Joint Public Hearing on Act 47
Senate Committees on Community, Economic and Recreational Development and Local Government
House Committees on Urban Affairs and Local Government
Testimony of Dean A. Kaplan
October 20, 2011

Thank you Chairwoman Earll.

Good morning members of the Senate Local Government and Community, Economic & Recreational Development Committees and the House Local Government and Urban Affairs Committees.

My name is Dean Kaplan and I am a Managing Director of the Strategic Consulting Group at Public Financial Management. Thank you for the opportunity to testify on the issue of Pennsylvania's municipal financial recovery program, known as Act 47.

Public Financial Management, or PFM, is a national financial services and management consulting firm that works predominantly for state and local governments and non-profit institutions. We have offices in over 20 states across the country and we are headquartered in Pennsylvania, with over 225 employees located in Philadelphia, Harrisburg, Pittsburgh and Malvern. The Strategic Consulting group is the national leader in the development of multi-year financial plans in the public sector – helping distressed governments to achieve fiscal recovery. In addition, we provide a broad range of services to state and local governments, including operational and efficiency reviews, workforce analysis, governmental consolidation and shared services studies, and program analysis for decision-making.

For example, we have helped the City of New Orleans restructure its budget process after the disastrous effects of Hurricanes Katrina and Rita; the City of Vallejo, California analyze labor costs during its bankruptcy proceeding; Nassau County, New York recover from significant financial distress; and the City of Gary, Indiana restructure its expenditures and revenues, just to name a few places.

Here in Pennsylvania, our team serves as the appointed Act 47 Coordinator for the cities of Pittsburgh, New Castle and Reading, in the first two serving together with Jim Roberts from Eckert Seamans, who is on your next panel this morning. We have also prepared multiyear financial plans under the Commonwealth's Early Intervention Program for the cities of York, Allentown, Easton, Wilkes-Barre, and for Luzerne County.

Approaches to Municipal Distress in Other States

As detailed in the white paper that is an appendix to our testimony, we have developed and/or implemented various approaches to municipal financial recovery in the states of Pennsylvania, New York, Georgia, Florida, Indiana, California and Massachusetts. We have also worked with financially challenged school districts under oversight in Michigan and Pennsylvania.

States throughout the country approach municipal fiscal distress in various ways and with different levels of intervention. In general, these approaches to state-administered municipal financial recovery can be described as monitoring, assistance, oversight, or control. Some states blend these approaches based on the severity of the financial crisis, while others will take a municipality through a series of steps from monitoring to control.

For example, the State of Georgia monitors municipal fiscal distress.

If local government financial statements do not comply with generally accepted accounting principles the government is required by the Georgia Department of Community Affairs to submit audited financial reports to the State Auditor. State agencies are prohibited from transmitting grant funds to a local government that fails to submit an audit within the previous five year period. Georgia does not provide financial assistance to distressed municipalities and it prohibits municipalities from filing for Chapter 9 bankruptcy. According to the statute, if a local government faces insurmountable financial problems, the municipality may be dissolved and its assets and related liabilities will be transferred to the county.

In comparison, the State of Ohio takes a more active approach.

The State Auditor's Office monitors local governments by providing them with ratio indicators to benchmark financial performance and identify fiscal strain. Ohio identifies three levels of fiscal distress: Caution, Watch and Emergency. Under Fiscal Caution, the State Auditor identifies conditions in a local government's finances that could lead to more serious problems if not addressed. The Governor can request that a municipality be placed under a Fiscal Watch if a deficit exceeds two percent of revenue or forecasted expenditures will exceed forecasted general fund revenue by eight percent. A municipality under Fiscal Watch will receive state technical support to resolve their financial issues.

If revenues exceed expenditures by more than 16 percent, a Fiscal Emergency may be declared. A municipal Fiscal Emergency triggers a Financial Planning and Supervision Commission to develop a multi-year financial plan to resolve the municipality's fiscal distress. The Commission will make recommendations to improve the local government's accounting and financial reporting, and the governing body will submit a plan to the Commission on how it will implement the changes. There are currently 24 Ohio municipalities under the supervision of a Financial Planning and Supervision Commission.

The State of Florida approaches local government distress by installing an oversight board.

The board is triggered when the local government fails to pay debts, transfer taxes withheld on the income of employees, make payroll, or proves unable to resolve operating deficits. Once constituted, the Board has broad authority over municipal fiscal affairs including budgetary and debt approval, and the power to review operations and management. In addition, the Board has some ability to limit the financial impact of employee collective bargaining agreements. If needed the board may recommend that the local government file for Chapter 9 bankruptcy.

For example, an Oversight Board was established for the City of Miami in the 1990s. The Board was authorized to remain in existence for three years after the City produced two successive years of balanced operations and proved that it no longer met any of the financial emergency

conditions. The Oversight Board had a substantial amount of control over the City's budget, including the power to prohibit the City from spending any funds which were not authorized by the Oversight Board, except if needed to pay debt service. However, the Board had limited control over collective bargaining agreements. While it could disapprove of agreements that were inconsistent with the multi-year financial plan, the Board could not nullify a non-compliant labor agreement.

The State of Massachusetts approaches municipal fiscal distress by installing a Control Board, similar to the Management Board structure under Senate Bill 1151 here in Pennsylvania.

In Massachusetts, the Board will assume the authority of the Mayor and Council over the government in exchange for State backing of new debt issued on behalf of the City. The Board's mission is to initiate and assure the implementation of appropriate measures to secure the financial stability of the city. The Board's powers include the ability to:

- Institute budget guidelines and procedures for all departments;
- Appoint, remove, supervise and control all city employees and set the terms and conditions of employment held by other employees or officers of the city;
- Replace binding arbitration with voluntary mediation for future labor contracts;
- Review and approve or disapprove all proposed contracts for goods and services;
- Raise or reduce any fee, rate, or charge, for any city service, license, permit or other activity;
- Reorganize, consolidate or abolish departments, commissions, boards, offices or functions of the city, and to establish such new departments, commissions, boards, offices or functions as it deems necessary.

The State of Michigan has a similar approach using a single overseer. Before the passage of Act 4 in 2011, Michigan used appointed Emergency Financial Managers (EFMs) with broad powers to rectify the local government's financial emergency. Those powers included the authority to amend, revise, approve or disapprove the municipal budget; assume and exercise the authority of the local pension board; authorize borrowing; and sell assets to pay the municipality's outstanding obligations. With the enactment of Act 4 this year, the state granted the new emergency managers the power to modify or terminate collective bargaining agreements.

