

CAPITAL PERSPECTIVE

CAPITAL DIVISION ● Pennsylvania Economy League, Inc. ● (717) 234-3151

A REPORT TO LEAGUE MEMBERS ON SIGNIFICANT STATE GOVERNMENT DEVELOPMENTS

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PEL Hosts a Forum on Local Tax Restructuring Issues

In spite of the recent passage of local tax reform legislation, many questions persist. In response to heightened interest, this special issue of Capital Perspective revisits the provocative PEL forum held just a week prior to the legislation's passage. The major themes from the event are highlighted so that a better and broader understanding of this topic can emerge as many now address the "where do we go from here" question. As a result of the legislation, school district taxation takes center stage, but issues affecting municipalities and counties will not go away. This Capital Perspective also complements other timely PEL publications on local tax reform, including four earlier issues and the May Capital News, "General Assembly Passes Taxpayers' Local Control Act."

Overview

In the days preceding passage of the Taxpayers Local Control Act in the General Assembly, the Pennsylvania Economy League (PEL) hosted a provocative forum, "Local Tax Restructuring: Ideas for Financing Local Government" to provide context and insight as this important yet perplexing issue moved quickly through the corridors of the State Capitol. Broadcast statewide on the Pennsylvania Cable Network (PCN), more than 100 legislators, business leaders, and local officials attended the forum which was sponsored by numerous corporations throughout the Commonwealth. State Representative Pat Brown (131st District), who serves as Secretary of the House Finance Committee, offered remarks during the program and Dr. Hal Hovey, President of State Policy Research, Inc., gave the Keynote Address.

Three additional speakers with a wealth of expertise provided remarks on a range of issues relating to tax restructuring. Dr. Margaret Goertz, Co-Director of the Consortium for Policy Research in Education, addressed the implications for education; Mr. Frank Shafroth, Director of the Center for Policy and Federal Relations of the National League of Cities, discussed the impact on municipal services; and Mr. David Donahoe, Executive Director of the Allegheny Regional Asset District, provided insight into the financing of county and regional services. Mr. Jeffrey Lindtner, chair of PEL's Capital Division Board of Governors, moderated the Forum.

Simultaneous Movement

During his comments, Dr. Hovey highlighted a well-known expression in public finance -- "an old tax is a good tax," which is based on the economic rationale that whatever mistakes have been made in a government taxing scheme, the private sector has adjusted itself to these mistakes.

Pressing Questions

Tax Policy

- *Is the state and local tax system fair?*
- *Does it raise enough money?*
- *Does it rely too much on property taxes?*
- *Are nuisance taxes a good thing?*
- *Are we stimulating what we should be stimulating?*
- *Are we discouraging what we should be discouraging?*

Economic Development

- *How is this tax affecting the business climate?*
- *What does this do for interstate commerce?*
- *How does our tax system affect our intrastate economic development?*
- *Do we have a problem with a central city that we are worried about developing with relation to suburban and rural areas?*
- *If so, what contribution does tax policy make to economic viability in that Center City?*

Public Administration

- *Who gets to decide things -- local officials or state officials?*
- *What are the state vs. local responsibilities?*
- *What are the relative roles of the school district, city, borough, township, and county?*

The Politics and Pressures of Groups

- *What individual groups are affected by each of the tax changes?*
- *As you change the system, what are the implications for the elderly, farmers, companies and other groups?*

Hal Hovey

Throughout his presentation, Dr. Hovey reiterated an important theme -- subsequently echoed by the other panelists -- "it is difficult to make tax policy because so many actions occur simultaneously and movement in one direction affects others." He noted that countless questions from different perspectives relating to economic development, public administration, and interest groups emerge. (See insert for a sampling of questions that should be considered as the reform process unfolds.)

The Pennsylvania Perspective

As a frame of reference, Dr. Hovey drew on a draft issue of his *State Policy Reports* to point out some interesting data regarding the Commonwealth in relation to other U.S. states:

- Pennsylvania is in the middle of the pack in its reliance on the property tax. As a percentage of collections from the “Big Three” taxes -- personal income, property, and sales and excise taxes -- Pennsylvania ranks 24th (34.9%), just below the U.S. average of 35.8%. New Hampshire topped the list (75.9%) while

Alabama (14.3%) is least dependent upon the property tax.

