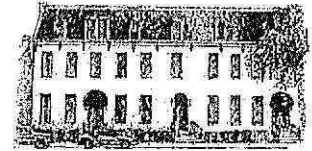




The Pennsylvania League of Cities and Municipalities



A Century of Commitment

Testimony of Pennsylvania League of Cities and Municipalities

Presented by
The Honorable C. Kim Bracey, Mayor
City of York

Joint House and Senate Hearings on Act 47

December 8, 2011
House Majority Caucus Room

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Good Morning Committee Chairs and members. Thank you for the invitation to testify on the very important and timely issue of Act 47 and municipal distress. I am Kim Brace, Mayor of the City of York. I am here today representing the Pennsylvania League of Cities and Municipalities. I currently serve on the League's Board of Directors.

PLCM is a non-profit, non-partisan municipal association representing Pennsylvania's urban communities. Our membership is not based on form of government, but on common issues. Our current membership includes most of Pennsylvania's 56 cities and over 25 urban boroughs and townships.

As you know, Act 47 has been in the news frequently in recent months. The filing by our Capital city, its subsequent inability to accept the Act 47 Plan developed, and the General Assembly's recent amendments to allow the state to step in and take over have precipitated much discussion throughout municipal government. Additionally, last month's Supreme Court decision regarding Scranton's Act 47 Plan and arbitration awards has severely impacted the effectiveness of the statute. For the 20 communities in Act 47, the 57 Early Intervention communities and the scores of communities facing a future decision to utilize the act, today's hearing and subsequent changes to the law are of utmost importance.

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.

My message today is one of **prevention** and **self-reliance**. There are very real and absolute inadequacies in Pennsylvania's structure of local government. Changes must be made, locally and at the Commonwealth, to **prevent** communities from ever having to utilize Act 47. Act 47 should be for rare cases of municipal distress where nothing else can be done to turn a municipality around. Changes to Act 47 should be directly linked to changes to the elements that cause municipal distress. You, as policy makers, and our Commonwealth as a whole, must look comprehensively at the full picture. Your core communities are crumbling and we cannot sit idle and passively permit this to happen.

PLCM has been a longtime advocate for a number of municipal reform measures, but not until last year did we really focus in on several critical, key areas. This process was membership driven and began in June of 2010 with a call for volunteers to serve on a Core Communities in Crisis Task Force. The task force members, staff and technical advisors spent five months identifying and narrowing the issues confronting core communities; determining viable solutions to those problems; and preparing recommendations for the General Assembly and Governor. In November of 2010, our Core Communities in Crisis Report was published and copies sent to all legislators and Governor Corbett. I encourage you to take a few minutes to read through the Report. You have received another copy today and the Report is posted on the PLCM website.

Preventing Municipal Distress

There are many factors involved in municipal distress. 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 archaic system of government; and (4) an antiquated tax system paired with a lack of enabling legislation from Harrisburg to cover rising costs. Simply put, the system created for the 1950s and 60s is not practical and does not work today. **It is a broken system.**

Structuring Healthy Communities, the Pennsylvania Economy League (PEL) study of municipal revenue over the thirty-year period from 1970 to 2009 has been quoted many times since its release in 2007 and the results bear repeating, "...fiscal distress is inevitable under the existing state laws that govern municipalities. Current legislation leaves those who lead the Commonwealth's cities, boroughs and townships with revenue streams that are out of sync with budget needs. The best fiscal management and programs of economic and community development are not enough to turn the tide within municipal boundaries...." The Study goes on to say, "in so much as municipal government is a creation of the state, leaders in the administration and legislature bear responsibility to create structures that allow municipalities to become and remain, strong, vibrant entities." We are not seeking a bail out. We are simply asking that you give us the tools we need to succeed.

The recommendations presented in our Core Communities in Crisis Report address the change that is needed in local government structure in order to prevent the most common instances of distress.

Regional Thinking

We must shift from such a narrow, competitive approach to local government to a regional approach. Today's citizens utilize a region much more than their individual municipalities of residence. On a daily basis, we move in and out of multiple municipalities for work, school, shopping, healthcare, recreation and dining. To many folks these are invisible lines drawn on a map. We believe in the sense of place that exists in our 2,562 individual communities. But honestly, in 2011, it is a practical failure for our Commonwealth to have 2,562 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 blight, poverty and tax-exempt land.*

At 5.2 square miles, York is geographically one of the smallest cities in the United States. We also are land-locked with little hope of annexing land 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. Often, regionalization has unintended and adverse impacts. Because cities sometimes stand alone amongst surrounding municipalities as having the most professional staff, with the largest inventory or equipment or technology, as often is the case in police or fire protection; our services and the associated expenses, are sent out more often than support comes in. As is the case in York, in 2011, our City Fire Department provides protection service to North York Borough. This is not out of some masterful regionalization plan, nor was it incentivized by the Commonwealth. It was out of necessity. The City of York forged a relationship with North York Borough to provide fire protection services out of necessity. This is a great example of how regionalization can work; but I can attest it is not a revenue generation option, nor does it necessarily decrease the burden to our General Fund or Pension Fund.

