



PSMA

Pennsylvania State Mayors' Association

*Assessing the Fiscal
Health of Pennsylvania's
Municipalities*

Where Does the Money Go?

July 2010

Pennsylvania Economy League Central PA Division



PENNSYLVANIA
ECONOMY LEAGUE

Information, Insight, Integrity.

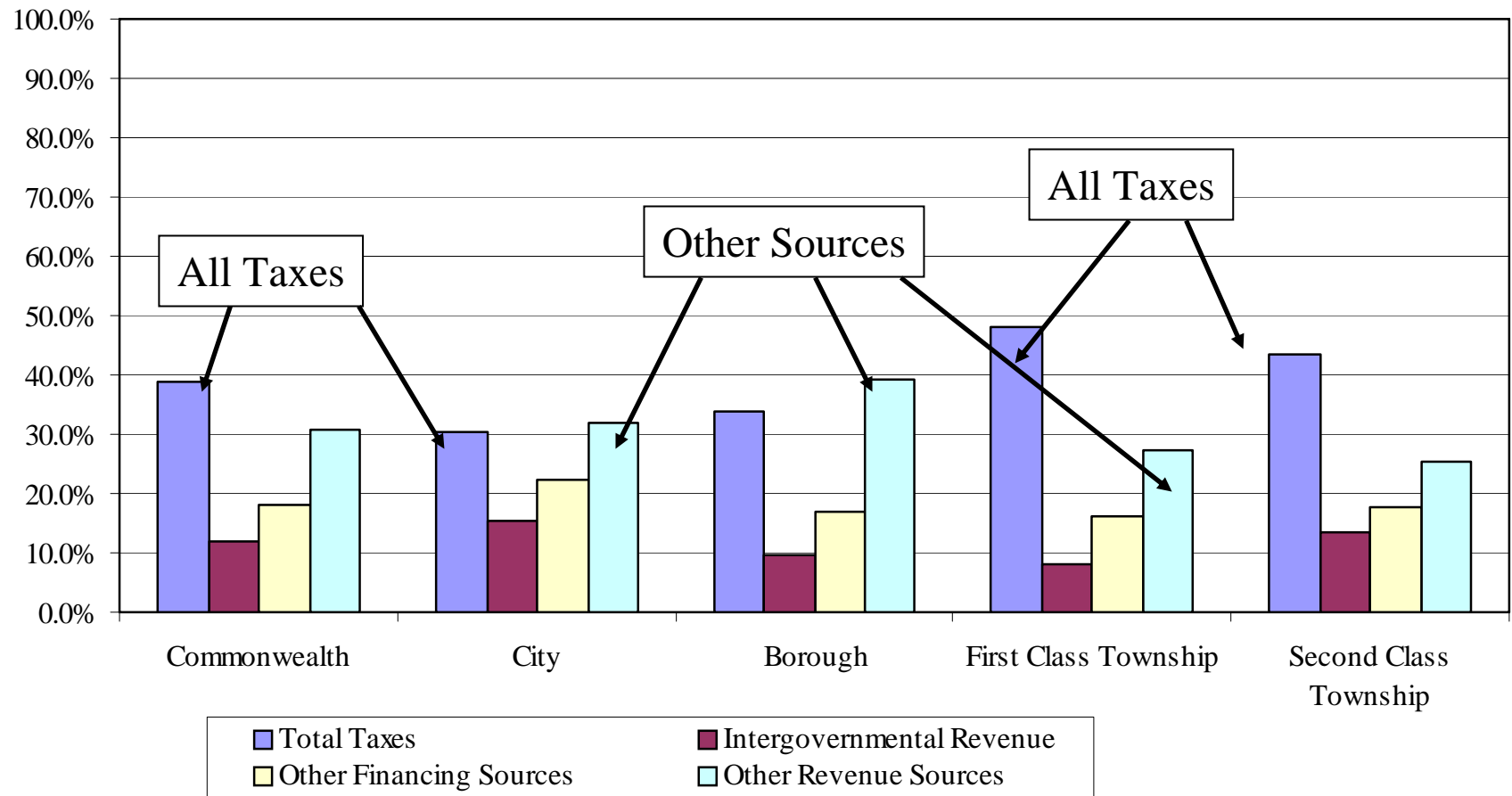
Local Government Is Big Business