A number of states such as North Carolina, New York, Connecticut, Illinois, Indiana and New Jersey blend or use parts of these various approaches.

Drivers of Municipal Financial Distress

In our national and local experience with municipal financial recovery programs, we have seen consistent drivers of fiscal distress for local governments throughout the country and here in Pennsylvania. While there are obviously individual variations, several major themes are regularly found across many states.

Capacity

There are several major underlying issues of distress that members of the four Committees have undoubtedly encountered. I will discuss all of these in my testimony, but I want to begin by highlighting something we discuss less frequently – capacity. Local governments in

Pennsylvania and throughout the country have extremely limited resources to deal with daunting financial and organizational challenges. The combination of the relatively small size of many local governments, the focus on core public safety and public works services, and an overlap of increasing expectations for local government reporting and documentation at a time of diminishing resources means that many local governments simply don't have sufficient qualified personnel to address the myriad challenges that come with financial distress. In fact, the spiral toward financial crisis often includes the departure of experienced municipal employees through downsizing, retirement and simple employment stress.

Many local governments operate with a minimal number of personnel in the critical areas of finance and operations management. The majority of labor expenses are for frontline employees such as police, fire, emergency medical services, street repair, and traffic maintenance. Therefore, many critical back office services such as budgeting, accounting, finance, asset maintenance and management, and general operations are put on the desks of the same small set of employees. The demanding workload and comparatively low compensation for professionals limit the scope of the labor force that is attracted to these positions. Moreover, the resources and time needed to send managers to routine and specialized training are often the first things to disappear as financial conditions deteriorate. Finally, as an aging state, recruiting and retaining young, talented Pennsylvanians to be the next generation of local government managers is a challenge in this environment.

During a period of fiscal distress, senior employees are often called on to be subject matter experts – especially in the financial realm – but also to serve as in-house management consultants who analyze structural alternatives, prepare and assess the responses to competitive contracting or outsourcing initiatives, and help implement radical revisions to tax collection, operations and personnel procedures, all while running the government on a day-to-day basis. A surprising amount of time is consumed reviewing proposals for assistance that arrive from every corner, ranging from debt ideas to offers to buy local assets.

In its role as Act 47 Coordinator, PFM has had some success in recruiting in-house financial professionals to improve financial management, bookkeeping and reporting, and we have learned as overseers to consistently focus on a manageable number of prioritized changes to avoid overwhelming in-house resources. DCED has also provided technical assistance through its peer-to-peer program to help local government managers evaluate operations and programs, though these assignments are usually temporary and focused on a specific area like police operations or information technology systems implementation.

In summary, based on our experience in Pennsylvania and throughout the country, local governments frequently lack the capacity to manage their way out of a fiscal crisis.

Diverse Local Government

The challenges posed by limited capacity are compounded by the sheer number of local government entities in this state. In Pennsylvania as in many states with changing demographics, local governments are struggling to right-size infrastructure and services for the current demands of new, different population. Many cities and boroughs in Pennsylvania have far fewer residents

than their municipal infrastructure was built to serve. For example, in 1950 the City of Reading was home to approximately 110,000 people, but it currently has 88,000; the City of Pittsburgh's population was once more than twice the most recent census estimate of about 306,000. These cities were built to serve populations they no longer have, and the infrastructure and inefficiency costs their local governments. The problem is exacerbated by significant and important commuter populations which require service, too; the difficulty of downsizing geographically-based infrastructure and services ranging from drinking water to fire protection; and reverses to this trend – Reading's population grew by 12.4 percent since 1990.

This body reconstituted the State Planning Board under Act 42 of 1989, and the Board has subsequently done extensive work on behalf of the legislature to research and articulate the need for right-sizing local government. Right-sizing local government could mean establishing regional agencies, or giving municipalities incentives to contract with each other or the county for services. This approach can be unfamiliar in a strong local autonomy state like Pennsylvania, but it is widely used elsewhere. You'll find regional or consolidated fire departments in Washington, Nevada, Kansas and California and consolidated or county police departments in Nevada, Indiana and Maryland.

There has been some movement toward these structures in York, Berks, Pike and Lancaster counties, and the Commonwealth has also made progress in this area. A number of counties have regional police departments serving multiple communities. The City of Pittsburgh has taken over fire service for adjacent Wilkinsburg, and the City of Reading polices nearby Kenhorst. The Commonwealth has helped by consolidating 911 and offering facilitation and support for joint working and collaboration initiatives. The creation of school district intermediate units in Pennsylvania several decades ago instituted a form of shared services in the local education sector. Given the significant and understandable organizational and financial barriers to local government merger, alternative approaches to shared services may be the initial focus.

In summary, local governments throughout Pennsylvania and other similar states must continue to restructure service delivery with an eye toward joint working, shared services and regionalization where appropriate.

Workforce

Managerial and operational capacity and fragmented government are critical issues. However, the day-to-day driver of local government finance is the cost of providing basic services ranging from public safety to sanitation. For most local governments in the Commonwealth, employee wages and benefits make up most of this cost, with two-thirds to as much as four-fifths of a municipality's expenditures dedicated to salaries, overtime, health care benefits, pension and other workforce costs.

In Pennsylvania and throughout the country, the continuously rising cost of health care, pensions and other post-employment benefits threaten local government budgets. Benefits typically grow faster than the major local government revenue sources, creating a mismatch that is unsustainable in the long run. In its most recent report on state and local government finances the federal General Accountability Office draws specific attention to the negative impact of

employee health care and retiree cost growth that exceeds the expansion rate of the larger economy.

This is not a new trend. According to the US Census Bureau's 2010 survey of state and local government employee retirement systems, benefit payments by state and local retirement systems increased nationally by 263 percent from 1993 to 2008, while the combined employer and employee contributions to replenish these systems increased by only 133 percent in the same time period. As baby boomers begin to retire the gap between pension benefit payments and pension fund contributions will continue to expand, increasing costs to local governments. According to the Kaiser Survey of Employer-Sponsored Health Benefits, from 2001 to 2011 the cost of health insurance premiums nationally increased more than three times faster than consumer prices.

In Pennsylvania, a task force co-chaired by Senator Orie and Representative Frankel in conjunction with the Institute of Politics at the University of Pittsburgh produced a 2009 report on the municipal pension crisis that found that municipal pension plans are significantly underfunded. The report identified pension underfunding as a long-term risk to municipalities' ability to provide primary services to taxpayers.