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

We need leadership from the Commonwealth to offer meaningful incentives that forge regional thinking, technical assistance prioritized funding and best practices to model successful leadership efforts. From a budgetary standpoint, it is necessary to fully fund the Department of Community and Economic Development's Shared Services Program and the Governor's Center for Local Government Services.

Tools to Address Tax-exempt Entities

Local government must be given the tools necessary to address the high percentage of tax-exempt property in our older communities. The designation of "tax-exempt" takes place at the state level, but the effects are felt locally.

Locally in the City of York, approximately thirty two percent (32%) of the City General Fund revenue comes from real estate tax. The city tax base value is about \$1.6 billion. Of that, about \$995 million is taxable, and \$605 million is tax exempt.

That's right; a staggering \$605 million, approximately 37% of the tax base in York is exempt and does not pay real estate taxes. This property includes government, utility, churches, social service agencies, hospitals, education, 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 our city subsidize every non-city resident who uses county government services, medical facilities, religious, higher education, or social services facilities. We fully recognize the role tax exempt institutions play in our communities as both employers and providers of educational, cultural, social, medical and religious services. However, this is a major drain on the overall tax base when the percentage within in a single municipality reaches 30, 40, or even 50 percent exempt.

City taxpayers, in many cases, the poorest in their counties, cannot sustain the burden of footing the bill for services that are used by all. This is free-riding, NOT self-reliance. Practically it is infeasible. Fundamentally it is unfair. The opportunity to secure payments-in-lieu-of-taxes from exempt entities is appreciated but wholly voluntary, is a full time job in and of itself and accounts to an overall minimal amount of money, at best.

PLCM has been an advocate for a state reimbursement to municipalities with a high percentage of tax exempt property. Additionally, we recommend that municipalities be authorized to charge municipal service fees for specific services provided to all property owners, including those that are tax-exempt.

Flexible Revenue Sources

New revenue for municipalities is not looked upon favorably by many, but the reality is that our local taxing structure is simply inadequate and cannot sustain the rising expenses to provide municipal services. That is fact. You will find little dispute among my colleagues.

Older municipalities are hamstrung by their inability to generate sufficient revenue to cover basic service provision. Municipalities have only two local taxes that they can rely on – the local earned income tax and the local real property tax. These limitations place a heavy burden on our residents. They also cause our communities to be unable to compete in attracting prospective new residents and businesses who naturally compare the tax rates of municipalities.

Truth be told, Pennsylvania law severely restricts what small cities can do. As a consequence, we are overly dependent upon 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 17.38 mills in 2011.

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.

As mentioned earlier, today's society lives regionally and services are provided to residents, workers and visitors alike. Therefore, we should also tax regionally to allow the region and its anchor communities to benefit as a whole. An example of a regional tax is the 1% county option sales tax that is shared among all municipalities in the county. Or a countywide option tax on alcohol sale. Revenue generated could be restricted to pay for law enforcement or road improvements. These taxes and policies are already in place in

Philadelphia and Pittsburgh. Arguably, it is unjust to not offer these options to our county governments and their residents throughout the rest of the Commonwealth.

Control of Personnel Costs

Placing limitations on the collective bargaining and pension laws that govern new uniformed employees is a tough, but necessary reality. We must draw a line and set limits on future awards and pension benefits. The current and future personnel expenses driven by Act 111 and municipal pension laws are half of municipal budgets in our older, full-service communities. Pension liabilities and post-retirement healthcare costs are equally significant and together they place a huge fiscal burden on residents many years into the future.

Act 111 has not been amended since its inception in 1968. The Act gives uniformed employees the upper hand when it comes to collective bargaining and binding arbitration. Specifically, municipalities pay the full cost of arbitration even though there are two parties to the process; the list of potential arbitrators is limited to only three; there is no requirement for consideration of a community's ability to pay for the benefits awarded; and the ability for a municipality to appeal an arbitration award in court is very narrowly limited. We are not suggesting Act 111 be eliminated, but a set of reasonable amendments to Act 111 would equalize these costly inequities.

Locally in York, 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. In York, the 2001 MMO for the whole city workforce was \$546,042, but **by 2011, the MMO for the entire city workforce is a staggering \$6,575,288.**

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. Just imagine if we could collectively purchase health insurance regionally or have joint coverage provided under the umbrella of the Commonwealth of PA.

Reform Legislation

Following the publication of the PLCM Report, we partnered with a number of local chambers – Reading, Harrisburg, Pittsburgh, Lancaster, York, and Wilkes-Barre. The consensus of the partnership was to concentrate on reforming two of the costliest mandates on local government – Act 111 and municipal pensions. Over the course of this year, we have developed specific legislative language setting forth fair, common-sense reforms to Act 111. This language is finished and we are now at a point of needing a strong group of bi-partisan sponsors to introduce and help us move a bill. We would welcome the leadership and support of the members present today as sponsors of our proposal. Our municipal pension reform proposal is forthcoming as well.