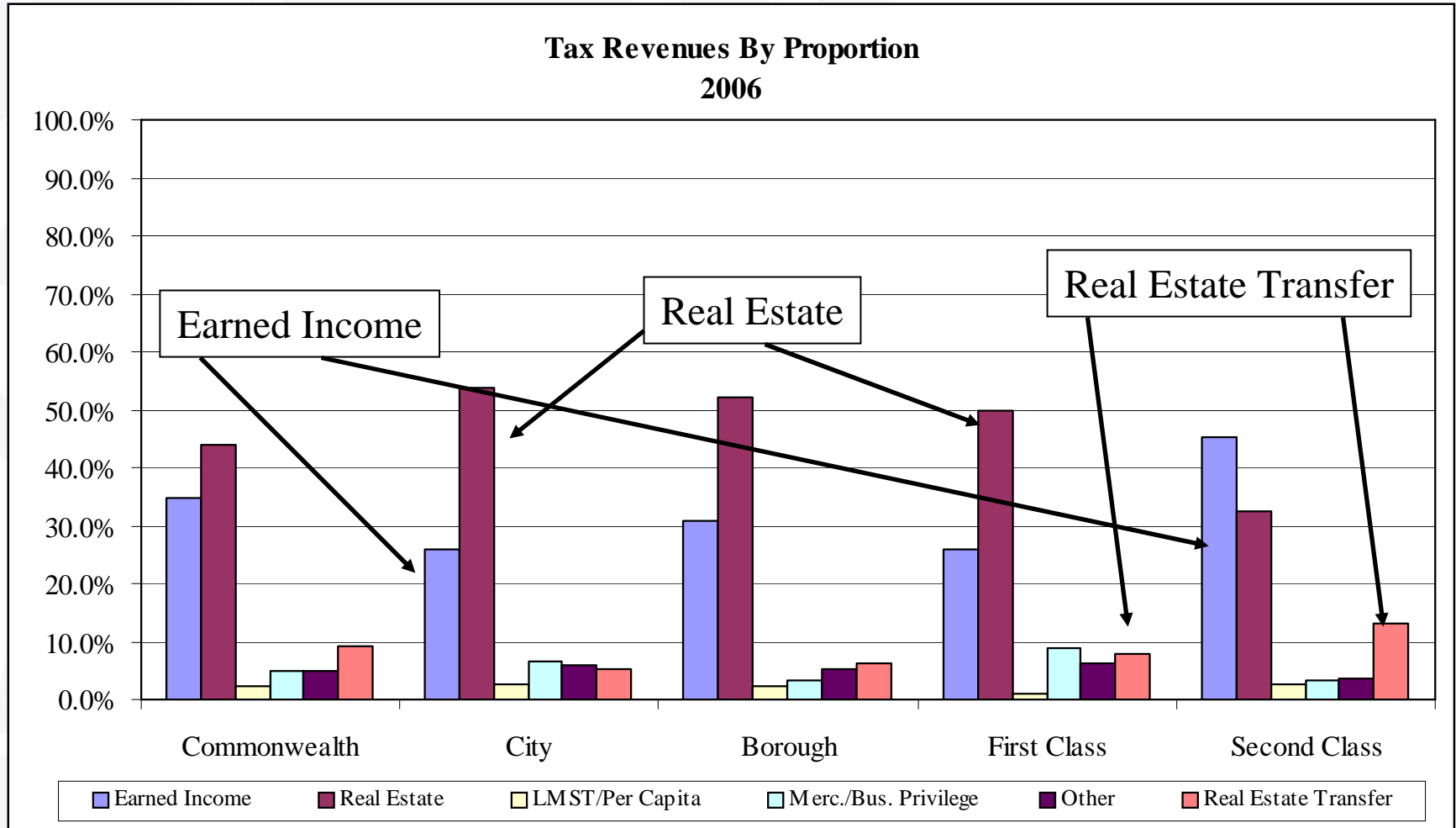
- In 2006, statewide reported municipal spending (not counting Philadelphia and Pittsburgh) totaled \$7.4 billion:
 - Cities spent \$1.6 billion;
 - Boroughs, \$2.1 billion;
 - First Class Townships \$1.2 billion; and
 - Townships of the second class, \$2.6 billion.

