The City of York
Pennsylvania

50 West King Street   PO Box 509 York PA 17405
www.yorkcity.org

Honorable C. Kim Bracey, Mayor

MAJORITY POLICY COMMITTEE
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Testimony of
C. Kim Bracey, Mayor
50 West King Street
York, Pennsylvania 17401
Phone: 717-849-2221

Introduction

Chairman Sturla, members of the committee and to my colleagues, thank you for the opportunity to speak with you today. It is impossible to discuss economic development prospects in our Commonwealth's small cities without setting the stage and discussing the financial burdens that cities of the third class face. These burdens lead to an over-reliance on property taxes, which, in a climate of increasing mandated costs is not conducive to economic development.

Our vision, over time, is for small cities to have a menu of options and tools so that we can generate adequate public revenues to create the conditions whereby development can flourish and so our tax and fee structure is fairer and more stable and predictable. In turn, this will translate into property owners, residents, and businesses having the confidence and the security to invest, re-invest, and take ownership and pride in homes, blocks, and neighborhoods.

In the meantime, it is vitally important that the state replenish and recapitalize a robust array of grants and loans, such as (1) economic development and capital projects through DCED; (2) market-rate housing projects through PHFA and DCED; (3) expanding the reach of Governor Rendell's signature "Elm Street" program; (4) clean and green initiatives through DEP and DCNR; and (5) the Hometown Streets program, PennVest, and other public infrastructure initiatives.

Four Major Fiscal Challenges

The City of York confronts the combined dilemmas of costs that rise faster than the rate of inflation with a narrow range of revenue sources that are relatively static. Specifically, the following four challenges have been festering and frustrating growth for years: (1) a warehousing of tax exempt real estate in cities; (2) spikes in pension and health care costs; (3) being land-locked and trapped in a Medieval system of government; and (4) an antiquated tax system and a lack of enabling legislation from Harrisburg to cover rising costs.

1.) **A warehousing of tax exempt real estate in cities.**

Fifty percent of the City of York's General Fund revenue comes from taxes: real estate, earned income, business privilege, mercantile, and municipal services. More specifically, thirty two percent (32%) of the General Fund revenue comes from real estate. The city tax base value is about $1.6 billion. About $995 million is taxable, and $605 million is tax exempt.

That's right; a staggering $605 million, approximately 37% of the tax base is exempt. This property includes government, utility, churches, social service agencies, hospitals and post secondary schools. The large percentage of tax-exempt real estate means that more than 50% of each taxpayer's bill is due to the high concentration of tax-exempt property. This level of tax-exempt property is especially burdensome to a population with a poverty rate of 20%, a per capita income rate of $13,000 and median household income of about $26,000.

We serve all people who work in or visit our city. That is our legal mandate and ethical obligation. The practical result is that the real estate taxpayers of the city subsidize every non-city resident who uses county government services, medical facilities, religious, higher education, or social services facilities.

2.) **Spikes in pension and health care costs.**

The good news is that people are living longer, including, despite the stress of their jobs, city employees. The bad news is that third class cities such as York are financially responsible for retirees' pensions and retirees' health care payments, as well as the rising health care costs related to current employees. General trends in the human lifespan coupled with the early age of retirement for public safety employees codified in collective bargaining agreements and the rich

benefit plans in those agreements under Act 111, and a small city develops a perfect storm of pension and health care costs.
After wages and salaries the highest line item expenses are pension and health insurance. “MMO”, as you know, stands for “Minimum Municipal Obligation.” State-imposed, “MMO” is the mandatory annual payment that a local government must pay into its pension fund against future obligations. The 2001 MMO for the whole city workforce was $546,042, but by 2009, the MMO for the entire city workforce was a staggering $5,203,433.

In addition, employee health insurance costs have risen dramatically over the past ten years. The City maintains a self-funded employee health insurance program. In 2000, the total cost of the program was $3,351,026, but by 2008 the cost was $7,475,189 -- a 123% increase over only eight years.

3.) **5.2 square miles Land-locked and trapped in Antiquated Government.**

At 5.2 square miles, York is geographically one of the smallest cities in the United States. We also are land-locked with no hopes of annexing lands outside our borders to grow jobs and build tax base.

