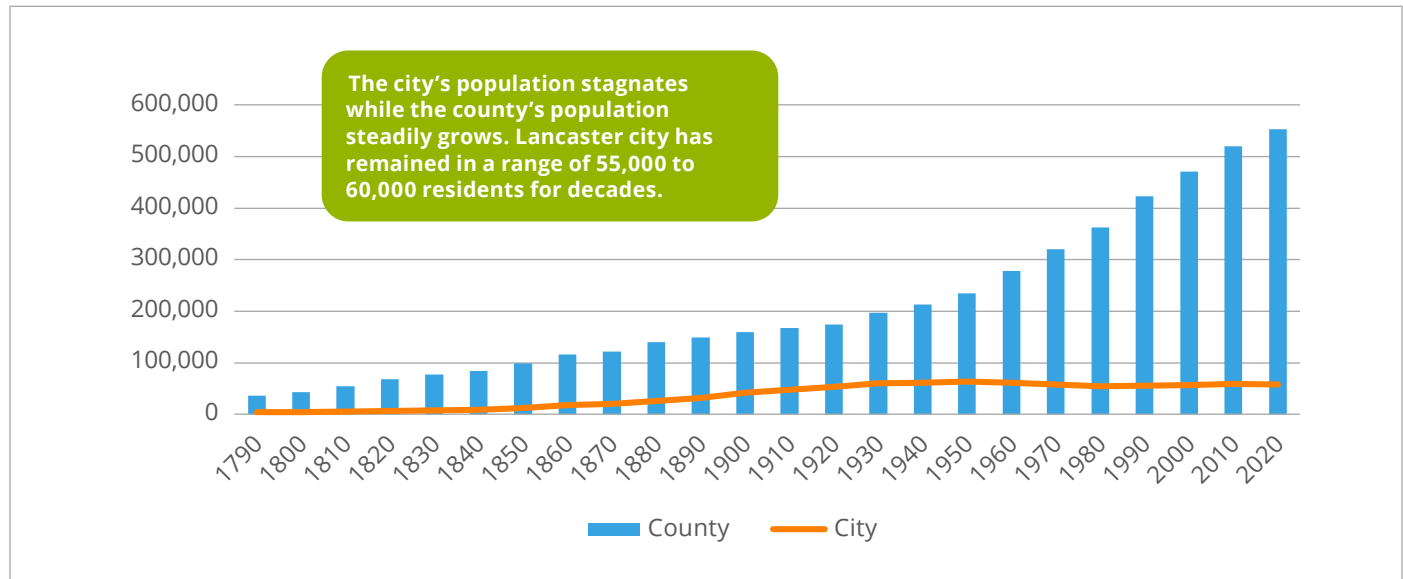
But scratch beneath the surface and you will find that for all its strengths, Lancaster faces an annual revenue struggle in the face of growing expenditures. The city pays for robust services that are necessary in a dense urban environment not only for their own residents but for the entire region.

Lancaster, which is the county seat, swells by tens of thousands of people daily. But under the state's antiquated, inflexible tax system, the city can only charge commuters a \$47 local services tax to offset the cost of public safety and public works. The city's tax base, which is considerably poorer than in the contiguous townships whose populations flood the city in daytime, foots most of the bill.

