

Testimony Before Senate/House Committee On Reading Experience with Act 47 – 12/8/2011

Good Morning Chairman Ross, Chairwoman Earll and members attending this important hearing on Pennsylvania cities.

My name is Thomas McMahon, Mayor of the city of Reading since January 2004.

Thank you for the opportunity to speak today regarding the experience of my city with the Act 47 Financial Recovery Program.

The Reading area was hit hard over the last 20 years by the loss of close to 10,000 manufacturing jobs; followed by middle class flight and finally by a jobless recovery reflected in our 12.3% unemployment currently.

Reading grew 7.3% from 2000; adding 6000 people. Our poverty rate increased from 34.1% to 41.3%, meaning those 6000 were mostly poor.

This puts us at No. 1 on the poverty index of all 420 US cities over 65,000 in population.

Only about 2/3 of adults have finished high school; school dropout rate is about 50%.

Many city schools see more than 100% turnover in students from Sept to June. Our per capita income of \$14,000 is roughly half the national average.

Our families struggle to provide the basic necessities and our social service agencies report demand for services is up 75%.

At the city level we are dealing with the cost of past collective bargaining awards, increased pension and health care costs, along with other escalating expenses incurred in running the 5<sup>th</sup> largest city in Pennsylvania.

Core communities like Reading need full time public safety professionals and that alone consumes 65% of our revenues.

Outlying municipalities may rely on state police and volunteer ambulance and fire and many have virtually no municipal property tax.

Reading residents shoulder almost the entire burden of providing services like police, fire and ambulance in our city that is available to non-residents at one dollar per week per the local service tax.

This is not nearly enough and is grossly unfair.

The poorest people are supporting the city through the highest municipal property tax and earned income tax rate among 73 municipalities in Berks County.

We are just one of Pennsylvania's 3<sup>rd</sup> class cities in financial trouble. In fact, a Pennsylvania Economy League study showed that 39 of our 53 third class cities are in fiscal distress.

Similar to other municipalities we do everything possible to balance annual budgets, e.g. float pension bonds, refinance debt, outsource services, lay off fire, police and public works employees and sell off assets.

A 2008 study of Reading and four of our neighboring Pennsylvania peer cities showed that only one of the five was able to pay for public safety (police, fire and EMS) out of their total tax revenue. The other four had to find supplementary revenue to make up that difference as well as support all other city services.

After doing everything we could to remain solvent, and in spite of implementing some good recommendations in the DCED early intervention program, it became clear that we were nearing a point of no return as a city.

In early Sept 2009, I applied for admission into the Act 47 program and on Nov 12, 2009 former Secretary of DCED, George Cornelius officially approved and we became the 25<sup>th</sup> municipality to enter Act 47.

I believe the decision by Secretary Cornelius was one of the most difficult ones he had to make as Secretary of DCED.

His remarks then are as true today as they were two years ago, and I quote in part: <sup>1</sup>

*“There have been 24 communities in Act 47 since it was enacted in 1987. Three-quarters of them remain in the program today. Of those 18, eleven have been in the program for more than 10 years, and 6 have been in Act 47 for more than 20 years. The average tenure is 13 years.*

*Our coordinators tell me there is no exit strategy for many of these communities; there is no prospect for most of them to exit Act 47 in the foreseeable future. These data reinforce my point—that Act 47 isn’t the cure; it’s merely a means to keep a municipality afloat to a later day, when, hopefully, we as a commonwealth will find the political will to address some of the underlying structural issues.*

*In the meantime, at least 10 other municipalities around the state hover over Act 47. Arrival of their petitions in the next year would not surprise anyone at DCED. As PEL observed in one of its reports, “The migration of communities toward fiscal decline is statewide.” Unfortunately, this migration will not be slowed by Act 47.”*

(Unquote)

Public Financial Management was appointed coordinator for Reading and developed a recovery plan that was adopted unanimously by city council on June 9, 2010.

There were 174 task items in the plan and most are either complete or in various stages of progress.