Other post-employment benefits, known colloquially as OPEB, are retiree benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription, or other health care benefits provided to eligible retirees, including in some cases their beneficiaries. OPEB liabilities may also include some types of life insurance, legal services, and other benefits.

In September of 2011, Standard & Poor's reported that states had unfunded other post employment benefits total $545 billion in 2010. Based on 2009 CAFRs, local governments in Pennsylvania have over $11 billion in unfunded OPEB liabilities. Although OPEB may not have the same legal standing as retirement pensions, the Governmental Accounting Standards Board, or GASB, has taken the position that pension benefits and OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing public services today. Like pensions, OPEB liabilities are additional burdens on local government budgets today and into the future, and are now being shown more clearly on local government financial statements.

Salaries face similar challenges. While there are competing studies, it is clear that at the senior managerial levels recruitment and retention are difficult due to the gap between public sector salaries and private sector opportunities. EMTs and paramedics can often find more agreeable schedules at competitive compensation levels with private ambulance services. For police officers, the relative salaries offered by urban and suburban jurisdictions have been raised as an issue, and the structure of uniformed collective bargaining limits a local government's ability to control total compensation.

In summary, in most cases nationally, OPEB, health care, pensions and salaries are growing at a rate faster than local government revenue sources.

Limited Revenue Options

The primary sources of local revenue for municipalities in Pennsylvania are property, earned income and business taxes. In certain cases other taxes are temporary or permanent major sources of revenue, including the Local Services Tax, real estate transfer tax, and the sales tax.

However, the current economic climate and housing crisis of the past three years has highlighted the strengths and weaknesses of these revenue sources for local governments. Property taxes have been a traditional source of stability in the municipal revenue budget; in fact, concerns historically focused on the lack of growth in such a major revenue, especially given sporadic county reassessments, and pressure on homeowners due to competition for the revenue source given its use by municipalities, school districts and counties. Now, however, declining valuation and appeals by homeowners and businesses have threatened this core revenue when it is needed most. Likewise, the earned income tax had been a fairly reliable source of modest growth, with wage increases over time offsetting periodic drops due to the employment cycle. In the last few years, though, wages have stagnated and in most cases local employment has dropped. This has eroded a significant support for local governments. Even Act 32 of 2008, which will provide positive benefits as county-wide collections are implemented, will have some growing pains as collectors absorb complicated new urban taxpayers.

An effective revenue support system for local governments will provide a variety of tax and fee options to provide revenue diversity beyond property and income taxes; will include a mix of revenues with growth potential like wage and income-based alternatives balanced by core revenues like the property tax to provide a reliable base; and account for the dynamics of potentially lucrative but highly cyclical taxes like the real estate transfer tax and even the sales tax. Finally, it is important to match the revenue menu with the real expenditure need: a panoply of small levies like the per capita tax, hotel tax, rental car fees, or a drink tax may be part of a solution but are not robust enough to rely on alone for basic long-term revenue consistency.

In summary, revenue options are needed to match the growth rate of expenditures for services we wish municipalities to provide.

Alternatives for Assisting Distressed Municipalities in Pennsylvania

Lack of capacity, obstacles to right-sizing local government services, and a workforce cost structure that is not aligned with revenue options are key factors that drive municipalities toward fiscal distress throughout the country and in Pennsylvania. In this state, the Early Intervention Program has provided numerous governments with the forecasting, planning and implementation resources to avoid more serious distress. For those that do receive a distress designation, Act 47 provides additional important tools to return local governments to financial stability. However, the number of governments that continue to struggle even after completing an EIP, and the small number of local governments that have transitioned out of Act 47 highlight the challenges posed by the underlying structural factors facing them.

As you review Act 47, based on our national experience with similar programs in other states we suggest that you consider alternatives to make state oversight stronger, providing more help sooner. Faster, earlier, more comprehensive intervention with stronger terms may allow oversight to be more effective and shorter in duration. More powerful, but more temporary oversight could be combined with various structural revenue and service options to make local government in Pennsylvania more viable and sustainable.

The options that follow may not appeal to all of us, but they are noted here because of their use in other comparable states as described in the white paper included as an appendix to my testimony. They provide a tangible set of concepts based on what other states have done and show what they might mean for Pennsylvania. Members of the Committees will note that these ideas run the gamut from expansion of the Commonwealth's current collaboration model to more "hard control" approaches. The common thread through these options is additional monitoring, rapid and more aggressive intervention, the involvement of additional levels of government, and greater authority to make institutional changes to local governance.

An initial step used in other states would involve providing the DCED with greater resources to improve the quality of financial data it receives from local governments and counties, to analyze that data, and to require local governments failing tests of financial health to file corrective action plans. A more expansive version of this idea might require local elected officials to formally agree to the corrective plan; set up a joint internal-external panel to monitor compliance; and provide resources for remedial action. Members will see in the white paper that several states take some form of this approach, including Ohio, North Carolina, New Jersey, and Georgia. Different aspects of this concept could be integrated with the existing Municipal Statistics Program and the Early Intervention Plan concept; for example, DCED already asks local Councils to formally adopt remedial plans developed as part of EIPs.

Once local governments are under oversight, another option would be to provide a Coordinator under Act 47 with additional powers to implement changes. Rather than the current approach of developing a plan that the municipality must adopt and then providing limited implementation tools, the Commonwealth could grant the Coordinator, a new oversight body, or the DCED greater power to implement an approved plan. The broad powers granted to the oversight or control boards in Florida, Massachusetts, and Connecticut and New York and the successful termination of state oversight in many of these cases highlights the institutional change that may be accomplished in relatively short period time. Such changes, which would certainly require detailed scrutiny by these Committees and all stakeholders, might include steps taken in other states to modify the collective bargaining process, review and approve budgets and major contracts, and restructure departments and services.

For centuries Pennsylvania has valued local autonomy. The benefits of this approach are well known. However, the self-determination and self-reliance which characterize this state's philosophical approach are challenged by a global economy that rewards the largest, most nimble and dynamic political entities, and the reality of numerous poor, economically-challenged communities even in some of the wealthiest Pennsylvania counties. Many of the most resilient and successful states in the nation have established county government as the primary service provider. Pennsylvania is not likely to move to a more county-based government like near neighbors Virginia or Maryland. However, in recent decades local governments and you and

your colleagues here in Harrisburg have recognized the importance of a more substantial role for counties.