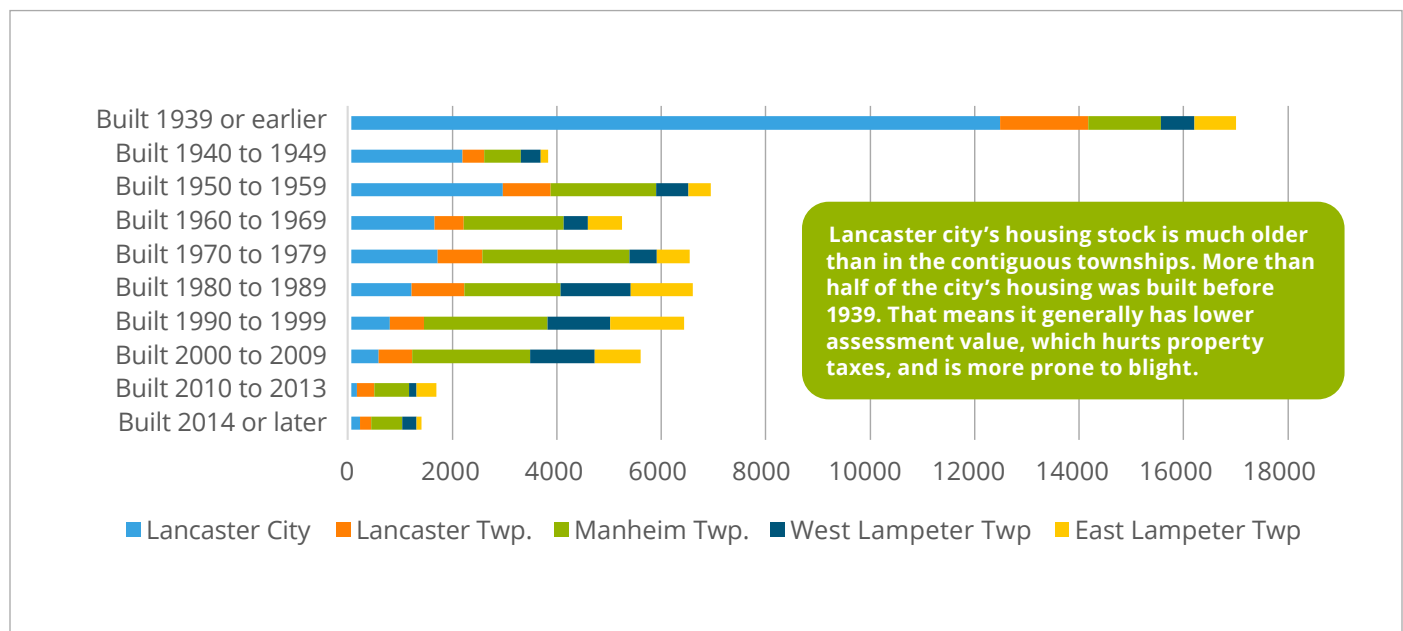
Lancaster never implemented a business privilege/mercantile tax and now is prevented by state law from doing so. Property taxes have been raised eight times since 2005 as the city's older housing stock provides for insufficient natural revenue growth and new development projects have not yet translated to higher revenue. In one bright spot, the city in 2004 traded the occupation tax for a 0.1 hike in the earned income tax. EIT revenue grows more naturally as residential wages increase.

Lancaster is constantly looking to lower costs. It has refinanced debt, become self-insured for medical costs, and worked to keep expenditures down to a modest 4 percent average annual growth. The city survives in part because of revenue from utility funds and by using hard-won financial reserves. For 2022, a property tax increase was avoided only because of American Rescue Plan funds. Meanwhile, deferred maintenance issues mount