I am here today to stress that we will stand with you to address this legislation. While it may seem controversial upon first glance, folks it is the right thing to do. You have mayors, council members, leagues and business leaders ready and willing to stand alongside of you and support this legislation and support each of you.

Act 47

In conjunction with the above recommendations to prevent most cases of fiscal distress, PLCM has several suggestions for making Act 47 a more effective tool.

Immediate Concerns

For PLCM members facing Act 47 and looking at the relief it could provide, two specific provisions of the statute that were arguably the main reasons to enter Act 47, have been jeopardized. These provisions are the ability to gain new revenue from an increased Non-resident Earned Income Tax and limitations on arbitration awards. The passage of Senate Bill 1151 and the recent Supreme Court decision out of Scranton have severely impaired both provisions potentially rendering the statute useless. As you know, SB 1151 removed

the earned income tax provision for third class cities that do not adopt the Act 47 Plan; and the Court decision allows arbitration awards to supersede Act 47 Plans.

Senate Bill 1321, introduced to resolve the issues surrounding the Court decision for future arbitration awards, should reinstate that very important Act 47 tool. If new revenue options are provided outside of Act 47, as suggested earlier, then reinstatement of the Earned Income Tax provision is not necessary. If not, an additional source of revenue for Act 47 communities is essential to fiscal health.

Early Intervention Program

Although not currently part of the statute, the **Early Intervention Program (EIP)** has had success and is useful to municipalities at the first sign of distress. This program should be required for municipalities that meet certain criteria on their DCED financial reports. A mandatory early intervention program will require a financial commitment from the Commonwealth, but the upfront costs should easily be recouped by addressing fiscal issues earlier rather than later.

A Schedule for Moving Out of Act 47

Currently, Act 47 is the legislative equivalent of the Roach Motel ***“Once You Check in, You Don’t Check Out.”*** Act 47 promotes no timeframe for moving through the process and coming out of the program. We support benchmarks of success or the appointment of an oversight board to help move a community out of Act 47. A timeframe and the requirement to leave Act 47 is only useful if the prevention measures discussed earlier are in place to support local governments. It does not make sense to expect municipalities to leave Act 47 and go back to operating under the old, ineffective governance that caused the distress.

Merger and Consolidation

Both inside and outside of Act 47 there must be a concerted effort by the Commonwealth to find ways to make merger and consolidation attractive to municipalities. This is on both a services level and a municipal level and goes back to our original point of regional

thinking. Municipalities and their citizens naturally don't want merge with a municipality that is struggling. There are things the Commonwealth can do to make this easier - monetary incentives, removing obstacles, and providing technical assistance are the most commonly cited ways to achieve a willingness to merge and consolidate.

Boundary Change for Non-viable Communities

It may be necessary to include in Act 47 an avenue for a municipality that can no longer sustain itself and provide for its citizens. PLCM supports the Boundary Review Commission housed in Senate Bill 1357 of 2010. The public process in the legislation provides for a reorganization and regionalization of local government in order to promote fiscal health and efficient service delivery. Act 47 may be the place to begin this discussion.

In Conclusion

Today, as in numerous other hearings and venues, PLCM and my colleagues, have consistently laid out a number of reform measures that must take place at the state level to stop the fiscal decline of our municipalities. As stated at the beginning of my testimony, **prevention** and **self-reliance** should be the goals of the General Assembly.

We know how difficult and unpopular some of these decisions may be. I am here today on behalf of a city that supports these measures. Beyond support it desperately needs them. Like many cities, we are currently undergoing our city budget process. Presently, it proposes an 11% tax increase and a 10% increase in sewer refuse fees. This is nearly identical to our budget last year. The scary fact is our departments have held the line or cut costs where they can, outside of mandates. We are operating with less people and are freezing or eliminating any vacant positions, including three firefighters. So this budget proposes doing the same duties next year with less people, yet we still require an increase in revenue. Our only options remaining to present a budget free of a tax increase would be more significant layoffs in police and fire. Nobody wants that solution. And we simply cannot continue to ask our residents to pay more in property taxes. And unfortunately we are out of options. We have employed every tool and trick. This is not a result of

malfeasance. This is deferred maintenance by our Commonwealth that our residents, your constituents and mine, have to pay the price for.

Honestly, we have been saying this for years. None of this is new and none of this should be shocking. Mayors, council members, municipal managers, leagues, committees, consultants, studies and think tanks have all generally agreed to many of the principles laid forth today. Today, this is more than testimony; it is a plea for help. Let's face it, none of these cities or mayors wish to be in this position, but we are out of options and hope is dwindling. Reading, Scranton, Harrisburg - - these are our great cities. How can we continue to permit this as Pennsylvanians? Does our Commonwealth embrace its small cities or not? If nothing is done, more Act 47 petitions will follow and more bankruptcies will result.