For example, the legislature has recognized an expanding role for counties in service delivery. The Public Safety Emergency Telephone, Act 78 of 1990, vested with the counties the statutory authority to create 911 dispatch services; Act 32 of 2008 raised earned income tax collection to the county level; Act 105 of 2010 provided matching funds for counties administering affordable housing programs. Counties have also played important roles in promoting regional police and fire services and studies in York, Berks, Pike, and Lancaster counties to name a few.

There are numerous ways that the state could empower counties to directly assist local governments, ranging from funding studies and selected consolidation costs for regional public safety services to requiring all police detective services to be provided at the county level and providing transition funding. The state could also encourage regional recreation services in lieu of local programs, or ban charges or charge backs for county 911 services while making counties whole by providing full state operating funding through landline and mobile phone fees.

In turn, County governments often express frustration with the decisions taken by distressed communities, which are not infrequently their county seat. Defining a more formal role for counties in assisting distressed municipalities – even something as simple as the designation of a specific ongoing, engaged liaison from the County Commission or senior executive corps – would be beneficial. In certain cases, seconded or loaned County executive programs would be highly beneficial to distressed municipalities and would give the County insight for ongoing support and collaboration. The involvement of County officials in various forms of oversight is a characteristic of programs in North Carolina and Indiana.

Regional cooperation can take other forms as well. As previously discussed, regional service delivery can reduce expenditures for each participating municipality, and the overall costs for the delivery of service. This is not a new model for this state – there are 39 regional police departments in Pennsylvania, over a hundred regional authorities for water and sewer service, and a number of regional planning commissions. There are numerous ways the state can provide incentives for shared services such as residential property tax credits to municipalities that collaborate, transitional aid for police or fire operational or employee benefit consolidation, or priority matching funds to groups of municipalities that take substantial strides toward shared-services such as study commission.

The state can take a more active role as well. One alternative is to provide a statewide health plan alternative for local governments that would provide economies of scale similar to those achieved by the Pennsylvania Employees Benefit Trust Fund. Several years ago, in response to a request from Pittsburgh for a regional public sector health consortium to create larger employee pools to improve rates, the PEBTF spent months researching the potential creation of a legally-separate municipal pool affiliate. The Commonwealth chose not to pursue the idea at that time, but there may be a very useful role for the state to help create optional regional health benefits funds even they are not administered them directly through PEBTF.

Many Members have seen or made suggestions to sell local government assets in order to fund legacy cost like OPEB, pensions, workers' compensation and long-term debt. In many cases,

local governments do have assets – ranging from golf courses to parking garages – that may involve businesses that local governments do not run particularly well. As you will see in the white paper, some states do include this as an oversight option. To the extent the Committees see this approach as desirable I encourage you to insist that the local bodies receive financial and structural advice from qualified professionals, as distressed governments rarely have the capacity and expertise to manage such transactions. We also suggest that any proceeds from long-term asset transfers be matched to solve long-term liability problems, so that asset sale proceeds are not merely used to patch over recurring structural operating budget gaps.

Thank you for the opportunity to talk to you about this important public policy issue and to discuss what other states are doing. As noted, we have developed a whitepaper on municipal financial recovery programs throughout the country that outlines many of the topics I briefly discussed, provided that paper to each of the Committee Chairs, and would be happy to provide the members of this committee with copies upon request or you can download it from our website at www.pfm.com.

I will be happy to answer your questions.

State Programs for Municipal Financial Recovery An Overview

October 2011

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Introduction

This document provides an overview of Municipal Financial Recovery Programs (MFRP) from a set of nine states comparable to Pennsylvania (comparable states are those that have similar diversity of local government). The information comes from Public Financial Management's work with distressed local governments in the comparable states and from supplemental research. The paper is intended to provide background for policymakers and others who seek general information about recovery programs in different states.

The MFRPs are discussed and categorized based on their adoption of one or more of four general approaches: Monitoring, Assistance, Oversight, and Control. Some states blend these approaches based on the severity of the financial crisis, while others will take a municipality through a series of steps from Monitoring to Control.

The first part of this overview provides examples of the four general approaches, and the second part provides examples of states that blend or scale their programs for municipal financial recovery. An overview of municipal bankruptcy is provided and finally, Pennsylvania's Early Intervention Program, Act 47 and the Intergovernmental Authorities in Pittsburgh and Philadelphia are briefly described and compared to programs in the other states.

Monitoring

In Georgia, the Department of Community Affairs (DCA) reviews local government budgets and other financial management decisions on an annual basis.[1] Local governments whose financial statements do not comply with generally accepted accounting principles are required by DCA to submit audited financial reports to the State Auditor. State agencies are prohibited from transmitting grant funds to a local government that fails to submit an audit within the previous five year period. The state prohibits municipalities from filing for Chapter 9 bankruptcy and does not provide financial assistance to distressed municipalities. If a local jurisdiction faces insurmountable financial problems, the law directs that the municipality be dissolved and its assets and related liabilities will be transferred to the County.[2]

Assistance

In Ohio, the State Auditor's Office monitors local governments by providing them with ratio indicators to benchmark financial performance and identify fiscal distress.[3] State law distinguishes between three levels of distress.

- *Fiscal Caution:* The least severe level of oversight is intended to identify conditions and weaknesses that could lead to more serious financial problems if not addressed. The watch status is triggered by the State Auditor based on

[1] Georgia Code § 36-80-1
[2] Georgia Code § 36-68-1
[3] Chapter 118 of the Ohio Revised Code.

problems reported in the audit (or the inability to produce one) or a deficit of at least two percent of revenue.

- *Fiscal watch*: Under the Local Fiscal Emergencies Act,[4] the Governor can request that a municipality be considered for fiscal watch status by the State Auditor. Any of the following factors may trigger a watch declaration: current year expenditures exceed available revenues by one-twelfth, operating deficit exceeds one-twelfth of the General Fund budget, or forecast expenditures will exceed forecast general fund revenue by one-twelfth. The State provides technical support to cities under fiscal watch at its own cost. There are currently three cities under fiscal watch, the largest of which is Lorain (population of 68,000, comparable to the City of Lancaster, Pennsylvania). Eleven cities, including Youngstown, have graduated from watch status since 1996.