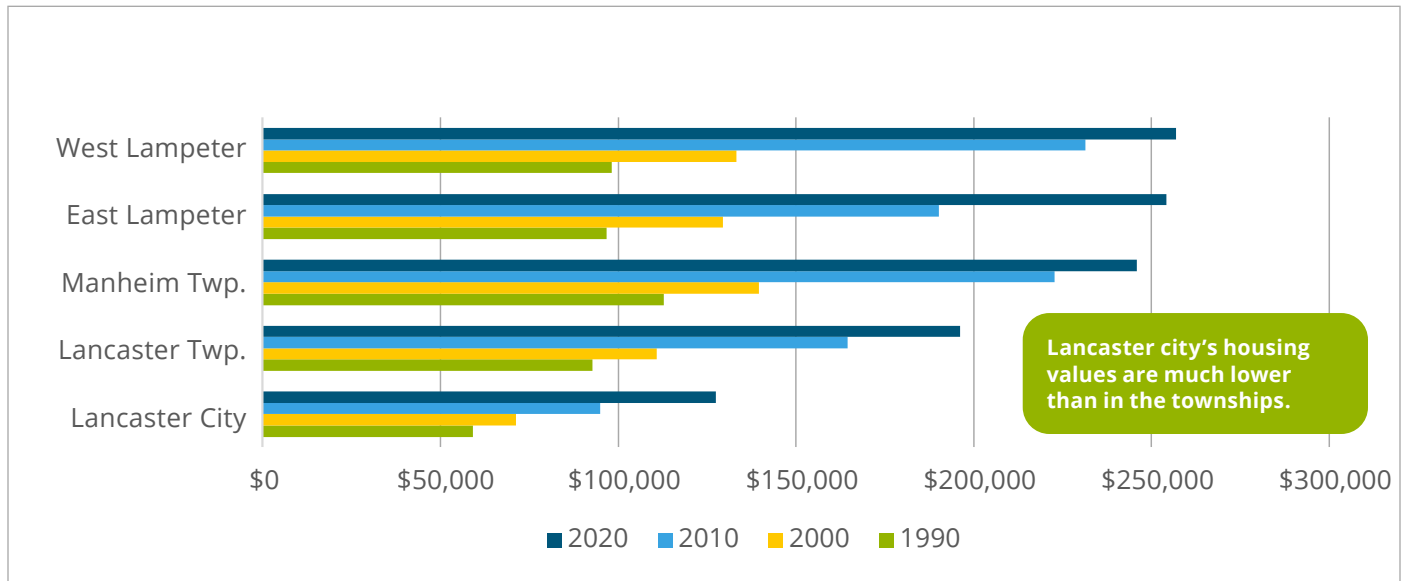
## LANCASTER COUNTY AND LANCASTER CITY POPULATION 1790 TO 2020



## AGE OF HOUSING STOCK



## MEDIAN HOUSING VALUE FOR OWNER OCCUPIED RESIDENCE



How much is Lancaster city's property tax rate?

### 11.7 mills

Rates in the contiguous townships range from 1 to 2 mills.



What is the median income in Lancaster city?

### \$49,628

Median income in the contiguous townships ranges from \$64,588 to \$86,582.



How much did Lancaster city's expenditures increase in the 2022 budget?

### 4%

Growth was driven by higher costs in health care, pension and operations. Revenues increased by only 2 percent.



How much did property assessments grow in Lancaster city in 2021?

### 0.002%

With little to no natural growth in property taxes, Lancaster city must look elsewhere to pay its bills.

## City of Lock Haven, Clinton County

The city of Lock Haven's relationship with Lock Haven University, one of its biggest employers, is complicated.

On the one hand, news that the Pennsylvania State System of Higher Education planned to merge Lock Haven University with Bloomberg and Mansfield drew protests from the city and county. Elected officials worried about the loss of faculty positions and the economic impact on the small city of 9,000 plus residents.

On the other, the university is a drain on the city's finances. The school adds to the high percentage of tax-exempt property in Lock Haven, which also serves as the county seat. Students add to the population but do not contribute significant tax revenue. City officials estimate the university represents over \$500,000 in lost property tax revenue. Meanwhile, prior PEL research that included Lock Haven found statistically college towns on average receive less revenue to pay for public services than comparable municipalities without a university<sup>9</sup>.

The city supports state House Bill 2475, which would amend the state's criteria for institutions of purely public charity to remove universities from the description.

"The argument that municipalities who host a university are afforded greater economic benefits isn't supported by income statistics of the US Census, which actually show many host municipalities have lower median incomes and higher poverty rates than their similarly sized non-host municipalities," according to the city resolution.

Meanwhile, the city is teetering financially. Lock Haven has used asset sales, fund transfers, debt refunding, more part-time staff, and precious fund balance dollars to plug holes and avoid property tax increases. The city has faced structural deficits, unexpected revenue loss and unexpected expenditures. Grants and shared services are used as much as possible.

Services and city operations have suffered as a result. The city has left open vacant positions, reduced personnel by attrition, cut non personnel costs, and reduced services other than police. There is now little room left to cut. Public works services might be further reduced. Public safety could be next on the chopping block with a reduction from full-time to part-time police coverage.

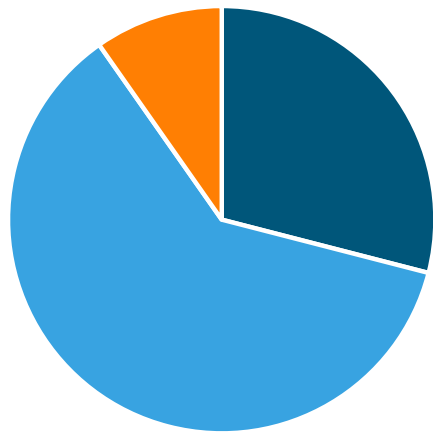
As a traditional third-class city governed by the state code, Lock Haven could implement several Act 511 taxes including per capita (\$10), residence (\$5) and occupation (\$10 flat rate). None would bring in significant revenue. Two are subject to sharing with the school district. The city would like more tax flexibility but has no way to obtain it, other than home rule, which failed to be approved 20 years ago.



