

October 2021

**Modernizing
Pennsylvania's
Local
Government
Tax Menu**



PENNSYLVANIA

ECONOMY LEAGUE

Information, Insight, Integrity.

Pennsylvania Economy League

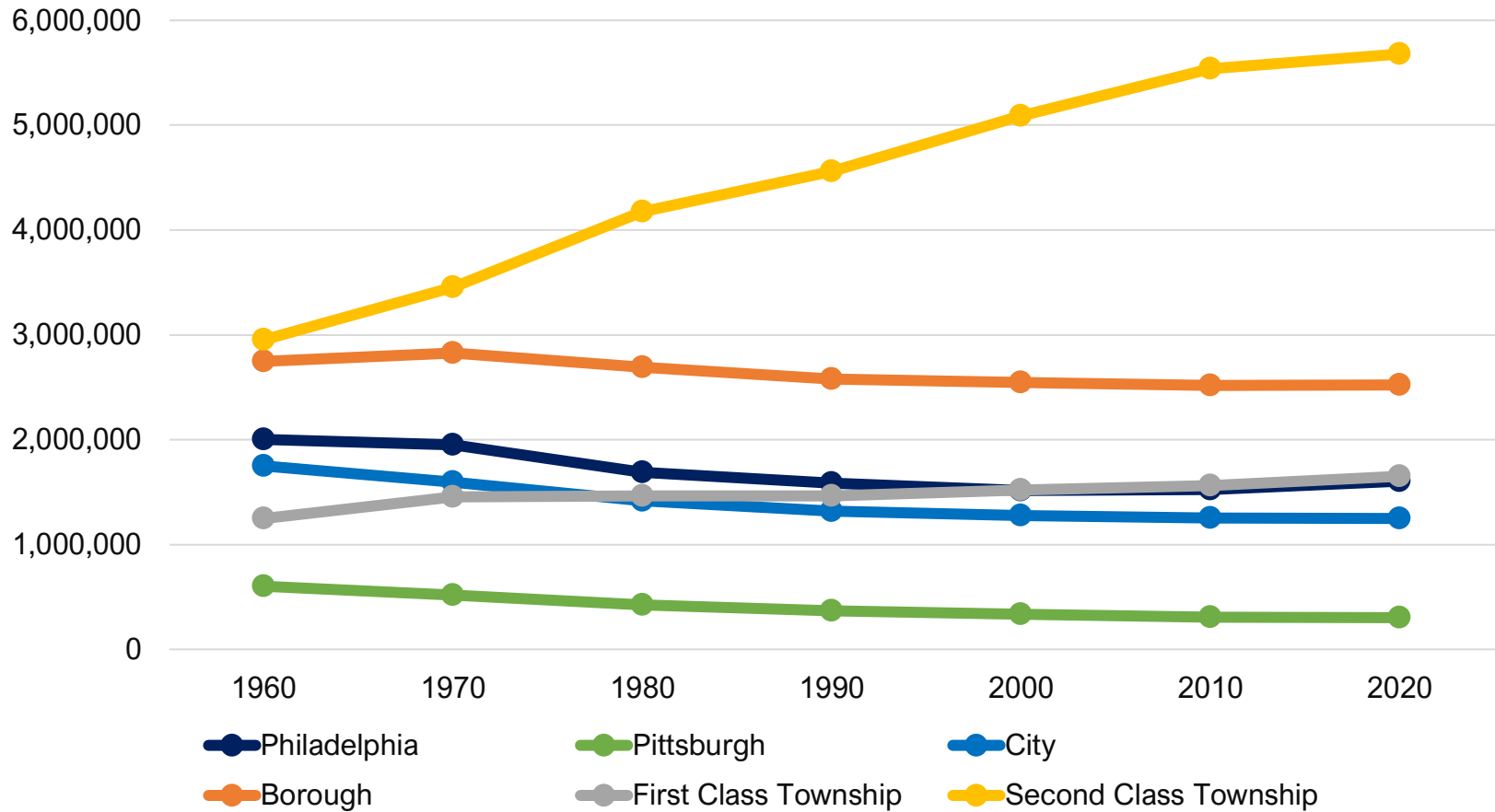
- Pennsylvania's leading independent, nonprofit, public policy research organization for 85 years
- PEL provides technical assistance and consulting to municipalities of all sizes and types throughout the state
- PEL works to foster good government that provides the most efficient core public services that meet local resident needs at the lowest cost
- We believe healthy local governments assist in creating a sustainable Pennsylvania economy that can keep and attract residents and businesses