So-called rustbelt cities like York are developed to their limits, and the state offers few incentives for neighboring municipalities and the city to collaborate, let alone share resources or merge functions or facilities.

In 2010, it is a practical failure for our Commonwealth to have 2,574 local governments and to have counties, like York, with 72 municipalities that, for the most part, do their own things without coordinated effort while the county seat is left to grapple with the largest concentrations of tax exempt properties, poverty, and blight. Sadly, Pennsylvania has more municipalities with taxing authority than any state in the United States of America.

Our fragmented municipal structure confuses and frustrates developers, rehabbers, and would-be investors with a dizzying array of tax rates and incentives, strategic plans and planning commissions, zoning regulations and zoning boards. Our fragmented municipal structure dilutes our political, professional, and civic intelligence. Our diluted identities breed turf mentalities and intransigence by some and disinterest by others.

In the meantime, without substantial reform at the state level, when a small city is land-locked and stuck in an archaic structure of government, meaningful growth in the tax base only can occur through redevelopment efforts. The conundrum is, however, that, because of land acquisition costs, industrial pollution histories, environmental remediation costs, and urban boundaries, redevelopment projects are expensive and time-consuming.

Let's put things in perspective. For the real estate tax base to grow adequately to keep up with the growth in expense our city would have to produce an additional $70 million per year in taxable redevelopment. Notwithstanding enormous efforts and significant investment by the Commonwealth, the city has not added $70 million in taxable new real estate value during any year in its history. Because of the severe geographic and legal restraints and costs regarding urban redevelopment, small cities cannot simply develop their way out of their fiscal straights.

4.) **Antiquated tax system and a lack of enabling legislation from Harrisburg to more fairly cover the tax burden.**

Truth be told, Pennsylvania law severely restricts what small cities can do. As a consequence, we are heavily dependent on property taxes and an antiquated tax system to fund our services. It should come as no surprise that the real estate tax rate in the city has gone from 9.73 mills in 2001 to 15.64 mills in 2009.

This is not a good way to run a business or a city. Cities of the third class should be given a menu of options to become more self-reliant, in the tradition of Philadelphia and Pittsburgh, both of which have been bestowed and trusted with a flexible range of mechanisms to chart their destinies as world-class cities. Our state legislature needs to see our small cities as special, distinctive places that can light up our Commonwealth with innovation, culture, and family-sustaining jobs. We can only reach our destinies as great small cities if the Commonwealth affords us appropriate tools.

And why do we need a range of revenue tools? Simply put, we need more stability and predictability in tax rates. The real estate tax rate for York City far exceeds the next highest locally imposed tax rate in the county and that has been the case for some time. This is not unlike our sibling cities throughout the Commonwealth. In turn, to attract businesses, we have passed and instituted aggressive tax abatement programs, both the Local Economic Revitalization Tax Abatement ("LERTA") and Residential Tax Abatement Program ("ReTAP") to retain and attract businesses. These programs have helped counter-act the disparity in property tax rates and have incentivized meaningful new developments. But they are not long-term solutions to our woefully outdated and fragmented municipal structure and taxing system.

Consider also this. Real estate taxes account for only 1/3rd of the total revenue received in the City general fund. The cost of public safety accounts for 68% of the entire expenditures of the general fund. By contrast, the economic development department -- the research, development, and marketing arm of the city -- accounts for less than 1% of the entire city budget.

The practical reality is that when a city does not have a robust public revenue infrastructure, year-in, year-out, a larger proportion of the general fund is consumed by public safety, whereas economic development, retention, recruitment and marketing efforts, as well as important economic development related infrastructure projects, such as streetscaping, lighting and beautification, are squeezed or eliminated. Again, this is no way to run a business or a city.

A Robust Revenue System Rather Than Over-Dependence On Real Estate Taxes

Therefore, today, I respectfully urge our state legislature to enable cities like York to become more self-reliant and stable by giving us a menu of revenue options, such as a modest local option sales tax, a modest alcohol tax, a fair share tax for exempt properties, and a reformed earned income tax distribution. Simply put, please give us the option to utilize tools to make tough choices based on our distinctive local needs and aspirations, and we will get the job done.

