

**Testimony of Robert Thompson  
on behalf of the  
Pennsylvania Municipal Electric Association  
Regarding House Bill No. 1405 (P.N. 1765)**

**For the House Local Government Committee Hearing on February 13<sup>th</sup>, 2018**

Good Morning, Chairwoman Harper, Chairman Freeman and Committee members. I am Robert Thompson, Borough Manager in Ephrata, Lancaster County. I want to thank my friend, Vance Oakes for providing an overview of municipal power and how our electric systems are different from investor owned utilities (IOUs). I will focus my comments for today's hearing on the practical effects of HB 1405. Specifically, what HB 1405, if approved into law, would do to municipal budgets and the drastic changes in operations HB 1405 would force upon the 35 boroughs with municipal power.

In 1902, Ephrata purchased a steam generator for \$7,000 to supply the Borough with electricity and has remained in the electric business since. Ephrata is the largest Borough in Lancaster County with a population of approximately 13,394. As of the last tax year, 2017, Ephrata Borough had the lowest real estate tax rate of any Borough in the county at 2.28 mills. We have no General Fund debt, and yet we offer extensive municipal services including a police department, public works, sanitation, water, sewer services and great quality of life amenities.

In 2017, the Borough transferred \$1,523,544 from the Electric Fund to the General Fund. This payment in lieu of taxes (PILOT) by the Ephrata electric system amounts to 13% of the Borough's 2017 general fund budget. This policy is not unique, in fact most of the 2,000 municipalities across the country that are served by municipal electric have PILOTs.

Our Borough Council supports a policy of lower real estate tax rates over lower electric rates because customers can impact what they pay for electricity through conservation practices and the payment from the municipal electric systems broadens the revenue base to make sure that even non-profit entities, who do not pay real estate taxes provide some revenue to the borough for the services they receive. This policy decision is local, made by the elected representatives of Ephrata. If this policy was not working, I am sure that the voters of Ephrata would elect new Council members to change the policy.

If HB 1405 was the law and a PILOT or transfer from the Ephrata Electric Fund was prohibited in 2017, we would need to increase real estate taxes from 2.28 mills to 6.68 mills or average of \$696 per household to make up the shortfall. Under a full repeal of the PILOT, the average Ephrata residential customer using 1,000 kWh/mo would see a decrease of only \$263 per year in their electric Bill.

The Pennsylvania Municipal Electric Association has projected that the average real estate tax increase for the 35 municipalities that would result from full implementation of HB 1405 would be 379%. Ending the PILOT, as proposed in HB 1405, is a bad deal for Ephrata taxpayers and a bad deal for the other taxpayers served by municipal power.

The Pennsylvania Municipal Electric Association has provided the Committee with an analysis of the property tax rate in the 35 Boroughs that have a municipal electric system compared with the average property tax in the Boroughs in their home county. That analysis shows that property taxes in municipal electric Boroughs are on average 42.5% lower than property taxes in other boroughs in their county.

We know that property tax reform or property tax elimination is a key legislative issue, one that has had significant discussion in this Chamber. HB 1405 goes in the opposite direction, requiring Borough's with Municipal electric companies to implement huge property tax increases. This Bill shifts the burden of revenue generation in our 35 Boroughs from a mix of property taxes and electric company PILOT to a sole reliance on property taxes. Ephrata's property taxes would increase by \$696 per year, while the average residential customer would see a reduction in electric rates charges of only \$263.

A recent report by the Pennsylvania Independent Fiscal Office found that statewide 43.8 percent of all homestead property tax money is paid by those 60 or older. So, one of the results of HB 1405 will be to worsen the unfair burden of property taxes facing Pennsylvania senior citizens.

Shifting to a full reliance on real estate taxes will not only hit the elderly hard, but it will most likely lead the 35 Boroughs who are served by municipal electric to reduce expenditures and harm a Borough's ability to provide basic services, such as police, fire and public works. It will have a more drastic effect on the quality of life attributes that citizens enjoy, especially those in Ephrata. These include Lancaster County's most popular public library, the Sheridan Bigler Theater for the Ephrata Performing Arts Center, a first-class community pool, the Warwick to Ephrata Rail Trail, the Whistle Stop Plaza, the Ephrata Recreation Center and the development of the Central Business District infrastructure which serves to attract and retain businesses.

Over the last year, legislators in Harrisburg have worked hard to approve a state budget that does not increase "broad based" taxes, such as personal income taxes, corporate net income taxes and sales taxes. Last year, the state House voted to transfer unused funds from programs in order to balance the Commonwealth's budget and avoid tax increases. We understand how important it is to keep broad based taxes low, that's why we use a mix of property taxes and municipal electric PILOT to keep our taxes low.

Some supporters of HB 1405 argue that electric rates for municipal power are much higher than the rates of IOU in the neighboring communities, because municipal electric rates partially support the Borough's general fund budget. While that might be the case in some communities, it varies across the Commonwealth. I can only speak for Ephrata and electric rates in the Borough are lower than the surrounding IOU, PPL. For a typical residential customer using 1,000 kWh/month the cost of electricity in the Borough is \$127.45. A PPL customer using the same 1,000 kWh/month, who lives outside Ephrata Borough would pay \$148.56.

Finally, last fall and over the winter there has been some discussion by supporters of HB 1405 of amending the Bill to make it affect only Elwood City and "carve out" the other 34 municipal electric systems. I strongly urge you to reject this proposal. We have a Borough Code, so that

there is one set of rules for all Boroughs. This is similar for Cities and Townships. It sets a bad precedent to make public policy to change the rules for one community, and our concern would be for future targeted legislative action to resolve the complaints of a few customers.

HB 1405 is not needed and if implemented will only lead to increased property taxes, reduced municipal services and greater problems running a borough that has a municipal electric system. Simply, if it is not broke, don't fix it. I urge you to reject HB 1405.

Thank you for your time and I look forward to answering your questions.