- *Fiscal emergency:* If revenues exceed expenses by at least one-sixth of prior year revenues, a fiscal emergency is declared and the State Auditor will convene a Financial Planning and Supervision Commission to develop a multi-year financial plan to resolve the municipality's fiscal distress. The Commission will make recommendations to improve the local government's accounting and financial reporting, and the governing body will submit a plan to the Commission on how it will implement the changes. To date, 24 municipalities are under the supervision of a Financial Planning and Supervision Commission. Mansfield (population of 49,000) is the largest city under fiscal emergency. Thirty-five municipalities have graduated from emergency status.

Oversight

In Florida, the Local Government Financial Emergencies Act provided for the creation of a municipal Financial Emergency Oversight Board.[5] The board is triggered when the local government fails to meet any of the following conditions: pay debts, transfer taxes withheld on the income of employees, make payroll, or proves unable to resolve operating deficits. The Governor appoints all members of the Board. Once constituted, the Board has broad authority over municipal fiscal affairs including budgetary and debt approval, and the power to review operations and management. In addition, the Board can limit the financial impact of collective bargaining agreements (similar to Pennsylvania's Act 47).[6] As a last resort and with the approval of the board, the local government may file for Chapter 9 bankruptcy.

For example, an Oversight Board was established for the City of Miami. The Board was authorized to remain in existence for three years after the City produced two successive years of balanced operations and proved that it did not meet any of the conditions of being in a financial emergency. The Oversight Board had a substantial amount of control

[4] Significant changes to the Local Fiscal Emergencies Act are pending in the legislature that would move the state's approach to the control end of the spectrum.
[5] Florida Statutes Chapter 218 §5
[6] The state oversight is also applicable to school districts.

over the City's budget, including the power to prohibit the City from spending any funds which were not authorized by the Oversight Board, except if needed to pay debt service. However, the Board had limited control over collective bargaining agreements. While it could disapprove of agreements that were inconsistent with multi-year financial plan, the Board could not nullify a non-compliant labor agreement.

Control

In Massachusetts, the state Department of Revenue offers municipalities a no cost Financial Management Review.[7] A review is initiated at the request of the mayor or council. The department provides an analysis of and recommendations for improving financial practices and procedures, management policies and general operations to ensure the local government is compliment with state law, and is operating efficiently.

During the 1980s and 1990s the legislature developed specific municipal control strategies for financially distressed municipalities. In September of 1991, the legislature passed special legislation that placed the City of Chelsea under receivership. The state-appointed receiver exercised extensive control over the City's finances and operations. Under receivership the City adopted a new city charter that gave policy and legislative authority to an 11-member City Council led by a City Manager. The first City Manager was appointed in 1995, and the City exited control.

More recently, the legislature established the City of Springfield Finance Control Board.[8] The City of Springfield has a population of 153,060, which is slightly larger than the City of Allentown, Pennsylvania. The Board took authority from the Mayor and Council over the government in exchange for State backing of new debt issued on behalf of the City. The Board consisted of five members. Three were appointees of the Commonwealth's Secretary of Administration and Finance; two were designated by Springfield's Mayor and City Council President. The Board's mission was to initiate and assure the implementation of appropriate measures to secure the financial stability of the city. The Board's powers included the ability to:

- Replace binding arbitration with voluntary mediation for future labor contracts;
- Appoint, remove, supervise and control all city employees and set the terms and conditions of employment held by other employees or officers of the city;
- Institute budget guidelines and procedures for all departments;
- Review and approve or disapprove all proposed contracts for goods and services;
- Raise or reduce any fee, rate, or charge, for any city service, license, permit or other activity;
- Reorganize, consolidate or abolish departments, commissions, boards, offices or functions of the city, and to establish such new departments, commissions, boards, offices or functions as it deems necessary.

The Springfield Finance Control Board was dissolved on June 30, 2009, approximately five years after it took over the municipality. During that time, the City underwent a

[7] http://www.mass.gov/forlocalofficials
[8] Commonwealth of Massachusetts, Chapter 169 of the Acts of 2004

broad financial and operational restructuring. The city moved from a $41 million deficit in Fiscal Year 2005 to a reserve fund balance of nearly $40 million at the close of Fiscal Year 2009.[9]

Blended Approaches

In the last thirty years, blended control and oversight boards have been employed in many jurisdictions throughout the country to support local governments and their component agencies when they have faced financial difficulty. The specific circumstances leading to oversight or control have varied, along with the structures developed to deal with these financial issues. However, the issues that the creating authorities – generally governors and state legislatures – sought to address were similar.

North Carolina

In North Carolina, the State and Local Government Finance Division under the Department of the Treasury collects data on the financial condition of each municipality in the state. The legislature established the Local Government Commission under the Department of the Treasury to address municipal fiscal distress.[10] The Commission is composed of nine members, including the State Treasurer, State Auditor, Secretaries of State and Revenue, three appointments by the Governor, one member appointed by the State Senate and one by the State House. One of the Governor's appointments represents the municipal government and one represents the government of the County in which the municipality is located. Once the Commission is constituted, local governments must receive approval from the Commission for all borrowing and submit annual financial reports. If a local government fails to make any payment on its debts the Commission can investigate the municipality's finances.

If needed, the Commission can negotiate with creditors to work out a plan for the municipality to repay its debts. In addition, if a municipality cannot meet its debt obligations the Commission may order the local government to raise taxes or other revenues in adequate amounts to make the necessary debt service payments. At this stage, the Commission may review and approve a municipality's annual budget, and the State Treasurer will benchmark the municipality's finances to set its future budgetary goals. Based on the research findings, no municipality has recently entered this program.

New York

New York State does not have a law that applies to all fiscally-distressed local governments because the State has preferred to develop an individual solution for each municipality or county. Typically, the legislature will pass a special act that grants unique powers to a borrowing authority to alleviate the fiscal distress, coupled with an oversight control board mechanism. The board generally has the power to approve or disapprove budgets and financial plans, debt issuance, and impose a wage and/or hiring

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[9] See, http://www.mass.gov/?pageID=mg2utilities&L=1&sid=massgov2&U=sfcb_for_redirect.
[10] North Carolina General Statutes §159-3

freeze. The implementation of these powers is typically left to the board's discretion and implementation has varied widely in different cases.