In sum, if our smaller cities had a reasonable range of modest revenue options, cities could stabilize their real estate tax rates while being able to fund much needed economic development efforts and to provide the quality infrastructure and amenities that companies need to stay and grow.

1.) **Local Option Sales Tax**

By passing a local option sales tax, as proposed in House Bill 1858, the General Assembly could act favorably on a commonsense approach to local fiscal stability by giving us a tool to cut property taxes and help support critical funding for police and fire services. A local optional tax would generate revenue specifically directed at reducing real estate tax, paying for public safety and funding shared municipal services.

This tax has the support of every local government association including the boroughs, townships, cities and counties.

Not surprisingly, because of their political clout and importance, Philadelphia and Allegheny County, already have local sales taxes. Should not our Commonwealth's sibling cities have the same option? Further, 40 states have enacted a local sales tax to support local communities. It is a fair way to help pay for services used by visitors and tax-exempt entities. The time is ripe to ***reduce*** property taxes and that's exactly what counties and local governments would be required to do under the proposal.

2.) Retail Alcohol Drink Tax

Philadelphia and Allegheny County have long had a retail alcohol drink tax. But not one third-class city in Pennsylvania has the ability to impose a modest alcohol tax. This is unfair and counter-intuitive, and should be changed. Because many cities are home to destination venues such as entertainment facilities, restaurants and nightclubs that serve alcohol by the drink, this would be an appropriate tax to make available to cities of the third-class and could be encumbered for transportation or public safety – services that tend to increase by the presence of these businesses.

3.) Mandatory PILOTs

Tax exempt entities that serve populations outside the municipality in which they are located should be required to pay local municipal and school taxes in proportion to the non-local population they serve or, if a bright line rule is preferable, tax exempt entities could pay at least 1/3 of what their property taxes would be if they were taxable entities.

4.) **Reforming The Earned Income Tax**

Moreover, the state's personal income tax system should be reformed so that it is paid at the rate of 50% to the municipality in which one works and 50% to the municipality in which one resides. The mix is important. Real estate tax grows slowly, but it is reliable and does not fluctuate with every twitch in the economy. Sales and income taxes do fluctuate with the economy, including growing with the economy.

Approximately 24,000 people per day commute to York City for work, swelling York's population from its baseline of 41,000 people to 65,000, but not even a percentage of our commuter's income tax is paid to the City of York, even though we are charged with providing the essential services and infrastructure that helps support the workforce in York.

Consider also that if the city were to enter Act 47, a commuter tax would be at its disposal. Reforming the Earned Income Tax so revenues are distributed 50/50 to the municipality in which one works and to the municipality in which one resides would function similarly to a commuter tax. Please, give cities the appropriate tools to avoid Act 47 in the first place rather than enabling the tools once they enter Act 47? We do not want to enter Act 47, so please help us now.

Replenishment And Recapitalization Of Key Programs

In the meantime, with your assistance and partnership, and through the replenishment and recapitalization of key programs, we will manufacture our own help here at home.

1.) First, Business in our Sites (BIOS) and RCAP need to be recapitalized.

Business in Our Sites or BIOS is an excellent, flexible program for funding start-up planning services for major economic development projects as well as construction. It is an important tool for cities to utilize to bring plans from the drawing board into the public for strategic thinking, coalition building, and the beginning of construction.

As you know, RCAP grants are for brick-and-mortar projects and can be used for property acquisition, exterior and interior infrastructure, demolition, and new construction. Adequate RCAP funding must exist for cities such as ours to continue our momentum of progress. As you know, a capital line item for a RCAP project is the first step in a long, competitive process, with no guarantees for success, for a community to access such funds, which requires an eligible local match. If cities cannot, through a menagerie of private and local investments, raise the local match, a RCAP grant will not be granted. Therefore, this is not unregulated or discretionary pork, but a sound local match program that is closely supervised and monitored every step of the way to ensure compliance and that the original goals of development are realized.