Among the task items were:

- 1) Obtain an additional \$10m from the parking and water authority
- 2) Raise earned income tax on local residents .4% for a total of 3.6%
- 3) Levy commuter tax of .3% for 2011, (which drops to .1% for 2012 and 2013 and then expires).
- 4) Cut, then freeze management salaries for three years
- 5) Cut overtime pay for public safety
- 6) Reduce starting salaries for fire and police
- 7) Eliminate 4 holidays
- 8) Reduce paid sick days
- 9) Require 20% contribution to health care premiums
- 10) Eliminate free parking for employees
- 11) Cut 17 firefighters, and 10 police officers
- 12) Extend the workweek for firefighters for no extra money
- 13) Cut pension benefits in future contracts.

We raised property tax 20% last year and our real estate transfer tax is now 5%, which I believe is the highest in the state.

Our city finances are not yet stable as these changes take time to show results. Still it will not be enough according to the projections.

Because of early retirements and not doing replacements, our police force has shrunk from 205 to about 160 officers.

As we enter 2012, once again, to have a balanced budget, we had to rely on a one time source of \$2.4M from an early payoff of a loan.

Reading is making incremental progress in many areas, cutting expenses, and incorporating many best practice business processes. Yet as Secretary Cornelius said, there will be no long term solution to the woes of our cities without significant help from the legislators. There is only so much we can cut or only so much we can tax our citizens who are already at the bottom of the economic ladder.

Mayor Braceley has already discussed the work done by the Pennsylvania League of Cities and Municipalities with 29 mayors last year in producing the action plan "Core Communities in Crisis".

Among several recommendations, the action plan addresses pension and collective bargaining legislative reform. Legislative relief on these is critical if our cities are to survive.

In the long run, the financial model just does not work without other sources of revenue in spite of massive cutbacks in expenses and services.

As cities like Reading continue to cut services and tax the poorest populations in our state, we are approaching a point where the state may need to take on more and more local municipal functions.

We have the ability as a commonwealth to address these issues: pension reform to bring our system in line with private sector plans; revise outdated collective bargaining legislation that does not take into account the ability to pay; enact boundary legislation that could provide incentives to move beyond 2566 fiefdoms to a more sensible local government structure; provide the option for regional revenue and asset sharing for 3<sup>rd</sup> class cities similar to what is already available to our two largest cities.

Unless we address the issues of fiscally unsound core communities, we will lose the ability to attract and grow businesses and will waste precious resources in repairing the consequences of our inaction.

It's my opinion that Act 47 after 24 years has done a moderately good job of forestalling bankruptcy in many municipalities, and it was the right thing to do for the city of Reading.

But Act 47 needs review and revision based on what has been learned with 26 municipalities since 1987.

While it is important to revisit Act 47, the need to address other antiquated municipal legislation is perhaps even more important.

Our problems in cities will fester until we recognize that we are all in this together and work toward common solutions.

A civil society does not discard people or municipalities.

By nature, the job of mayor is to be proactive in resolving problems in his or her city.

I assure you that mayors are ready to roll up their sleeves to help work with all of you toward long term solutions so that our cities and municipalities will not just survive but prosper.

Thank you

References:

- 1) Cornelius – Speech accepting Reading into the Act 47 program. (dated: see this for better link: [http://www.readingpa.gov/act47\\_information.asp](http://www.readingpa.gov/act47_information.asp))
- 2) Brookings Institution (Restoring Prosperity: The States role in Revitalizing America’s Older Industrial Cities”.  
[http://www.brookings.edu/~media/Files/rc/reports/2007/05metropolitanpolicy\\_vey/20070520\\_oic.pdf](http://www.brookings.edu/~media/Files/rc/reports/2007/05metropolitanpolicy_vey/20070520_oic.pdf))
- 3) Five City Study – March 31, 2009: Easton, Bethlehem, Reading, Lancaster, York) :  
<http://yorkcity.org/important/a15/Structuring-Healthy-Communities---PEL-Case-Study->
- 4) Management Partners Early Intervention Report City of Reading March 6, 2006  
[http://www.readingpa.gov/documents/final\\_financial\\_report\\_management\\_partners.pdf](http://www.readingpa.gov/documents/final_financial_report_management_partners.pdf)

- 5) Final Financial Recovery Plan – City of Reading PFM May 28, 2010  
[http://www.readingpa.gov/documents/act\\_47\\_recovery\\_plan.pdf](http://www.readingpa.gov/documents/act_47_recovery_plan.pdf)