<sup>9</sup> <https://pelcentral.org/wp-content/uploads/2015/01/Chapters-1-3.pdf>



## HOUSING 2022

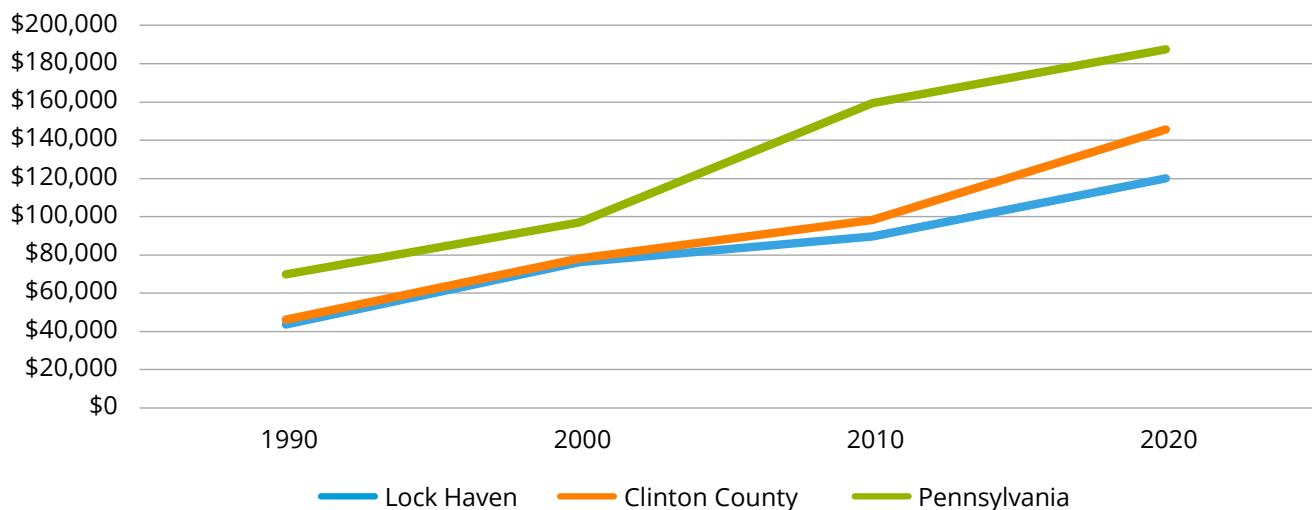


■ Owner occupied 
 ■ Renter 
 ■ Vacant

Lock Haven is heavily dependent on property taxes to keep up with expenditures. But:

- ▶ Almost 68% of Lock Haven's housing units are occupied by renters, the opposite of the state, where 69% of housing units are owner-occupied.
- ▶ Rental units are more prone to blight that hurts area property values and can spiral to other properties
- ▶ The higher percentage of rentals in Lock Haven reflects the large number of student residents that contribute little to tax revenues.
- ▶ The city's owner-occupied homes have a lower median value than both the county and the state, which negatively impacts tax revenue.

## MEDIAN VALUE OWNER-OCCUPIED HOUSE



How many open positions in Lock Haven are going unfilled to save money?

**6**

Positions include finance director, engineer, assistant city manager and two finance clerks.



How much debt capacity does Lock Haven have left for capital projects?

**\$1M**

A long-delayed refurbishment of city hall alone is estimated at \$6 million.



How much annual revenue did Lock Haven receive from workers in the city before the Local Services Tax update?

**\$30,318**

Lock Haven received \$160,886 in annual LST revenue 10 years later.



How much might Lock Haven reduce daily police coverage?

**12 hours**

The city currently offers full-time police protection.

## City of Pittston, Luzerne County

When Luzerne County reassessed over a decade ago it turned out that the city of Pittston's downtown was overvalued by several million dollars despite its somewhat ragged appearance. The lost value had to be spread out over the city's neighborhoods, leaving Pittston with the second highest property tax rate in the county.

Today, Pittston's downtown is held up as a model for revitalizing a small city downtown and the municipality in general is thriving. Although still high, the city's millage rate is now more comparable with similar Luzerne communities. City leaders point to home rule and the ability to gain tax flexibility as a key factor in the city's success.



Home rule was not an easy sell, one of the reasons that many municipal officials are hesitant if not outright skeptical about the process. Pittston's attempt came on the heels of the approval of a home rule charter for Luzerne County that was extremely unpopular with county residents once implemented. The city included a homestead exemption as a sweetener in its home rule charter and it was enough to pass.