Where Does the Money Come From?

Sources of Revenues
2006

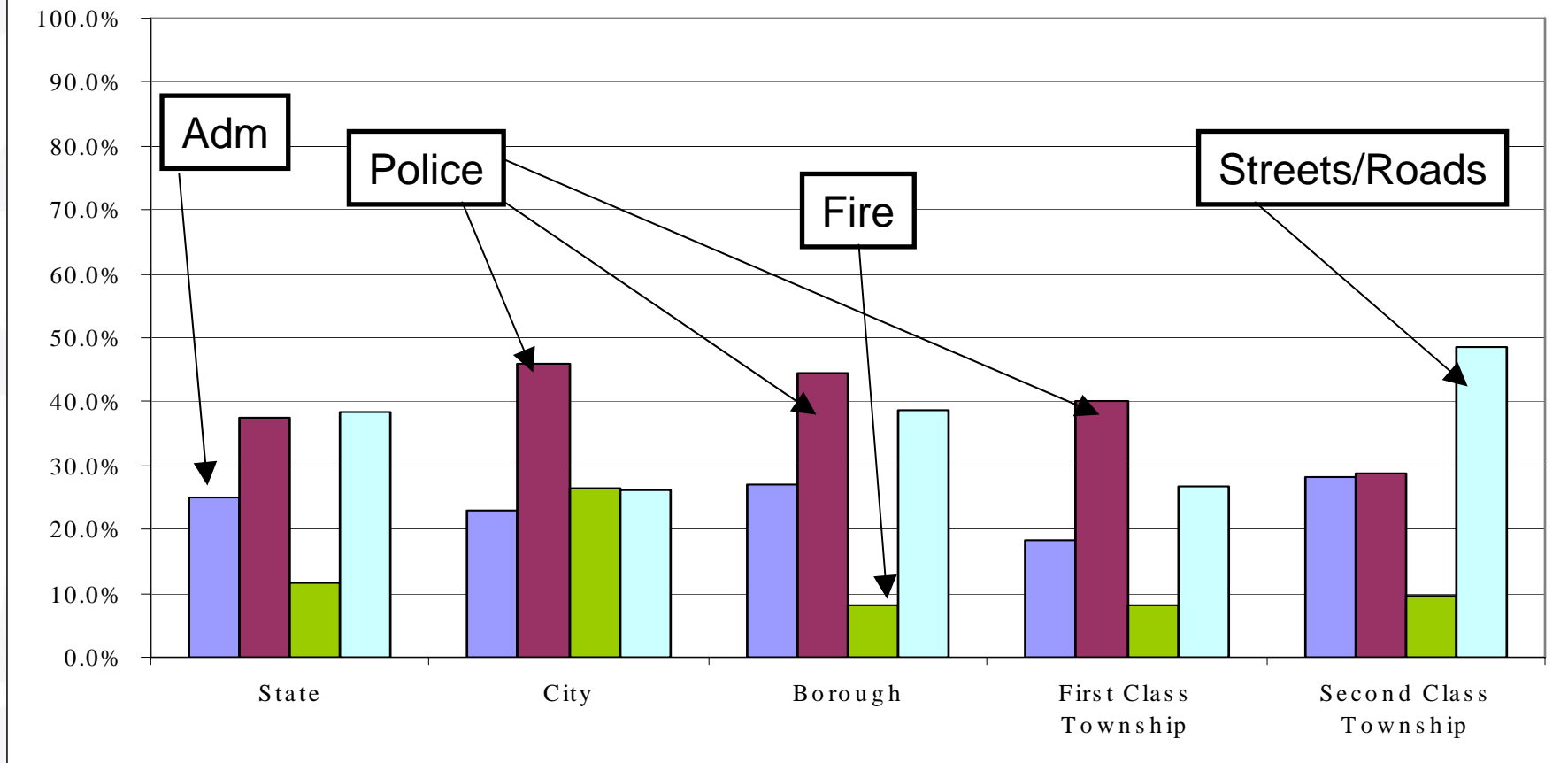


Where Does the Money Come From?



Where Does the Money Go?

