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Fiscal Decay Accelerates in PA Municipalities *Findings in New Study have Dire Implications for the Commonwealth*

Fiscal decay has accelerated in all types and sizes of Commonwealth municipalities over the last 24 years, jeopardizing Pennsylvania's health and economic competitiveness, according to a compelling new Pennsylvania Economy League (PEL) report, "Communities in Crisis: The Truth and Consequences of Municipal Fiscal Distress in Pennsylvania, 1970 – 2014."

The disturbing drift threatens the ability of many urban, suburban and rural municipalities to provide even basic services that keep the communities where we live, work, shop and go to school safe, well-maintained, and free from crime and blight. It means core municipalities, whose fiscal health has a direct influence on the financial well-being of the surrounding region as centers of commerce, health care, courts, education and more, are increasingly distressed.

"It's not only cities that are in trouble, but also municipalities of all types across the state and across the Central Susquehanna Region," said Holly Morrison, president of Central Susquehanna Community Foundation, one of ten community foundations that funded the study. "The reason these municipalities are in trouble is because of the way our governments are structured and funded. The state must address this problem or all our local governments will be at risk."

PEL used a mathematical formula to determine the available "tax base" per household and "tax burden," which is the percentage of the tax base taken in the form of taxes to provide local government services. The formula considers a municipality's market value, tax revenue, aggregated household income, and the number of households. The measurement is for the municipality only and does not consider county, school district or other real estate taxes or fees.

Among the key findings:

- **Tax Burden:** The percentage taken from a municipality's tax base in the form of taxes to pay for services has **grown on average for all types of municipalities** since 1990.
- **Tax Base:** Tax base has **fallen on average in cities** since 1970.

- **Act 47:** Municipalities in the state's Act 47 distressed municipalities program **generally performed worse than average** despite state assistance that in some cases has stretched for decades.
- **Police Costs:** Communities that pay for their own local police force on average had **twice the municipal tax burden and ranked much lower** than those that rely solely on default free Pennsylvania State Police coverage.

The study, which was funded by a statewide coalition of ten community foundations, looked at 2,388 of the state's 2,561 municipalities for which there was consistent data from 1970, 1990 and 2014. Once tax base and tax burden were calculated, municipalities were ranked from 1 to 2,388 and divided into quintiles, with those in the first quintile generally the most healthy and those in the fifth quintile considered the most distressed. Philadelphia and Pittsburgh were excluded due to their size and tax structure so as not to skew the results.

The report includes quintile rankings for all municipalities in the study for 1970, 1990 and 2014 as well as findings for the Commonwealth's 11 regions and select counties. In addition, the study outlines problems with the local government system that contribute to municipal distress, the situation regarding municipalities in Act 47, and how the findings correlate to local police costs. The report is available for download at www.pelcentral.org.

While 1970 data is included in the study to trace the impact of the subsequent exodus of population and wealth from urban to suburban and rural areas, the PEL report particularly focuses on the more relevant recent past from 1990 to 2014:

- **Cities:** The trend during that time period has been **overall negative for cities** on all study measures. Tax base remained flat and tax burden on average increased. Cities were all in the bottom quintile rankings in 2014. Many are likely experiencing distress regardless of whether they are in the state's Act 47 municipal distress program.
- **Boroughs and First Class Townships:** The picture is **largely negative in boroughs and first class townships**. Although tax base mostly grew, tax burden also jumped, particularly in first class townships. In addition, the number of boroughs and first class townships in the healthier quintiles fell and those in the more distressed quintiles rose. So despite gaining wealth overall, more boroughs and first class townships are likely experiencing distress.
- **Second Class Townships:** The **trend for second class townships was mixed**. While tax base increased and more second class townships moved into the healthier quintiles, tax burden also climbed. In general, second class townships were in a better fiscal position by 2014 due to gains in wealth. But **even second class townships increased their tax burden from 1990 to 2014** as earlier development and the resulting revenue stream began to stagnate and the larger population demanded more costly services. Unlike other municipal classes, second class townships were in a better position to afford it.

The alarming trend of fiscal distress should come as no surprise. Ten years ago, a PEL analysis warned that a growing number of municipalities were falling into fiscal distress as a consequence of state laws that mandate out-of-date and often expensive rules-of-the-road, fail to offer compelling incentives for municipalities to work together as a way to increase efficiency and save money, and provide local governments with revenue streams that are largely inelastic, capped and out of sync with budget needs.

Little has been done by the state since that call for systemic change. The result is further erosion of certain key measures of fiscal health that signal a community's ability to pay for critical services like well-maintained streets and police protection at a level that citizens can afford. The situation threatens the economic sustainability and vitality of the Commonwealth as a whole because it has a chilling effect on the ability of the state to present itself as a healthy community that can attract and keep businesses and residents.

Adding to the seriousness and immediacy of the current findings are recent amendments to the state's Act 47 legislation that include a strict timetable for how long municipalities can remain in the distressed municipality program. The deadline was imposed because many of these communities have lingered in the program for years. Act 47's provisions have kept these municipalities afloat but not fixed their situation to the point that they have been able to exit the program. The question is what will happen to Act 47 municipalities when they are returned to the local government system that failed them in the first place.

PEL's report was funded by a statewide coalition of ten community foundations that are concerned about the plight of Act 47 municipalities specifically and of fiscally challenged communities in general as they attempt to navigate the broken local government system. The report is designed to spark conversation on the situation and spur state reform.

Funders include: Berks County Community Foundation, Central Pennsylvania Community Foundation, Central Susquehanna Community Foundation, Community Foundation for the Alleghenies, Lancaster County Community Foundation, The Luzerne Foundation, The Philadelphia Foundation, The Clarence G. Koepke Memorial Fund and Paul F. Johns Fund of The Pittsburgh Foundation, Scranton Area Community Foundation and York County Community Foundation.

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