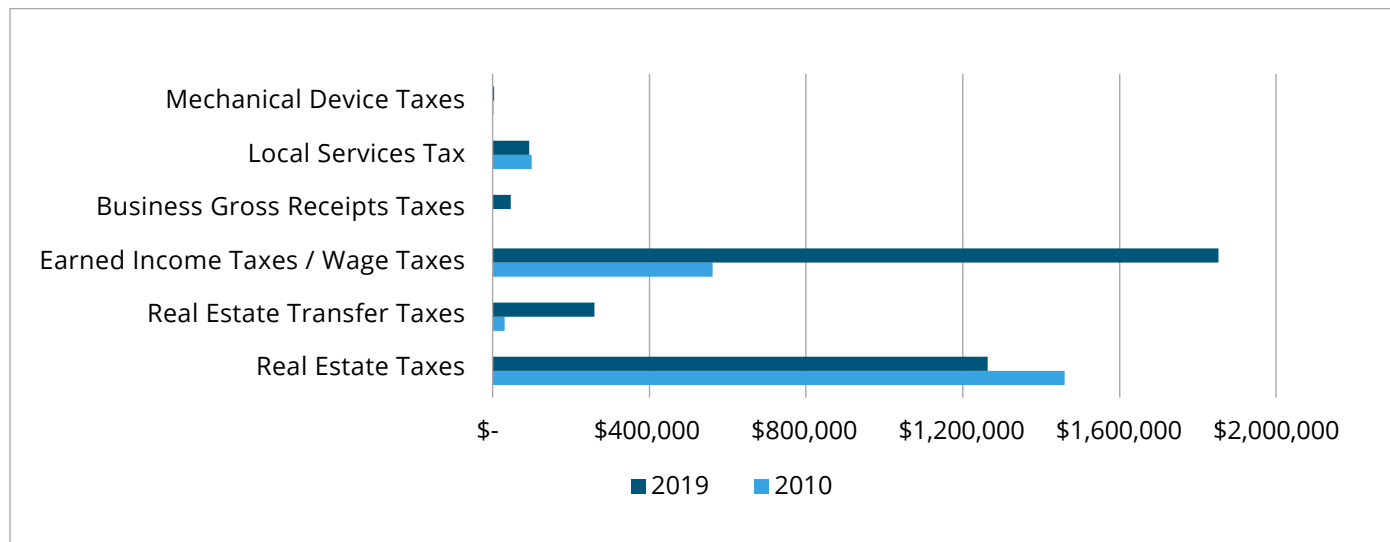
While most third-class cities receive over 50 percent of total tax revenue from property taxes, Pittston now collects more from earned income taxes (\$2 million in 2020) than real estate taxes (\$1.3 million in 2020) thanks to home rule's tax flexibility. Its earned income rate was increased from the 0.5 percent state code maximum to 1.45 percent and then again to the current 1.7 percent. The realty transfer tax was bumped up from the state code cap of 0.5 percent to 1.5 percent, collecting over a quarter million dollars in 2020.

To city leaders, the higher EIT rate was also about equity and fairness to the city's large, fixed income population that helped shoulder the 2009 property tax increase. A flat rate business tax now at \$225 helps the city pay for its robust Main Street program, with city officials noting that services and improvements in the downtown came at no extra charge to businesses. The diverse revenue stream also includes a refuse fee for in-house collection and a sewer fee that pays for municipal operations done to support the utility.

The city's financial success resulted in an investment grade rating from Moody's that allowed it to finance a \$13 million bond issue.

Pittston officials believe enacting earned income rates over the state limit was the only way it has been able to maintain public safety, recreation and other vital services that residents need. Although the initial reassessment in 2009 resulted in the city losing value, officials believe that more regular assessments would capture the progress in downtown and result in more property tax revenue.

## PITSTON CITY TOTAL TAX REVENUE, 2010 AND 2019



How much did Pittston's earned income tax revenue increase by 2019?

# 230%

Revenue grew from \$562,000 in 2010 to over \$1.8 million in 2019.



How much did Pittston spend on culture and recreation in 2019?

# \$279,543

Spending for culture and recreation in 2010 was a fraction of that amount at \$2,500.



How many times has Pittston raised EIT above the municipal code cap?

# 2

The EIT rate was increased from 0.5% to 1.45% and again to 1.7%.



What was Pittston's General Fund surplus in 2019?

# \$391,494

In contrast, Pittston had a deficit of \$225,402 in 2010.

## Indiana Borough, Indiana County

Downtown Indiana borough once bustled with commuters who worked at local banks and other office jobs. It was also home to a student population of over 15,000 at its peak from nearby Indiana University of Pennsylvania (IUP). Students rented apartments, frequented restaurants and shopped at local businesses, contributing to the economy.

But Indiana has been hit with challenges. Many office jobs have gone remote since the pandemic and are likely never coming back, leaving behind a municipal parking garage with many empty spaces. As a result, the borough is now subsidizing the parking garage's debt. Lost jobs also mean a loss in annual local services tax revenue.



Meanwhile, student population fell substantially to 9,308 in fall 2021. Still, the borough fields a costly full-time police department — by far the largest in Indiana County — because of the student presence. The police department is almost half of the borough's annual general fund budget.