For example, the City of Buffalo Fiscal Stability Authority (BFSA) was granted immediate control powers over the finances of the City on July 3, 2003. The powers included but were not limited to approval of the financial plan of the city and its covered organizations; development of modifications to the financial plan if necessary; and issuing orders to officials to take any action necessary to implement the financial plan. In addition, the BFSA had the power to impose a wage and/or hiring freeze and approve collective bargaining agreements. The BFSA was granted the authority to exempt any group of employees from the wage freeze if the group agreed to a deferment of the increased salary or wages, which is deemed by the Board to be an acceptable contribution to alleviating the City's fiscal crisis.[11]

For Nassau County, the state legislature created the Nassau County Interim Finance Authority (NIFA). The NIFA has the power to monitor and oversee the County's finances and to issue its bonds and notes for various County purposes, including the restructuring of a portion of the County's outstanding debt. However, the authority has limited powers over collective bargaining agreements. In March of 2011, the NIFA invoked a portion of its authorizing statute allowing for increased powers and mandated a wage freeze applicable to all employees[12] because of its estimate of the likelihood that the County would have significant operating deficit at the end of FY2011.[13]

Connecticut

In Connecticut, similar to New York, the state legislature passes special legislation to deal with local government fiscal distress. Generally, the legislature will install a Financial Review Board that has powers to approve annual municipal budgets, alter taxes and fees to pay off deficits, and approve debt issuance. The Board may also issue debt on behalf of a municipality. The power to affect collective bargaining agreements has varied from a broad authority, which positions the Board as the arbitration panel that specifies the terms of an agreement, to a limited authority which allows the Board to review agreements to ensure compliance with the financial plan.

The City of Waterbury has had several control periods, the most recent from 2001 to 2007. The City's Financial Planning and Assistance Board was composed of seven members: State Treasurer, Secretary of Policy and Management, the local mayor, and four members appointed by the Governor that included an expert in municipal finance, a union representative, a local resident, and a local business owner. The Board was charged with a specific goal of balancing the local budget for five consecutive years. It had broad financial authority along with the power to reverse a decision of the Mayor or Council if the decision threatened the economic viability of the City. In addition, the Board could reject new and renewed collective bargaining agreements, request that the

[11] The wage freeze provisions in the BFSA Act have been challenged without success by all City and School District unions in state and federal courts.
[12] See, 2010 Annual Report at http://www.nifa.state.ny.us/annual_reports.html.
[13] The County has since filed a law suit against the NIFA to block its action.

bargaining unit reopen existing contracts to revise the terms, and serve as the arbitration panel if new contract terms could not be agreed upon.[14]

The City of Bridgeport Financial Review Board was composed of eleven members: the Secretary of Policy and Management, the local mayor, two appointees by the Governor, two appointees by the mayor, two by the House and Senate, and two appointed by the State Treasurer. This Board's powers were primarily financial. It could approve, reject or modify annual budgets, set the terms for debt issuance, and adjust the local tax rates. However, the Board had no direct authority over government operations or management. In addition, the Board's powers over collective bargaining labor agreements were limited to an impact analysis of the agreement to ensure compliance with the multi-year financial plan. The Board was constituted in 1988 and dissolved in 1995.

Illinois

In Illinois, local governments with population less than 25,000 may file for Chapter 9 Bankruptcy upon the approval of the Financial Planning and Supervision Commission.[15] The Commission is triggered by a petition from the local government. The Governor may direct the establishment of a Commission to determine whether the municipality is in a fiscal emergency. The Commission is comprised of 11 members, including the Governor; State Treasurer and Comptroller; Directors of Revenue, Office Management and Budget, and Commerce; the executive of the affected local government; and three others with knowledge of public finance, budgeting and management appointed by the Governor.[16] The local government must adopt a multiyear financial plan that will stabilize its finances.[17] The Commission has broad authority to make financial changes to a municipality's budgeting, financing and debt issuance. The Commission has no power over labor agreements. The Commission may recommend that a municipality seek bankruptcy relief under Chapter 9 as an option of last resort. In 2009, the Village of Washington Park, population of 5,300, filed for Chapter 9 bankruptcy protection.

Larger municipalities are subject to the Financially Distressed City Law (FDCL) of 1990. In order to receive assistance under the FDCL a city must request that Department of Revenue certify that it is in the highest five percent of the aggregate of the rate per cent of all taxes levied upon all taxable property and in the lowest five percent in terms of per capita tax yield.[18] Once a determination is made, an authority is established for the local government. The purpose of the Authority is to provide a secure financial basis for and to furnish assistance to the financially distressed city. The authority will ensure that the city can provide basic municipal services and meet its obligations to its creditors and the holders of its notes and bonds. To achieve those goals, the Authority has a broad array of powers to correct the city's financial situation. However, the authority has limited control over labor contracts. East St. Louis is the only city in the program.[19]

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[14] http://www.cga.ct.gov/2005/rpt/2005-R-0486.htm
[15] 50ILCS § 320
[16] 50 ILCS 320/5(b)(3)
[17] 50 ILCS 320/8(a)
[18] 65 ILCS 5/8-12-4
[19] See, http://articles.chicagotribune.com/2010-09-21/business/ct-biz-0921-chicago-law-20100921_1_bankruptcy-cases-municipal-bankruptcy-debts

Indiana

In Indiana, the legislature established the Distressed Unit Appeal Board (DUAB)[20] to receive petitions from political subdivisions that were expected to have calendar year reductions in property tax collections of at least five percent as a result of statewide property tax caps approved in 2008. The Board consists of nine members, including the State Director of the Office of Management and Budget, the Commissioners of Local Government and Revenue, the State Examiner, and three members appointed by the Governor, and one by the Speaker of the House. The Governor's appointees include one member from each of the Indiana Association of Cities and Towns, Counties and School Superintendents. The Board had the power to grant a municipality's request to temporarily increase millage rates above the State established caps, reorder debt payments, and conduct financial audits. A petition by a municipality to the DUAB for relief from the property tax caps must include a multi-year financial plan for relieving their fiscal distress, and the local government can appeal the DUAB's determination to the Indiana Board of Tax Review.[21]

Since the property tax caps were added to the state constitution in 2010, 2011 was the last year the DUAB could grant millage relief. The City of Gary and related agencies supported by property tax millage are the only local governments to have successfully petitioned the DUAB for relief.