Modernizing Pennsylvania's Local Government Tax Menu

**Changing
Demographics**

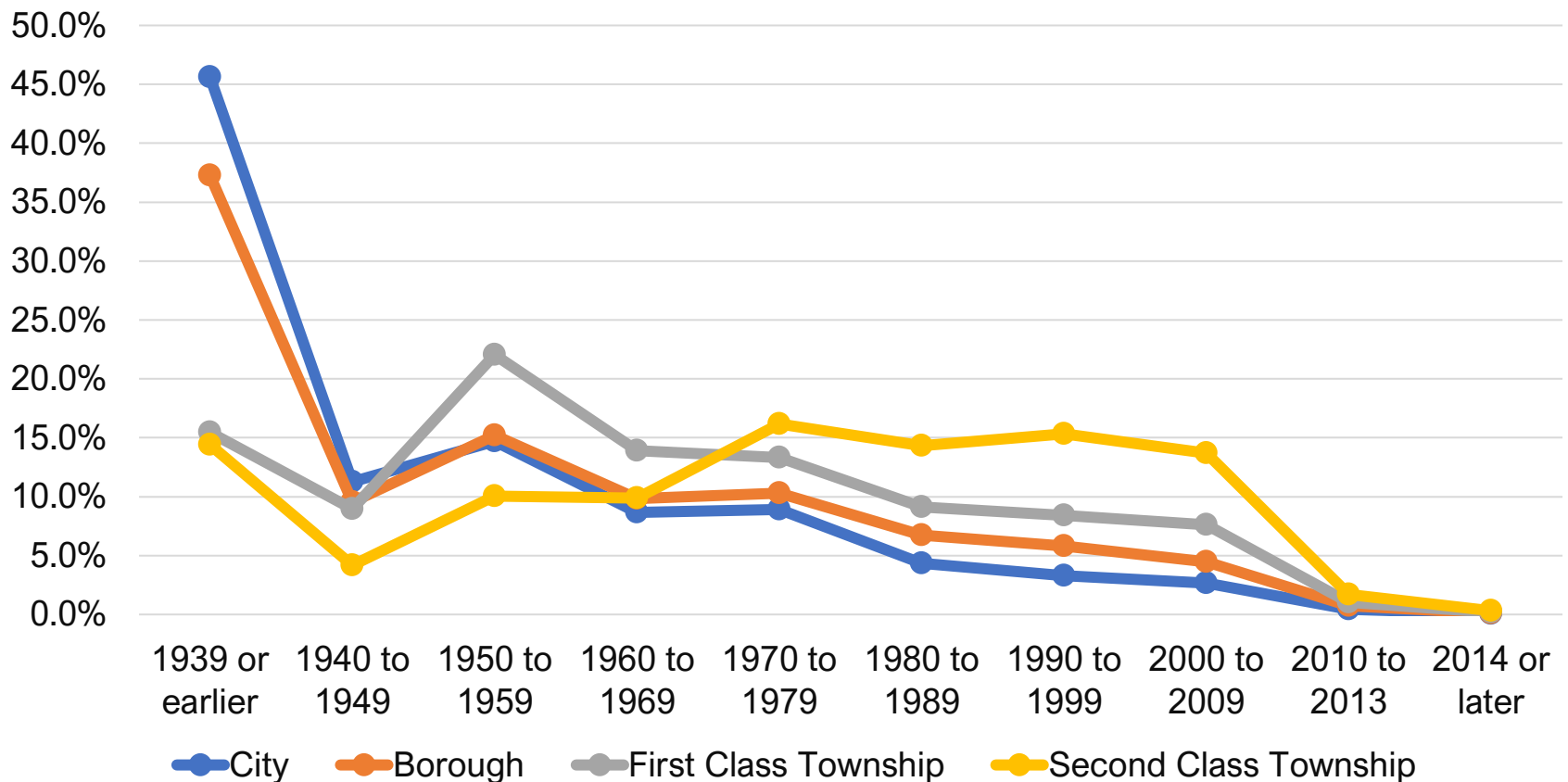
**Obsolete Tax
Structure**

Population Trend 1960 to 2020



Housing Units by Year Built

Pre-1939 to 2014 or Later



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**Changing
Demographics**

**Obsolete Tax
Structure**

PA Local Government Tax Base Challenges

Property

- Ineffective valuation system
- Rate cap
- Overreliance

Income