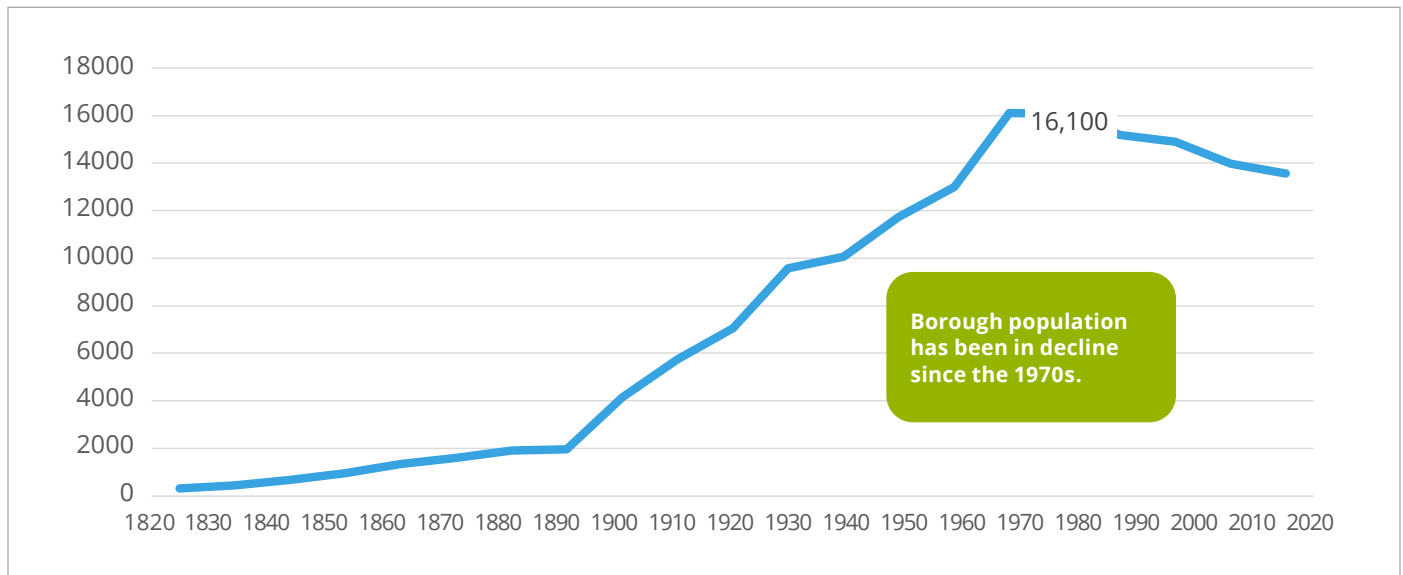
The student population accounts for a large proportion of residents but pays little in taxes to Indiana borough. Anyone making less than \$12,000 does not pay the \$52 local services tax. Students are counted as borough residents under the U.S Census but usually pay any earned income tax to their home municipality. Indiana's working age population of 25 to 64, which makes up only 30 percent of the total population, most likely pays the bulk of borough taxes.

Like many municipalities that serve as the county seat, as well as home to a large university, hospitals and similar non-profit organizations, a large percentage of the borough's tax base is exempt from property taxes. A recent assessment allowed the borough to lower its high real estate millage but has also resulted in a substantial number of appeals. The borough's tax base has declined by hundreds of thousands of dollars in the past two years alone as a result.