Michigan

In Michigan, Act 4 of 2011 created a new system for State oversight of municipal finances. The process begins with a preliminary review that may be requested by the municipality, a creditor that has not been paid in over six months, a petition by five percent of the electors, or the employee pension fund. The State Treasurer will convene a team to conduct the preliminary review. If a finding of "probable financial stress" is made, the Governor will appoint a review team.[22] The review team will have the power to audit a municipality's financial records and sign a "consent agreement" with a local government that "provides for remedial measures considered necessary to address the local financial problem".[23] If a finding is made that the the local government is severely financially distressed, then the State Treasurer may require a multiyear operational and financial recovery plan, and the hiring of a consultant to assist the local government with implementing the plan.[24]

The Governor may declare "financial emergency" for a municipality if the local government does not adopt the consent agreement and recovery plan, materially breeches the agreement or the municipality's financial condition is so severe that such action is warranted. A declaration of financial emergency places the local government under the

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[20] I.C. 6-1.1-20.3

[21] Significant changes to the powers of the DUAB are pending in the legislature that would grant the DUAB strong control of the municipality's operations and labor agreements.

[22] Mich. Comp. Laws 141.1512

[23] Mich. Comp. Laws 141.1513

[24] Mich. Comp. Laws 141.1514a(11)

receivership of the state.[25] Under receivership, an Emergency Manager (EM) is appointed by the Governor who has broad powers to rectify the local government's financial emergency. In summary, the powers granted to the EM include the authority to amend, revise, approve or disapprove the municipal budget; reject, modify or terminate collective bargaining agreements, assume and exercise the authority of the local pension board; authorize borrowing; sell assets; recommend consolidation with a neighboring government or disincorporation; and exercise the full authority of the local government.[26]

Before 2011, the State used Public Act 72 of 1990 to appoint Emergency Financial Managers (EFMs). The position had some of the same powers as those granted by Act 4 of 2011, including the authority to take control of the local budgeting process and to make plans to pay outstanding obligations. However, the EFMs could not terminate union contracts.

The City of Flint is the first municipality to be reviewed under the process established by Act 4 of 2011. Other municipalities, such as the City of Pontiac, entered State oversight under the older system. The EFMs appointed under the older system continue to serve with the powers granted under the older system.

New Jersey

In New Jersey, the Department of Community Affairs (DCA) administers the Distressed Cities program. The program provides additional state aid and fiscal oversight through the development of a multi-year financial recovery plan. In 2002, persistent fiscal distress in the City of Camden led to the passage of the Municipal Rehabilitation and Economic Recovery Act.[27] Under the Act, the Commissioner of DCA declares that the local government is in severe fiscal distress and the municipality will enter a "rehabilitation term".[28] During the rehabilitation term the Chief Operating Officer (COO) appointed by the Governor assumes the powers of the local government.[29] The COO is granted a five year term and is given broad authority over municipal finances and budgets. In addition, the Recovery Act created the State Economic Recovery Board. The Board was granted $175 million to invest in projects in Camden that would spur economic revitalization to grow the city's revenues.

In January of 2010, the City Camden was released from state oversight and the State is phasing down the annual amount of "transitional aid" provided to the City. However, the City's budget is still reviewed annually by the DCA, and in October 2011 the State announced a reduction in financial aid for the City.

Municipal Bankruptcy

Over the past year, some fiscally distressed municipal governments have publicly discussed filing for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code.

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[25] Mich. Comp. Laws 141.1515(4)
[26] Mich. Comp. Laws 141.1519
[27] N.J.S.A. 52:27BBB-1
[28] N.J.S.A. 52:27BBB-6
[29] N.J.S.A. 52:27BBB-9

Some local governments will contemplate bankruptcy as a last resort, and others may consider it as a means to seek relief from labor contracts, debts and other obligations perceived as onerous. In recent decades municipal bankruptcy has only rarely been used by a full-service[30] local government. In most cases, municipalities have taken the difficult measures required to maintain fiscal solvency, avoid bankruptcy, and preserve bondholders' credit standing with the help of state assistance and oversight as discussed above. Furthermore, bankruptcy filings have generally been avoided because of the significant political, legislative, and expense hurdles and severe strain on access to capital markets.

To file for bankruptcy, a municipality must be insolvent, have a desire to implement a plan to adjust its debts, negotiate in good faith with creditors and fail to obtain an agreement or negotiation with creditors is deemed impractical.[31] Under the 1994 amendments, a local government must be specifically authorized by its State to file for protection. As of 2010 26 states, including Pennsylvania, permitted municipal bankruptcy under Chapter 9 of the federal code. In Pennsylvania, a municipality must be designated distressed under Act 47 prior to a bankruptcy filing.

The advantages of filing for bankruptcy include protection from any actions by creditors, as well as the time and opportunity to raise revenue, renegotiate contracts and rework debt agreements. The law also provides the municipality with access to an expert financial arbiter that will help the local government develop a plan for fiscal solvency.[32] However, a municipality cannot be forced to liquidate assets to satisfy creditors, and a judge is prohibited from interfering with the day-to-day business of the municipality.[33] In Pennsylvania, like other states, that state constitution may provide protections for employee pension benefits.[34]

In California the state government does not provide any formal oversight for financially distressed local governments. In 2008, the Vallejo City Council voted in favor of filing for Chapter 9 bankruptcy protection. The City's expenditures for labor, pensions, and debts had exceeded its revenues for multiple years, and the general economic decline made matters worse. The City was not the first local government in California to file for bankruptcy; Orange County entered bankruptcy in 1994. The legal battles over the bankruptcy filing have cost Vallejo nearly $10 million as it negotiated with creditor, unions and others for more favorable debt and labor agreements.[35] In August 2011 the US Bankruptcy Court approved the City's debt restructuring plan, allowing it to exit bankruptcy.[36]

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[30] A full-service local government provides offering a wide range of service to residents including but not limited to police, fire, emergency medical services, parks and recreational opportunities, libraries and waste disposal to name a few.

[31] 11 U.S.C.§109(c).

[32] 11 U.S.C. § 941

[33] 11 USC § 904

[34] PA. Const., art. 1 § 12

[35] See, http://www.bloomberg.com/news/2010-12-14/vallejo-s-california-bankruptcy-failure-scares-cities-into-cost-cutting.html

[36] As this paper focuses on state assistance to local governments, it is recommended that readers interested in learning more about municipal bankruptcy consult additional sources for more detail on this issue.

Pennsylvania

Pennsylvania has three types of municipal financial recovery programs, the Early Intervention Program (EIP), Act 47 and Intergovernmental Authorities. In comparison to other states, the EIP takes a monitoring and planning approach to municipal financial distress, seeking to address problems before they become severe. The program is not automatically triggered; local governments must apply for grant assistance under the program to hire an independent financial and management consultant to quantify the multi-year financial situation, suggest short-term corrective actions, and prepare a three-to-five year plan with longer-term corrective actions. The Commonwealth's Department of Community and Economic Development (DCED) evaluates EIP applications based on a municipality's financial and economic condition; in most cases the DCED funds a significant portion of program costs. Since it was established, scores of cities, counties and other local governments have participated in the program.