York County and York City have benefited immensely from numerous RCAP grants that have yielded impressive results: a $34.5 million Sovereign Bank Stadium – where we sit today, a restored Strand-Capitol Performing Arts Center, the Toyota Arena at the York Fairgrounds, the adaptively re-used Greenway Tech Center, the gem of the Crispus Attucks' campus, and most recently, the Northwest Triangle mixed-use neighborhood. Please ensure that funding is available for future RCAP projects in the City of York.

2.) Market-rate And Mixed-income Housing projects through PHFA And DCED

PHFA is excellent to work with and can finance a host of quality housing initiatives, including market-rate housing. In a city with a poverty rate of 20% and with a median income of about $26,000, if we really believe in diversity, we also need to believe in housing diversity, building market-rate condos and apartments, and cultivating mixed-income neighborhoods. If we truly want our small cities to be diverse to be able to support retail growth, cross-fertilizing downtown districts, broad city job creation, and vibrant neighborhoods, we must continue worthy market-rate housing projects.

Smokestack chasing metrics of old must give way to new metrics that award funding to projects that foster homeownership and new, urban market-rate developments.

As such, we also urge you to recapitalize DCED's excellent Anchor Building and Housing and Redevelopment Assistance ("HRA") programs. If structured right, cities and their redevelopment authorities can utilize the grant dollars from Anchor Building and HRA as dollars to loan to local developers. In essence, these grants can become gifts that keep on giving. As the developer pays back the interest and principal of these loans, cities and authorities can launch housing foundations and revolving loan funds that further help attack blight and poverty and improve our neighborhoods.

3.) Expanding the reach of Governor Rendell's signature "Elm Street" program

York is blessed to have the state's first "Elm Street" neighborhood in our Olde Towne East. Abandoned, blighted properties have been replaced by a gorgeous park, surrounded by new homes and homeowners, and a new sense of neighborhood pride and "ownership" have spread like a steady fire. "Elm Street" is essential to improving our inner-ring neighborhoods, which are key to the economic sustainability of our downtown and that give confidence to long-time employers, developers, and new businesses. Our east-end Elm Street program is a model for the state, and, with your help, we want to replicate its success in the Salem Square neighborhood on the west-end of the city.

4.) Clean and green initiatives and programs through DEP and DCNR

We have been privileged to work with the excellent professionals at DEP and DCNR in securing grants through the state's Growing Greener II initiative and Industrial Sites Re-use Program ("ISRP). It is virtually impossible to market contaminated formerly industrial sites to developers, so grants that usher in a cleaner, greener city are absolutely essential.

5.) Hometown Streets, PennVest, and other public infrastructure initiatives

Public infrastructure rarely sounds attractive. But it is the literal foundation upon which economic development and cities are built. Sewer lines and streetscapes, benches, trees and pedestrian thoroughfares are all critically important for nineteenth century cities to re-engineer themselves for the twenty-first century competition. Please recapitalize Hometown Streets, PennVest, and other public infrastructure initiatives at the state level. An amenity rich urban core offers the attractive conditions for development and investment to prosper. We are a city of people and rightly so, we must rethink and redesign our streets to put people before vehicles.

Conclusion

We certainly could use other assistance that costs the state next to nothing. Wayfinding is a concern, for example. Why will PennDOT only allow downtown York to market itself in a small square on highways signs that are as large as a horde of advertisements for fast food, chain restaurants and gas stations? Should not our community cores be favored in terms of the marketing attention? It is hard to know that York City even exists when one drives on Route 30 or I-83, and we have vigorously tried to post more and larger signs, but the state has strictly limited the size and scope of our highway signage. If our state truly believes in the renaissance of small cities, all state agencies and departments must be on board.

We understand there is no silver bullet. My message today is one of self-reliance. Our local governments are staring down real fiscal problems. These are very real. We are not asking for “bail outs.” We are simply asking you to give us the tools we need to succeed, to chart our own course. The health of a community can be measured by their bottom line. And fruitful development will not thrive and prosper without a financially sustainable government.

Thank you for your time. I am available to answer any questions.