We stand ready and willing to work with you and are asking for help.

This is not partisan. This is what it will take to arrive at sensible, self-reliant and preventative solutions for our core communities of this great Commonwealth that are in crisis.

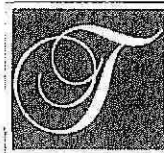
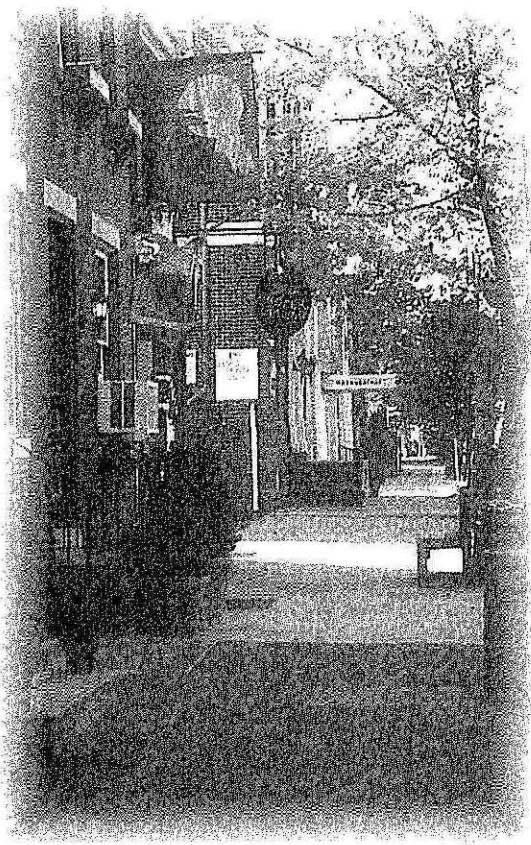
Pennsylvania League of Cities and Municipalities



presents

Core Communities in Crisis
Task Force Report

2010



he Pennsylvania League of Cities and Municipalities (PLCM) is a nonprofit, nonpartisan organization established in 1900 as an advocate for Pennsylvania's 3rd class cities. Today, the PLCM represents Pennsylvania's cities, townships, town, boroughs, and home rule communities that all share the League's municipal policy interests. Our Board of Directors oversees the administration of a wide array of municipal services including legislative advocacy (on both the state and federal levels), publications designed to educate and inform, education and training certification programs, membership research and inquiries, consulting-based programs, and group insurance trusts.

We are continually monitoring the needs of our members and are committed to providing all of our member municipalities with the cost-effective programs and services they require to meet the distinct needs of their communities.



Pennsylvania League of Cities and Municipalities

John A. Garner, Jr., Executive Director

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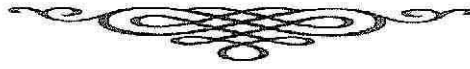
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Preface



November 2010

The Pennsylvania League of Cities and Municipalities (PLCM), its Board of Directors and the members of its Core Communities in Crisis Task Force are pleased to provide you with this Report. The result of our Task Force, it represents the common voice of our membership. As core communities, our membership endorsed its recommendations as steps to solving the management, fiscal and operational crises facing many of Pennsylvania's urban communities.

All of the land in Pennsylvania is incorporated into one of our 2,562 individual municipalities. It is impossible to live in or visit our Commonwealth without being served in some way by the far reaching responsibilities of local government. As creatures of the State, local government relies on the Commonwealth to provide the tools necessary to effectively manage its day-to-day operations. This structure makes Pennsylvania unique; but at the same time, it hinders effective local governance.

As our agrarian heritage gave way to industry, our core communities were born. The demands for public safety and infrastructure brought forth a host of new expectations and responsibilities for our developing urban centers. To this day however, the management tools provided to local government have never caught up with the service demands.

Archaic codes, an inflexible local taxing structure, mandated personnel benefits, and explosive personnel and service costs are placing severe financial hardship on our core communities. In October 2010, the twentieth community sought help under the Commonwealth's Act 47 Distressed Municipality Program.

As a municipal association representing core communities, it was essential for PLCM and its membership to take the time to step back and examine how the local government structure in Pennsylvania is holding us back, in order to recommend changes that will more move us forward.

Our 29-member task force, its technical advisors and PLCM staff worked over the last four months of 2010 to study the overarching issues and recommend solutions. Our report is divided into three areas: Isolation of Core Communities Within Their Regions; Mandated Costs, Policies and Procedures; and Inability of Municipalities to Fund and Provide for the Health, Safety, and Welfare of Citizens. Each area will describe the issues we are currently facing and make recommendations for reform.

We hope you will find this Report to be a starting point for making effective change that will benefit not only our core communities but the entire Commonwealth.