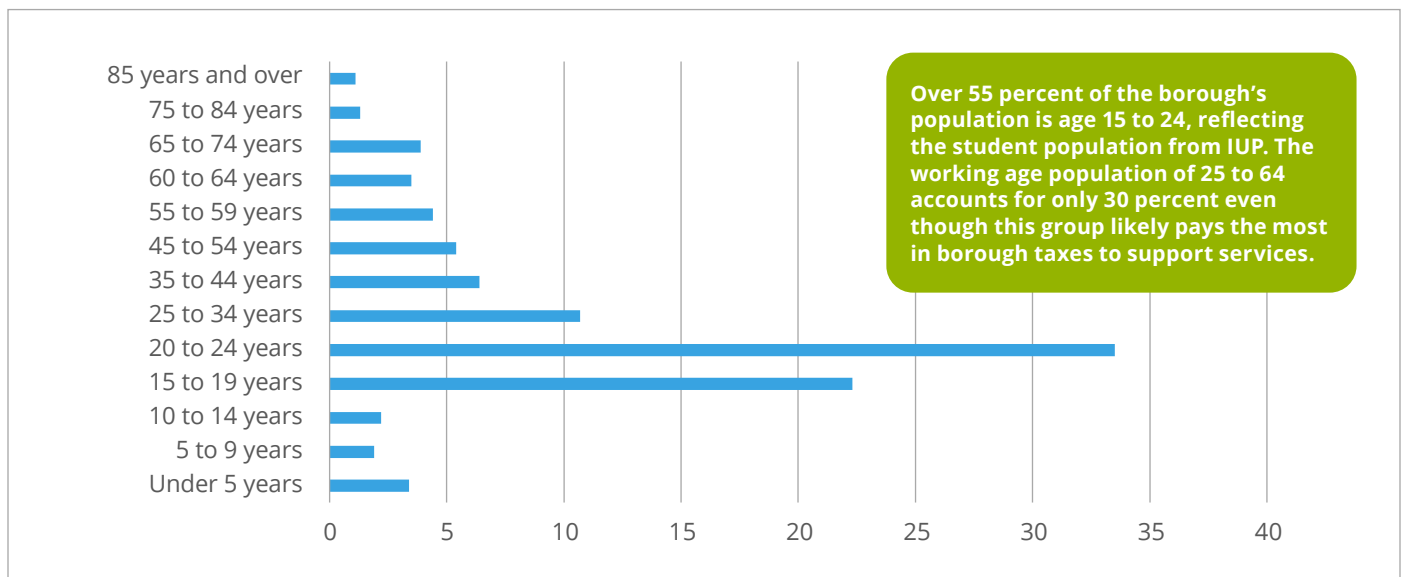
There was one bright spot from the COVID-19 pandemic. Since IUP was shut down, borough expenditures were lower, particularly in the police department. The borough built up a fund balance as a result. Expenditures are now back up, and the fund balance at some point will be exhausted.

To rein in costs, the borough has left open its assistant treasurer position, straining the capacity of the administration staff. Planning functions are being outsourced to a contractor to save money. The borough has also increased its use of part-time staff and its use of technology to compensate.

## INDIANA BOROUGH POPULATION



## POPULATION BY AGE



Assessment value is what percentage of market value?

**125.7%**

Indian's market value is below assessment value after 2015's reassessment resulting in numerous appeals that reduce the tax base.



Real estate taxes are what percentage of borough total taxes?

**72%**

Real estate taxes make up 46% of total revenues.



How many full-time police officers are employed by the borough?

**21**

Only six of 38 municipalities in the county pay for local police with the next largest police department employing only four full-time officers.



How many jobs in the borough are estimated as lost in the last seven years based on 2020 LST collection?

**800 jobs**

The borough collected approximately \$350,000 from LST at its peak in 2014. Post-pandemic, LST collection dropped to \$308,145.



## Upper Chichester Township, Delaware County

Upper Chichester Township strives to be the type of premier township that offers its residents robust parks, regularly paved streets and a walkable town center. Instead, it treads water with a millage rate that has not changed in years and a 1 percent earned income tax rate. Raising property taxes, the only way to gain revenue, would put it at an even further disadvantage to its wealthy neighbors, none of which levy an earned income tax, and cause even more flight across the township border.



The first-class township has the lowest municipal millage rate of the other three municipalities in the Chichester School District, and the highest wealth measurements. All four municipalities levy a 1 percent earned income tax that is not shared with the school district. The school district itself ranks in the lower 50 percent of state school districts based on the results of student test scores.

Meanwhile, Upper Chichester abuts second-class Bethel Township, whose median household income for 2020 is almost double that of Upper Chichester. Bethel is home to the Garnet Valley School District, which ranks in the top 5 percent of school districts in the state based on student test scores. The three municipalities that make up the district, including Concord Township and Chester Heights borough, have significantly lower property taxes than Upper Chichester. None of the Garnet Valley municipalities have an earned income tax. School district millage in Garnet Valley is also slightly lower than in Chichester.