- Shared with school district
- Rate cap

Individuals

- Meager rates
- Obsolete rationale

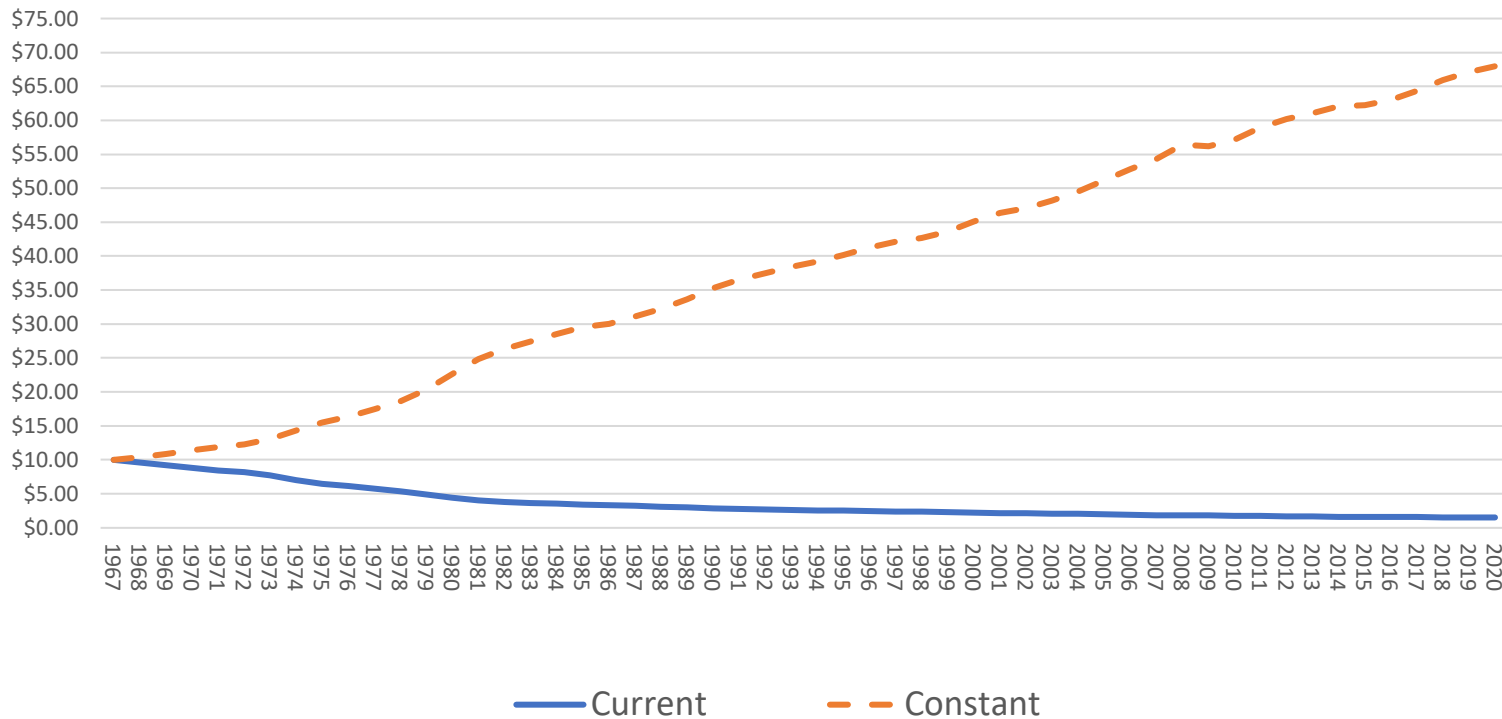
Assessment Issues

Assessed value in many municipalities is stagnate

- Built-out, mature real estate
- County assessment practices that fail to keep pace with changing market values
- Loss of major employers (manufacturing, steel, mining etc.)
- Federal Court ruling in 1989 that eliminated reassessment upon sale of property