A handwritten signature in black ink, appearing to read 'Clifford Allen'.

Clifford "Kip" Allen, President
Councilmember, Edinboro
Task Force Chair

A handwritten signature in black ink, appearing to read 'John A. Garner, Jr.'.

John A. Garner, Jr., Executive Director

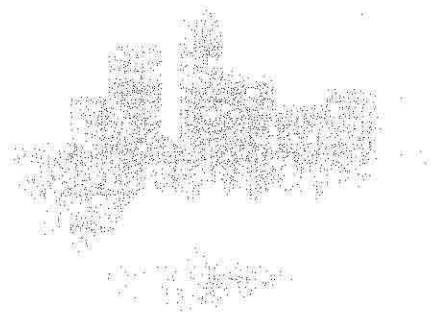
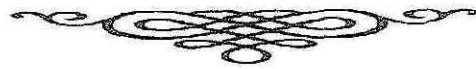
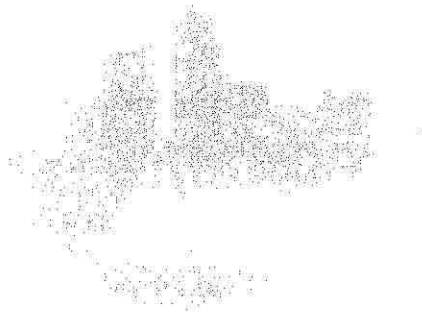


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Core Communities in Crisis Task Force CALL TO ACTION

CRISIS #1:

Isolation of Core Communities Within Their Regions

Vision:

The Commonwealth and its municipalities are partners in forging regional communities.

◆ ◆ Action Items ◆ ◆

- The Legislature must establish a Boundary Review Commission as provided in Senate Bill 1357 of 2010 giving fiscally distressed municipalities a tool for reorganization.
- The Commonwealth must restore full funding to the Governor's Center for Local Government Services and the Shared Services Program, so these agencies have the proper funding and tools to promote regional cooperation and to help identify options for regional leadership across the state.

CRISIS #2:

Mandated Costs, Policies and Procedures

Vision:

The Commonwealth must foster flexibility and innovation in the day-to-day operations of municipal government, including ending unfunded mandates.

◆ ◆ Action Items ◆ ◆

Act 111

The Legislature must amend Act 111, The Police and Fireman Collective Bargaining Act, to:

- create a set of standards for awards, including a municipality's ability to pay for proposed awards;
- require that all awards are subject to full judicial review;
- expand the list of arbitrators to seven instead of three;
- require the cost of arbitration to be shared equally between the two parties;
- require that arbitration sessions be open to the public; and
- provide an avenue for municipal relief when the Auditor General identifies an illegal pension benefit.

Act 205

The Commonwealth must amend Act 205, The Municipal Pension Plan Funding Standard and Recovery Act, to:

- place caps on future pension benefits if a pension plan is not 90% funded;
- create a funding formula based on need; and
- require employee contributions to all local pension systems.

Employee Benefits

- The Commonwealth must combine the administrative process for Heart and Lung claims under the Workers' Compensation process.

Funding

- The Commonwealth must create a fiscally responsible statewide municipal pension system for all new hires.
- The Commonwealth must change its policy to level the playing field for all municipalities in the provision of state police services.

CRISIS #3:

Inability of Municipalities to Fund and Provide for the Health, Safety and Welfare of Citizens

Vision:

The Commonwealth views local government as a partner providing sustainable tools and the local options necessary to foster flexibility and innovation for providing services in the 21st Century.

◆ ◆ Action Items ◆ ◆

- The Commonwealth must require counties to reassess on a regular basis and provide tools to assist in the effort, such as low interest loans and assessment technology.
- The Commonwealth must require tax-exempt properties to be assessed on the amount of payroll paid, rather than property value. This would provide a common valuation for tax-exempt properties without burdening the assessment system.
- The Commonwealth must authorize local governments to assess service fees on all property owners, including tax exempts, to pay for specific services, such as street cleaning, sidewalk cleaning, snow plowing, street lighting, etc.
- The Commonwealth must authorize a menu of local options supporting municipal services that fosters local control and decision-making, including:
 - A Local Services Tax levy of \$144 per year and an annual indexing mechanism on the \$144 for inflation. The specific uses of Local Service Tax revenue should remain unchanged.
 - A Payroll Tax instead of the Business Privilege Tax. The first year of the changeover being revenue neutral except in those municipalities currently prohibited from levying the Business Privilege Tax.
 - A county option 1% local sales tax. New revenue should be tied to the payment of a municipality's annual minimum municipal obligation first and core services second.
 - A 10% local tax on the retail sales of alcohol tied to public safety services related to consumption of alcohol.
 - A "sugared drink" tax tied to health, wellness and recreational programs locally.