In comparison to programs in other states, Act 47 is a blend of an assistance and oversight approach. Act 47 does not provide for a state takeover of the local government. The legislative intent of the program is to "enact procedures and provide powers and guidelines to ensure fiscal integrity of municipalities while leaving principal responsibility for conducting the governmental affairs of a municipality…to the charge of its elected officials".[37] A determination of municipal fiscal distress is triggered when the local government meets any of the following criteria: operating deficit over a three year period, default in debt payments, missed payroll for 30 days, failure to forward taxes withheld on income of employees or transfer employer contributions for Social Security, failure to make its minimum obligation pension payment, or reached the legal limit in levying real estate tax due deteriorating economic conditions. Various interest groups tethered to the municipality have standing to request a determination of fiscal distress,[38] but in most cases the request is in the form of a petition to DCED from the local government itself.

If DCED reviews the petition and determines that a municipality is financially distressed, a Coordinator is appointed by DCED. The Act 47 Plan Coordinator develops a multi-year financial and management plan for the local government, which is subject to approval by the municipality's governing body. If the plan is rejected by the governing body, the local government must create its own plan, also subject to DCED review. If the plan is accepted by the governing body, the Coordinator will implement the plan but does not have the power to order financial or operational change. If a municipality fails to adopt or implement a recovery plan it may lose access to state grants and loans,[39] and if a recovery plan is adopted and implemented the municipality may receive priority standing for state grants and loans.[40] In addition, the Coordinator's plan may set the parameters for future collective bargaining labor agreements.

In addition under Senate Bill 1151 – Printers Number 1605, Cities of the Third Class may, if the local government rejects an Act 47 Recovery Plan, be subject to a declaration

[37] 53 P.S.§ 11701.102
[38] 53 P.S. § 11701.202
[39] 53 P.S.§ 11701.264
[40] 53 P.S.§ 11701.282

by the Governor of a fiscal emergency. A declaration of fiscal emergency places the city under receivership of the state. The full authority of the local elected and appointed officials over the city is given to the Governor or the appointed receiver. The Governor or appointed receiver is given broad powers over the city's budget, contracts, labor agreements, debts and physical assets.

The Intergovernmental Authorities established for Philadelphia and Pittsburgh are oversight boards, but they have relatively limited authority compared to the models used in other states. For Philadelphia, the Pennsylvania Intergovernmental Cooperation Authority (PICA) is composed of seven members, five voting and two non-voting.[41] The Governor appoints one member and the State House and Senate each get two appointees. The other two members are the Commonwealth's Budget Secretary and Director of Finance for the City of Philadelphia. At its inception in 1991, PICA was authorized to issue bonds and provide the proceeds to the city upon approval of the City's five year financial plan, which is updated every year. While this debt issuance power has lapsed, PICA must continue to approve annual five year plans until all of the debt is repaid. PICA does not have the authority to nullify a non-compliant labor agreement.

The Pittsburgh Intergovernmental Cooperation Authority (ICA) is similar to PICA.[42] The composition of the board is the same as PICA. The ICA approves the City's annual budget and five year financial plan, any issuance of debt, and may make recommendations to the City and the State on issues related to the City's fiscal affairs. The ICA does not have the authority to nullify a non-compliant labor agreement.

Conclusion

While this paper has considered different state approaches to assisting local governments facing financial distress, many other factors not discussed in detail are relevant to municipal financial health. Varying requirements for the provision of local services, collective bargaining and retirement funding arrangements, state levels of aid to local government, revenue sharing structures, replacement of property tax revenue lost to non-profits, and overall tax policy will strongly affect local financial viability. Readers exploring the structures summarized here in more detail should also take these other factors into account.

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[41] 53 P.S.§ 12720.101
[42] Act 11 of 2004

Summary Matrix - Municipal Financial Recovery Programs

	Connecticut	Florida	Georgia	Illinois	Indiana	Massachusetts	Michigan	New Jersey
Approve or reject budget	x	x		x		x	x	x
Require the Municipality to adopt a multi-year plan to address distress		x			x	x	x	
Approve debt issued by the Municipality	x			x	x	x	x	x
Issue debt on behalf of the distressed municipality	x			x		x	x	x
Increase taxes or service charges	x				x	x	x	x
Hire or remove employees or approve related Municipality decisions	x					x	x	
Set the terms and conditions for future labor contracts	x	x				x		
Nullify, reform or open existing labor contracts								
Unilaterally approve or reject labor contracts	x					x	x	
Make purchasing and procurement decisions on behalf of the Municipality		x				x	x	
Provide direct state assistance (low or no interest loans, grants)								x
Authorizing legislation	Special Legislation	By Statute	By Statute	By Statute	By Statute	Special Legislation	By Statute	By Statute
Municipalities allowed to file for bankruptcy?	x	x		Yes-population less than 25,000				

	New York	North Carolina	Ohio	Pennsylvania Act 47	Pennsylvania ICA	Municipal Bankruptcy		Pennsylvania SB 1151
Approve or reject budget	x	x			x			x
Require the Municipality to adopt a multi-year plan to address distress	x	x	x	x		x		x
Approve debt issued by the Municipality	x	x			x			x
Issue debt on behalf of the distressed municipality	x	x			x			
Increase taxes or service charges		x						x
Hire or remove employees or approve related Municipality decisions								
Set the terms and conditions for future labor contracts	x			x				x
Nullify, reform or open existing labor contracts						x		x
Unilaterally approve or reject labor contracts								x
Make purchasing and procurement decisions on behalf of the Municipality	x							x
Provide direct state assistance (low or no interest loans, grants)	x			x				
Authorizing legislation	Special Legislation	By Statute	By Statute	By Statute	Special Legislation	Chapter 9 - Federal Bankruptcy Code		
Municipalities allowed to file for bankruptcy?	x	x	x	x (Prohibited for Third Class Cities)				Third Class Cities are prohibited

Please note:
This chart is provided only as a quick reference to give the reader a sense for the varying tools available to State-created oversight bodies.
In some states the range of tools varies based on the severity of the municipality's financial distress. In other states the legislature creates an unique oversight body for each municipality.
PFM can provide additional information on the limits, conditions and historical exercise of these powers upon request.