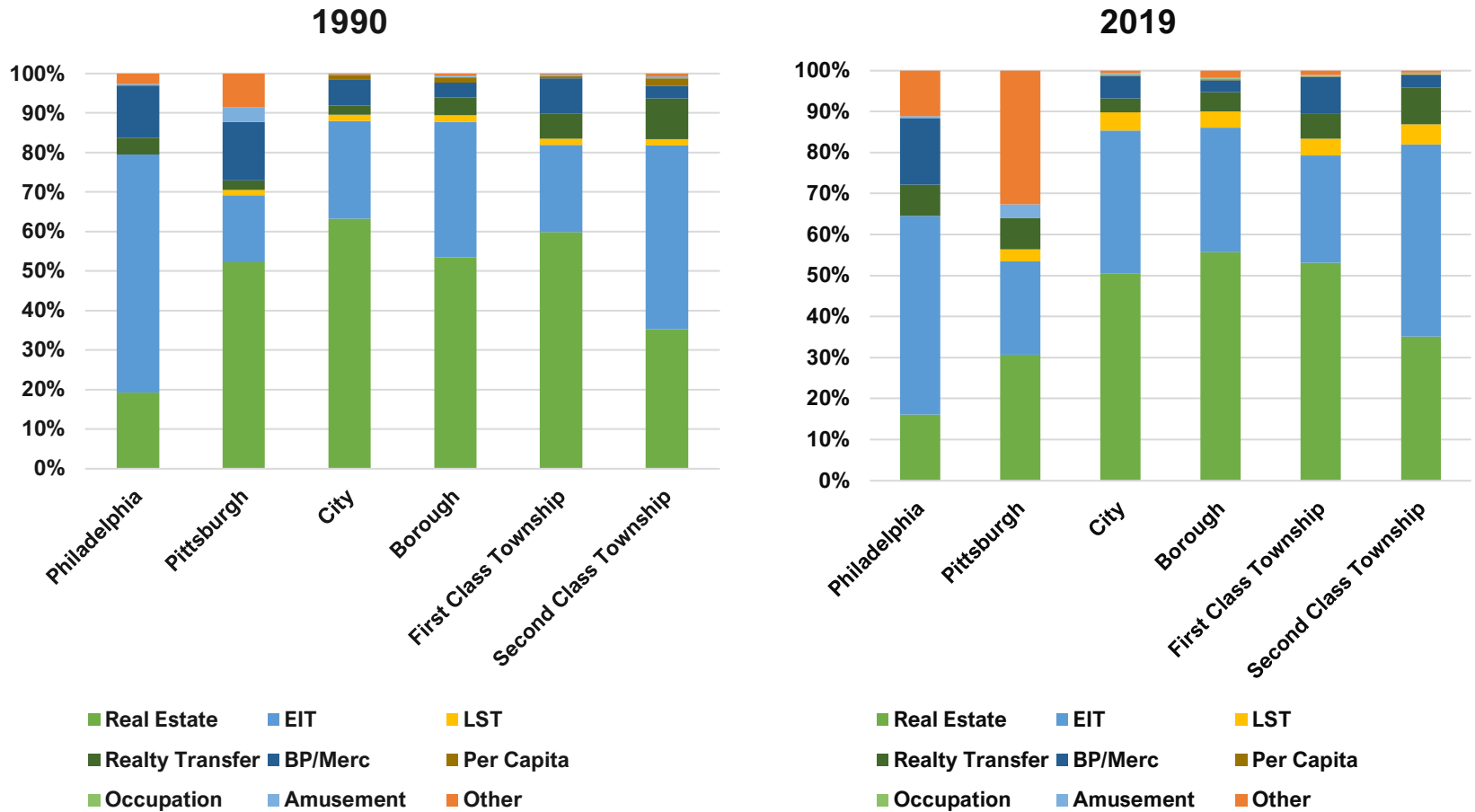
Value of \$10 in Constant and Current Dollars 1967-2020



Decline in Value of a \$10

- The occupational privilege tax or OPT began as a \$10 flat tax in the 1960s
- The OPT remained at \$10 until the early 2000s
- The tax was increased to \$52 in 2004 and renamed the local services tax or LST

Change In Tax Mix



Revenue Trends

1990 to 2019

Cities, boroughs and first-class townships received over 50 percent of total tax revenue from property in 1990

Exceptions were Philadelphia and second-class townships that received a higher percentage of total taxes from EIT

By 2019, reliance on property taxes fell in cities from 63 percent to 50 percent; percentage of EIT increased by 10 points

Pittsburgh had the most dramatic change in its tax mix as it received state authorization for new or increased taxes to overcome distress

First-class townships had slight reduction in percentage of property tax and slight increase in EIT

Boroughs increased reliance on property taxes

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Potential Models

- Offer New Tax Options
- Eliminate Rate Caps
- Increase Flat Fees

Potential Models



- Pittsburgh
 - Sales tax (RAD) – extended to Allegheny County and its municipalities
 - Payroll tax – extended to Act 47 municipalities; grew by \$21 million over 10 years
- Eliminate or modify rate caps
 - Home rule – complicated process
 - Act 47 – municipal distress
 - Act 205 – pension distress
- Increase flat fees
 - Triple LST under Act 47
 - Harrisburg and Scranton