Core Communities in Crisis Task Force REPORT

CRISIS: a crucial or decisive point or situation. Pennsylvania's core communities are in crisis. Outdated policies and laws are preventing core communities from changing with the times, taking control of their own affairs, and thriving as an integral part of a larger region.

This crisis requires change. Change is never easy, but at times it is necessary for the common good and continued existence of our heritage. Core communities are demanding change – change in the way they are viewed by state government, change in the way they govern themselves, and change in the way they provide services to the Commonwealth's citizens. Without change, the crisis will spread to outlying, suburban and rural communities and the Commonwealth itself will be adversely affected.

Our new Governor and Legislature will face serious fiscal challenges at both the state and local level. The Pennsylvania League of Cities and Municipalities' Core Communities in Crisis Task Force offers this Report as a guide for the changes our core communities expect in the next decade. As a Commonwealth, we must choose change; we must value core communities and move them forward as they are an essential element of our past, present and future.

Our Task Force views the crisis from three aspects: *Isolation of Core Communities Within Their Regions; Mandated Costs, Policies and Procedures; and Inability of Municipalities to Fund and Provide for the Health, Safety and Welfare of Citizens*, all of which will be discussed in this Report.

What is a Core Community?

Core communities are the backbone of our Commonwealth. They cut across all forms of local government in Pennsylvania – cities, townships and boroughs. They can be very large or relatively small. Core communities are full service, providing a range of constituent services including recreation, public safety, trash collection, code enforcement and community development. They have definite residential and commercial areas; are a region's location for employment, education, culture, social services, and history; and provide a sense of place for the region's residents.

Isolation of Core Communities Within Their Regions



ore communities throughout the Commonwealth are often viewed as a drain on a region rather than as the cultural, economic, and governmental centers that they are. The policies of the mid to late 20th century and local government laws have influenced this attitude. For example, development of the highway system, social concerns, and

inconsistent land use policies have helped fuel the flight from core communities to suburbia. The multiplicity of local government codes; over reliance on the centuries-old, regressive and unfair property tax; an aging housing stock; and complete build-out of parcels have contributed to stagnant or slow growth in the tax base which is unable to keep pace with the increasing cost of service delivery, and have kept people from returning. These factors and many more have contributed to the core community becoming isolated in its own region, surrounded by wealthier municipalities with open space for new development and low property taxes.

In order to reverse the half-century trend away from the heart of our regions, a new focus and subsequent public policy shift is required to harness the strength of each region in our Commonwealth. Core communities must find new ways to work together in order to thrive in this century. To help the leaders of local government, business and nonprofit entities work better together, the importance of the regional community must be recognized, fostered and solidified at both the state and local level.

The current tool kit of regional options is limited as 2,562 municipalities fight for state funds, economic development opportunities and individual identity. Pennsylvania, proud of its history and tradition, must create meaningful incentives for regional cooperation and shared services while preserving the unique sense of place that exists in core communities. Each municipality should develop and adopt its own plan for regional cooperation with its neighbors. Technical assistance from the Commonwealth, including full funding of the Department of Community and Economic Development's Shared Services Program and the Governor's Center for Local Government Services, is essential for progress. Data and information on the cost of fragmentation and the difficulties of achieving economies of scale, as well as success stories, must be accumulated and analyzed by these agencies and shared throughout the Commonwealth.

The Commonwealth must also identify options for leadership in each region – whether core communities offer regional services, or perhaps county government or even councils of government, with enhanced funding powers. North Carolina, for example, requires every local government to be part of a regional council of government. A similar model could be helpful in encouraging a regional sense of community in Pennsylvania.

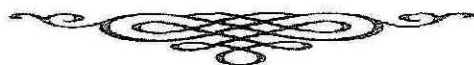
Local governments who are unable to continue to provide services, or who are in such financial distress that service delivery is severely limited, must be able to access a defined process for reorganization. The creation of a Boundary Review Commission which includes representation from local government is necessary to develop a clear pathway for municipalities and their citizens to chart their own course for a successful future.

A paradigm shift – from one where each community is looking out for itself, to one where a regional “barn-raising” mentality prevails – is necessary for an entire region to thrive. Local government leaders must recognize their important role in leading the region to prosperity. Under a defined process of the Local Government Conference, the local government associations should work together to develop a Center for Regional Excellence which would offer broad-based intergovernmental cooperation opportunities, training, and incentives for local leaders. Each local government association would come together around the formation and sustainability of the Center to promote best practices, and offer local officials and staff coordinated training opportunities

and recognition of course completion. The Center would serve as the primary collection point for local government data, information and best practices – sharing success stories, like the Five City Initiative from Easton to York and the CONNECT model in Allegheny County, with local government leaders and the general public.

Finally, the Commonwealth, as a key partner in developing new regional communities, must encourage efficiency and effectiveness of local government services by prioritizing state funding sources around regional efforts.