- On a per capita basis, Pennsylvania ranks 27th among the 50 states for property tax collections (\$671), which is below the U.S. average of \$757. States from the Northeast corridor top the list. New Jersey ranked highest (\$1,483), followed by New Hampshire (\$1,442), Connecticut (\$1,337), New York (\$1,246), and Alaska (\$1,064). Alabama also ranked last for property tax collections per capita at \$196.

Public Opinion

Given the various tax alternatives, Dr. Hovey continued by offering a snapshot of public opinion. “Unambiguously for 20 years, every time we ask taxpayers about taxes and take away the alternative of taxing ‘fat cats,’ big corporations, cigarettes, and alcohol -- the big revenue raising alternatives -- what they tell us is: ‘If we have to raise money for

something, we’d rather have you raise the sales tax than the income tax or the property tax. If you have money to cut taxes and we have a choice, we’d rather have you reduce property taxes than sales taxes or income taxes. Between income taxes and sales taxes, we’d rather see you increase the sales tax and lower the income tax.’”

An Eye Toward Education

Dr. Margaret Goertz, Co-Director of the Consortium for Policy Research in Education, followed and provided context for the funding of education in Pennsylvania “as states and localities talk about moving away from property taxes to alternative sources, particularly sales and income taxes.” Dr. Goertz discussed various policies states have employed to reduce reliance on the property tax within the context of education, the criteria for evaluating the use of different taxes, and the finance reform measures underway in Michigan and Vermont -- states leading the way.

Margaret Goertz

Among the ways to reduce reliance on the property tax, Dr. Goertz focused on the following:

- cap growth in education budgets or revenues;
- cap and/or roll back education millage rates;
- limit growth in property assessments;
- use circuit breakers;
- shift funding from local to state sources;
- shift local revenue sources from property taxes to other revenue sources, such as the income tax.

Change is Necessary

Frank Shafroth, Director of the Center for Policy and Federal Relations of the National League of Cities, opened his remarks by declaring that “we are at a time of some of the greatest change in the world economy that affects state and local governments.” Mr. Shafroth’s remarks centered around federal pressures (i.e. deregulation), changing demographics, and the globalization of the economy. Mr. Shafroth noted the “tax systems for state and local governments are not very good at anticipating what’s happening and how rapidly the economy in this country and the world are changing.”

Frank Shafroth

County by County: A More Active Role

David Donahoe, Executive Director of the Allegheny Regional Asset District, discussed the role of counties, which are taking on many new challenges due to today’s growth. Mr. Donahoe noted that “county governments are playing an increasingly important role during the past several decades ... in many ways, counties are defining what communities are like.” He noted that “counties are the lines that are *confining* us and *defining* us.”

David Donahoe

Mr. Donahoe also emphasized the importance in the variation among counties - - 75% of counties in the U.S. have less than 50,000 people while Los Angeles County alone has nine million -- and the implications

for different tax policies. He suggested that while “counties differ from place to place, the one thing that is consistent is that county

governments are taking on increasing responsibility.”

Concluding Thoughts

State and local officials in Pennsylvania are no different from those in other states. They react to public opinion which has consistently made the property tax the least popular of the three major state and local tax sources (income, property, and sales). They also react to the fiscal disparities, real or perceived, which inevitably result from high reliance on any local taxes.

states on these issues and what the relationship is between the tax sources and the services provided as a result of those taxes.

At the close of the presentation, the panelists were asked to offer one closing thought.

- “Tax restructuring without some reapportionment or logical apportionment of services may not be the golden egg that it seems.” *David Donahoe*
- “The existing systems are obsolete so changing and anticipating the future is a great opportunity.” *Frank Shafroth*
- “You cannot address tax restructuring without looking at the issue of what you are spending and what the benefit areas for those services are.” *Margaret Goertz*
- “Make sure it’s broke before you fix it; it will help you learn how to fix it.” *Hal Hovey*

Jeffrey Lindtner - Forum Moderator

The speakers at this Forum attempted to put Pennsylvania’s tax situation in a context that takes into account what is happening in other

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