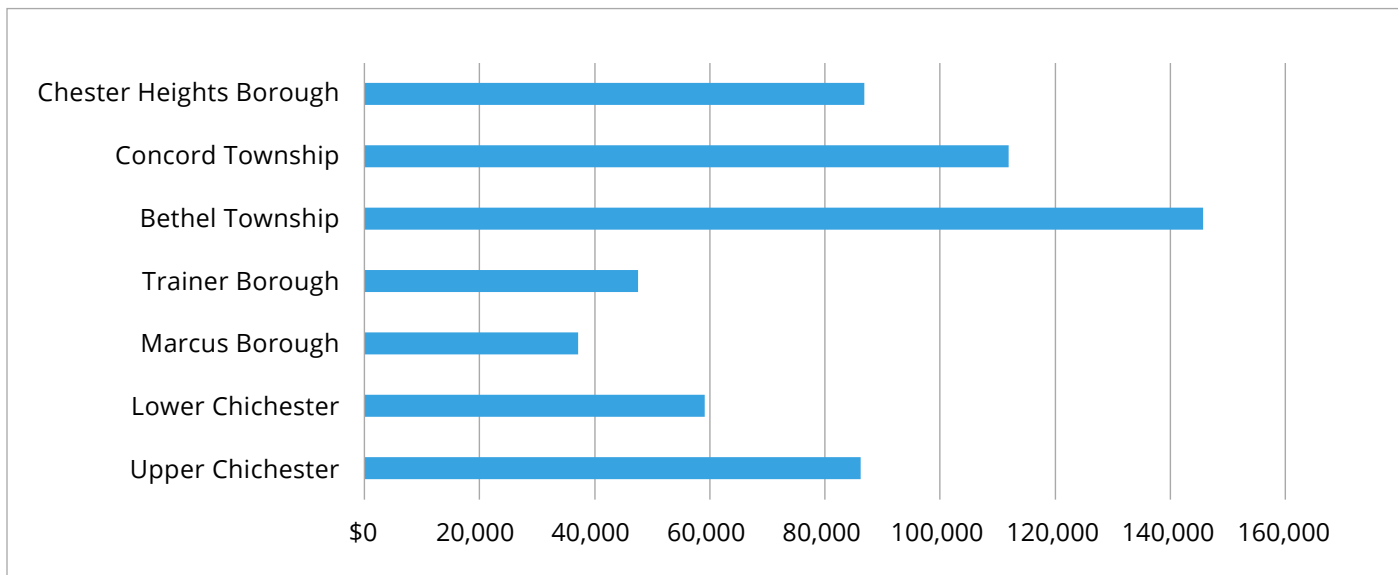
Garnet Valley District municipalities also spend less on police. Bethel has over 20 part-time officers, while Concord, which has a robust commercial corridor, and Chester Heights rely on state police for those services at no cost to the municipality.

All Chichester municipalities have full-time local police, including Upper Chichester's 22 full-time officers. In addition to current expenditures like salary and health care, municipalities with local police pay legacy costs such as a defined benefit pension to retired officers, which is required by state law. Some also offer retiree health benefits. Retiree health benefits were often placed in collective bargaining agreements long ago when costs were less expensive.

Upper Chichester, which adopted an EIT in 2011 and eliminated the per capita tax, uses that revenue to pay for police. Township officials fear that source could be reduced should the school district opt to take half of the township's EIT, which it is entitled to do under state law. The township would be forced to raise property taxes if that happened. Meanwhile, to restrict new expenditures and stay within its revenue stream, the township has operated without key positions such as a finance director and a license inspector until recently.

MUNICIPALITY	SCHOOL DISTRICT	MUNICIPAL MILLAGE	SCHOOL DISTRICT MILLAGE	TOTAL MILLAGE	EIT	POPULATION
<b>Upper Chichester</b>	Chichester	3.0352	25.3404	28.3756	1%	16,898
<b>Lower Chichester</b>	Chichester	4.5000	25.3404	29.8404	1%	3,425
<b>Marcus Borough</b>	Chichester	7.8400	25.3404	33.1804	1%	2,454
<b>Trainer Borough</b>	Chichester	9.1500	25.3404	34.4904	1%	1,979
<b>Bethel Township</b>	Garnet Valley	0.9930	18.6471	19.6401	N/A	9,209
<b>Concord Township</b>	Garnet Valley	0.3788	18.6471	19.0259	N/A	18,295
<b>Chester Heights Borough</b>	Garnet Valley	0.5140	18.6471	19.1611	N/A	2,897

## MEDIAN HOUSEHOLD INCOME, 2020



What is Upper Chichester Township's annual budget?

**\$14.5M**

Township officials estimate they need \$20 million annually to be a "premier township."



Earned income taxes are what percentage of township total taxes?

**50%**

The township receives less than 50 percent from property taxes but that could change if the school district decided to take a portion of the EIT.



Public safety makes up what percentage of total expenditures?

**35%**

The high cost of public safety leaves little room for other critical township government positions.



When was the last time the township raised property taxes?

**13 years**

The township is cautious about raising property taxes given the high school district millage and low neighboring millage.



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415 Market Street, Suite 206A Harrisburg, PA 17101

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