Mandated Costs, Policies and Procedures



Crisis demands that core community leaders be innovative in the management of local government operations. But, as creatures of the State, local governments are limited in what they can and can not do. The State limits local powers and sets restrictive policies and procedures in the various municipal codes and in statutory and executively imposed mandates – most of which are unfunded. The Constitutional amendments approved in 1968 and Act 62 of 1972, provided an opportunity for local governments to move away from many of these restrictions by adopting a Home Rule Charter. After almost 40 years, however, only 71 municipalities and 6 counties have adopted such charters. The procedures required under Act 62 are too complex and time consuming, and voters lose interest in making changes.

In addition to having only the tools given to them by the State, Pennsylvania's local governments are constrained by the fact that many of these tools are outdated. Local elected officials are attempting to manage 21st Century government with policies and laws that for the most part have not changed in 40 years.

For example, each form of government is governed by its own municipal code. Some of the codes have not been comprehensively updated since the 1930's. Pursuant to the codes, all forms of local government are currently held to a bidding threshold for any purchases over \$25,000; this figure was set in the 1990's and is woefully outdated given inflation and the increase in the cost of supplies in the last decade. This limitation costs both time and money because items must be bid that, by today's prices, should be allowed to be purchased outright. Repeated attempts to increase the threshold to a more reasonable amount and add an annual mechanism for inflation have failed in the Legislature.

Another example of inflexible and outdated policy preventing municipalities from using innovation is the advertising limitations placed on local government. Each code requires that municipalities advertise items, such as ordinances and requests for bids, in a newspaper of general circulation. While advertising is essential to keeping government open and available to its constituents, local governments should have a choice in the advertising medium. Advertising on a municipality's Website or a statewide Website is free to both the municipality and the citizenry and arguably reaches more people than newspapers in today's technologically savvy world.

Current policies also put core communities at a disadvantage to their outlying neighbors. One such policy has the Commonwealth providing state police service at no cost to municipalities that request the service. Rural townships and small boroughs typically take advantage of this service. This generosity places stress on the state police force from both a budgetary and staffing perspective. It also places a burden on the citizens in full-service communities who pay for this service through their state taxes, in addition to paying for their own local police service through the local property tax. This policy is especially vexing to full-service communities when communities using the state police levy little or no property tax and claim they cannot afford a per capita charge for the state police service because it will cause an increase in their property tax.

In addition to outdated codes and policies, local governments also work within the confines of many unfunded mandates. Two common examples are the collective bargaining and arbitration laws and the pension laws that govern uniformed employees. Collective bargaining and binding arbitration is required by Act 111, The Police and Fireman Collective Bargaining Act. Pension benefit levels are governed by municipal code or statute, depending on the size and type of government. Pension benefits are also the outcome of the collective bargaining process. Finally, pension funding limitations create a hardship for core communities. Personnel mandates, in particular, have a severe financial impact far into the future because once benefits are awarded, they are forever protected by the Pennsylvania Constitution.

Act 111 has not been amended since its inception in 1968. The Act gives uniformed employees the upper hand when it comes to collective bargaining and binding arbitration. Specifically, municipalities pay the full cost of arbitration even though there are two parties to the process; the list of potential arbitrators is limited to only three; there is no requirement for consideration of a community's ability to pay for the benefits awarded; and the ability for a municipality to appeal an arbitration award in court is very narrowly limited. A set of reasonable amendments to Act 111 would take care of these costly inequities.

In the area of pension benefit mandates, core communities are primarily burdened by the following: existing pension benefits are protected under the Constitution; municipalities have no avenue for relief from illegal benefits; employees are not required to contribute to their own pension systems; employees can take advantage of a loophole in the pension laws that generates higher pension payouts upon retirement; and there is no statewide plan available for new hires.

In terms of pension funding, mandates and inflexibility continue to expose municipalities to great expense. Municipalities with underfunded pension systems have no protection from the award of costly new benefits. Furthermore, the pension funding provided by the State under Act 205 of 1984 does not reflect pension funding needs, but is instead based on the number of employees who are active members of the pension plans.

One final policy mandate that needs to be reformed is the process of administering Heart and Lung claims for public safety employees. The original purpose of the Heart and Lung Act was to temporarily complement the two-thirds of salary benefit payable under the Workers' Compensation Act to injured employees. Together, the two laws were to provide employees with 100% of salary. Tax changes and conflicts between the two laws now result in payments of 125% of salary for indefinite periods of time. This policy results in additional payments, higher insurance premiums,

and extended claim administration. A merger of the Heart and Lung and Workers' Compensation claim administration processes would not affect employee benefits, but would save municipalities' time and money.

Reform of the mandated costs and outdated policies and procedures is absolutely necessary to the existence of core communities. The ability to govern locally, use innovation, and work within personnel laws that are fair to both parties, is essential to the survival of full-service communities.

Inability of Municipalities to Fund and Provide for the Health, Safety and Welfare of Citizens



n terms of fiscal self-sufficiency, the laws that govern municipalities are inflexible, outdated, and do not reflect the way society lives.

