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Proposal to redirect liquor tax revenue misguided

Background: The stated intent of recently proposed legislation (H.B. 985) is to divert liquor tax revenue to provide grants to municipalities with tax-exempt property comprising 15 percent or more of total assessed value and with household median income of less than 115 percent of the state level. While the intent appears to be useful, the implementation and constraints of the proposed legislation pose many problems. Many of the problems are rooted in the fact that Pennsylvania does not mandate a regular schedule of property assessments.

The bill as written would reallocate revenue from the state's liquor tax to municipalities with tax-exempt properties to provide additional revenue and perhaps allow a reduction in property tax rates on non-exempt property—although that is not a stated objective. The main purpose is to make up for some of the revenue that could be collected if the exempt properties were paying taxes.

The program, as described in the proposed legislation, has restrictions and procedures that are inherently unfair and is inherently wrong in using the Common Level Ratio (CLR) to calculate both taxable and tax-exempt municipal property values. To be eligible for funds, a municipality cannot have median household income higher than 115 percent of Pennsylvania median household income as determined by the U.S. Bureau of Census' American Community Survey. Currently the latest income estimates are from 2023 and will be updated to 2024 later this year. In 2023, Pennsylvania median household income stood at $76,801.

Median household income is the income at which 50 percent of the households have higher income and 50 percent of households have lower income. It is not the average in which all income is divided by the number of households. That number can be a lot higher than the median—if the income levels among high earners are very high compared to most incomes. Or it could be lower than the median—if top income earners are not earning very high incomes or many low-income earners that have extremely low wages.

Inequity in the distribution of the liquor tax revenue

In any event, even larger municipalities with median income 110 percent of Pennsylvania's median household income are likely to have many high-income earners who will benefit from having liquor tax revenue allocated to their municipality.

By the same token, a municipality with 116 percent of the state median income and is ineligible for funds from the proposed program will have many lower or modest income earners who will not receive any benefit from the allocation of the liquor tax redistribution to municipalities. This bill should fail on that inequity alone.

Determining municipal property values

Lastly, the legislation is deeply flawed in that it proposes to use the CLR to determine municipal property values. First of all, the CLR is calculated based on countywide property sales, not municipality sales. The CLR is calculated as the median value of the assessed value to sales value of properties that sold in a given year. Many municipalities are too small to have nearly enough sales to hope to calculate a meaningful CLR.

Moreover, using county CLRs to estimate property value for municipalities having vastly different income and property values across the county in which they are located is obviously quite wrong.

Normally, the CLR is used for property assessment appeals only. And it is necessary because Pennsylvania does not mandate regular reassessments of all properties. If it did, the flawed formulated CLR would not be needed. Pennsylvania is one of only five states that do not require regular complete reassessments. As a result, its residents are burdened with heavy costs as appeals are time- and resource-consuming for the counties and property owners.

However, the proposed legislation would use the CLR to determine the aggregate property value for municipalities. Something the drafters of the CLR mechanism would not be happy to see.

Disparate impacts

Interestingly, three municipalities with extremely high levels of tax-exempt properties all qualify under the income requirement of having median household income below 115 percent of the state level. Philadelphia, Pittsburgh and Harrisburg are undoubtedly among the municipalities with very high percentages of tax-exempt properties that qualify in terms of income. State College would also undoubtedly qualify with its relatively low income and being the home of Penn State's main campus, a tax-exempt property. These communities would derive considerable benefit from the proposed program (note that no municipality could receive more than 10 percent of the available funds) despite already receiving large sums of state funds for their schools and local governments.

On the other hand, consider the situation at Findlay and Moon townships in Allegheny County. They share the property that is home to Pittsburgh International Airport, which had over $2 billion in audited value in 2024. And no doubt it will be higher as the new terminal is being finished. But because they have household incomes well in excess of 115 percent of the state's household income, they would not qualify for a distribution under the proposed program.

The program also rewards poor decision-making. For example, in order to build new stadiums in Pittsburgh, taxpaying properties were acquired by the Sports and Exhibition Authority and were removed from tax rolls. New, untaxable large and expensive structures, along with parking facilities, replaced the taxpaying properties.

Other considerations

Why focus on municipalities? For most of the state, school property taxes are a far larger burden on property owners. In many cases, the school millage rate is higher than the municipal and the county millage combined. In Pittsburgh and Philadelphia there is much higher reliance on income taxes for schools than is typical. Nonetheless, Pittsburgh's municipal tax rate on property is 8.06 mills and Philadelphia's is 6.1 mills. Thus, those cities would benefit more from the program than cities and municipalities with far lower municipal property tax rates. But they would benefit far more from lower income tax rates and lower levels of spending.

Conclusion

In short, the proposed legislation is an unnecessary and poorly thought-out effort to help municipalities with high municipal tax rates and median income below state median income. It avoids dealing with excessive spending in many municipalities that would benefit. And it ignores other state funding and federal grants that are available to the high-spending municipalities.

It fails to recognize the poor return on education spending. And it offers no relief to municipalities with higher than 115 percent of state median income that also have large amounts of tax-exempt property. And it fails to recognize or consider current distribution of state revenues.

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