Core communities are hamstrung by their inability to generate sufficient revenue to cover basic service provisions. Today's core communities have only two local taxes that they can rely on – the local earned income tax and the local real property tax. In most cases, both are levied at the highest rate allowed by law and together do not produce enough revenue to pay for basic public safety services. As costs continue to increase, these revenue sources become more and more inadequate.

While revenue limitations clearly impact our full-service communities from a fiscal standpoint, the implications of these limitations place a heavy burden on our residents and make our communities uncompetitive to prospective residents and businesses comparing the tax rates of municipalities.

PLCM contends that local elected leaders and the municipalities they serve are best able to decide which local taxes best fit their community. The demographics of this great Commonwealth vary from East to West, North to South. What works in one community, may not work in another. We must move away from static, inflexible, archaic taxing options to a dynamic system that fosters local control and decision making. Local elected leaders have the ability and incentive to make the right choices for their communities.

Local choice is only half the formula, however. Our Commonwealth must begin to offer more local taxing options on a regional base. We live regionally and services are provided to residents, workers and visitors alike. Therefore, we should also tax regionally to allow the region and its anchor communities to benefit as a whole. An example of a regional tax is the optional county sales tax that is shared among all municipalities in a county. Taxing regionally also helps to break down the isolation of core communities discussed earlier.

When recommending new taxing authority, PLCM is not oblivious to the political impacts and reality. To make this easier to accomplish, we propose that new revenue be tied to the funding of specific costs, such as personnel, core service provision or incentives to regional service delivery.

In order to move away from the property tax to new taxing options, it is also important for the General Assembly to address the long standing issue of tax-exempt entities. This is another mandate on local government because the tax-exempt status is granted by the state, but the impact is felt locally. Yes, tax-exempt entities provide employment, education, culture and social benefits to the communities that host them, but they receive municipal services for free, and there is no impetus, except good will, for them to pay a service fee in lieu of taxes. This places yet another burden on the residents of core communities to make up the difference. Prior attempts to divert state funds to municipalities with high levels of tax-exempt property have failed because of the state's own budgetary problems. One possible solution is the authorization of service fees charged to all property owners for specific services.

Inconsistent and non-uniform county reassessment is another area impacting the fiscal health of our core communities. Counties do not reassess on a regular basis, if at all. Consistent reassessment would bring property values in line with today's costs and would eliminate the fear of reassessment over time. Equally important, the value of tax-exempt property is not captured in reassessments. Even though a property is tax-exempt, it should be assessed in some uniform manner that allows a value to be attached. It is understandable that some buildings are impossible to value, but it is important to assign a value so that tax-exempt entities are more compelled to share the burden with their fellow residents.

In Conclusion

The crisis facing our core communities is not going to go away without hard choices and reform measures from the General Assembly. It must acknowledge the serious nature of the crisis at hand and begin to work with core communities to solve the issues with true reform. Core communities are at a decisive point; failure will have serious and lasting consequences on the future of the Commonwealth. The Pennsylvania League of Cities and Municipalities and core communities across the Commonwealth call upon the General Assembly and the Administration to act!

Pennsylvania League of Cities and Municipalities

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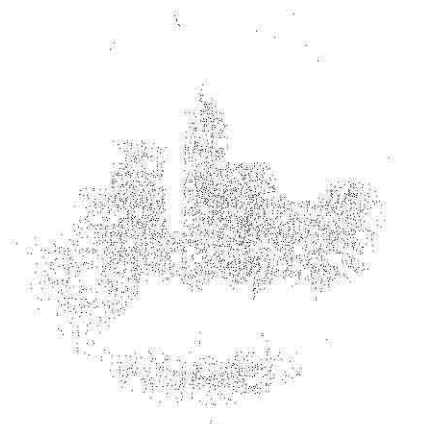
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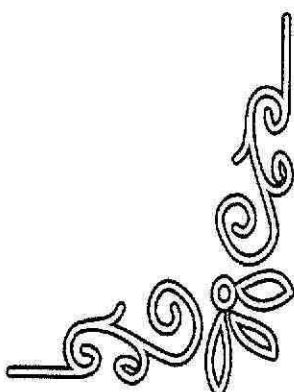
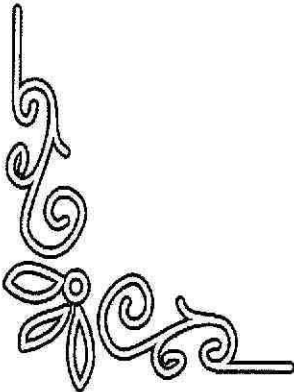
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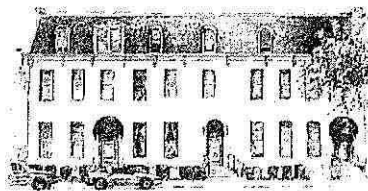
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