Municipal Expenditures as a Percent of Taxes
General Administration, Police, and Fire
2006

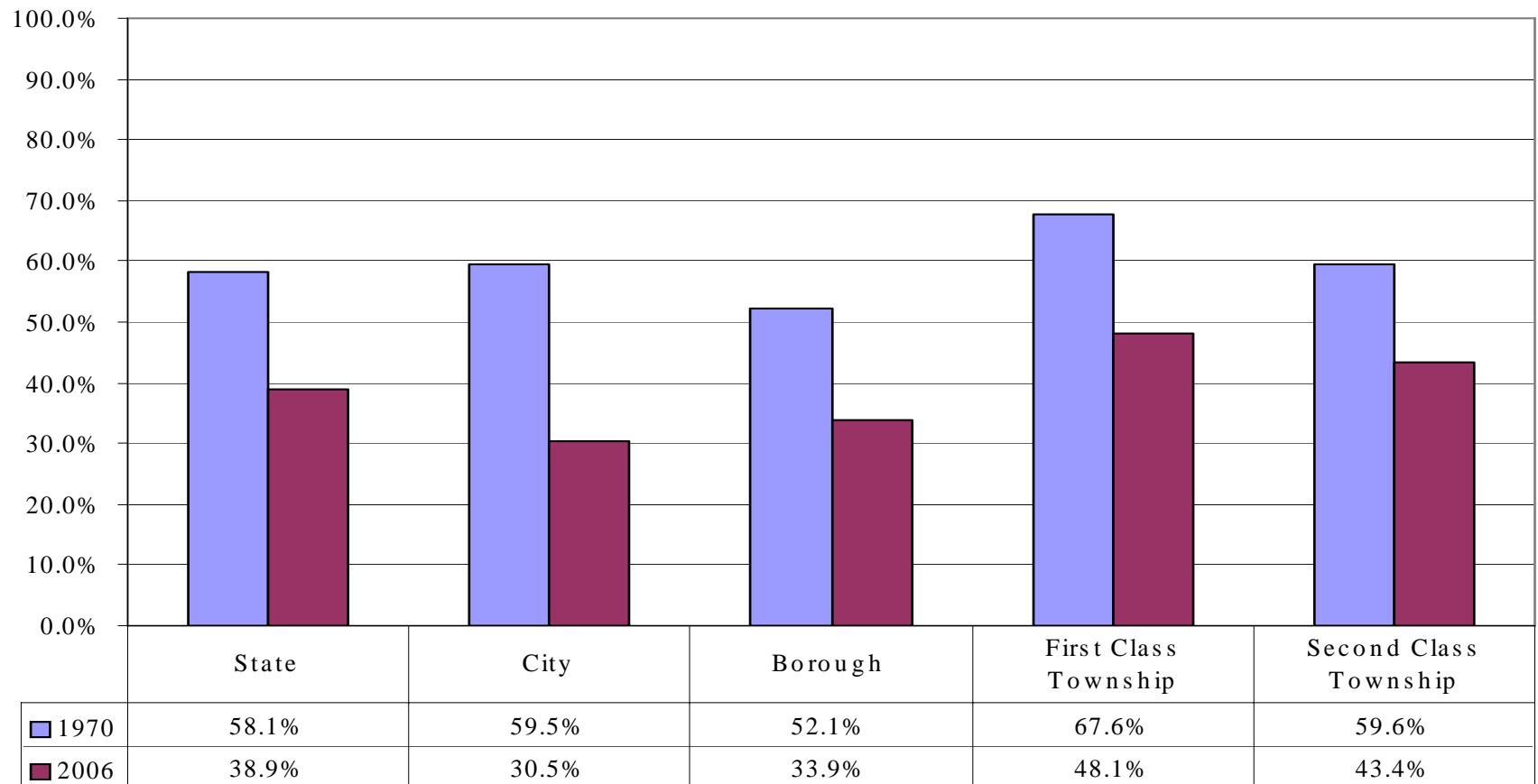


The Story of Change

1970 - 2006



Total Taxes as a Percent of Total Revenue
1970 - 2006



Poor Tax Revenue Growth

1970 - 2006



Real Estate Taxes and Earned Income Taxes in Constant Dollars 1970 to 2006

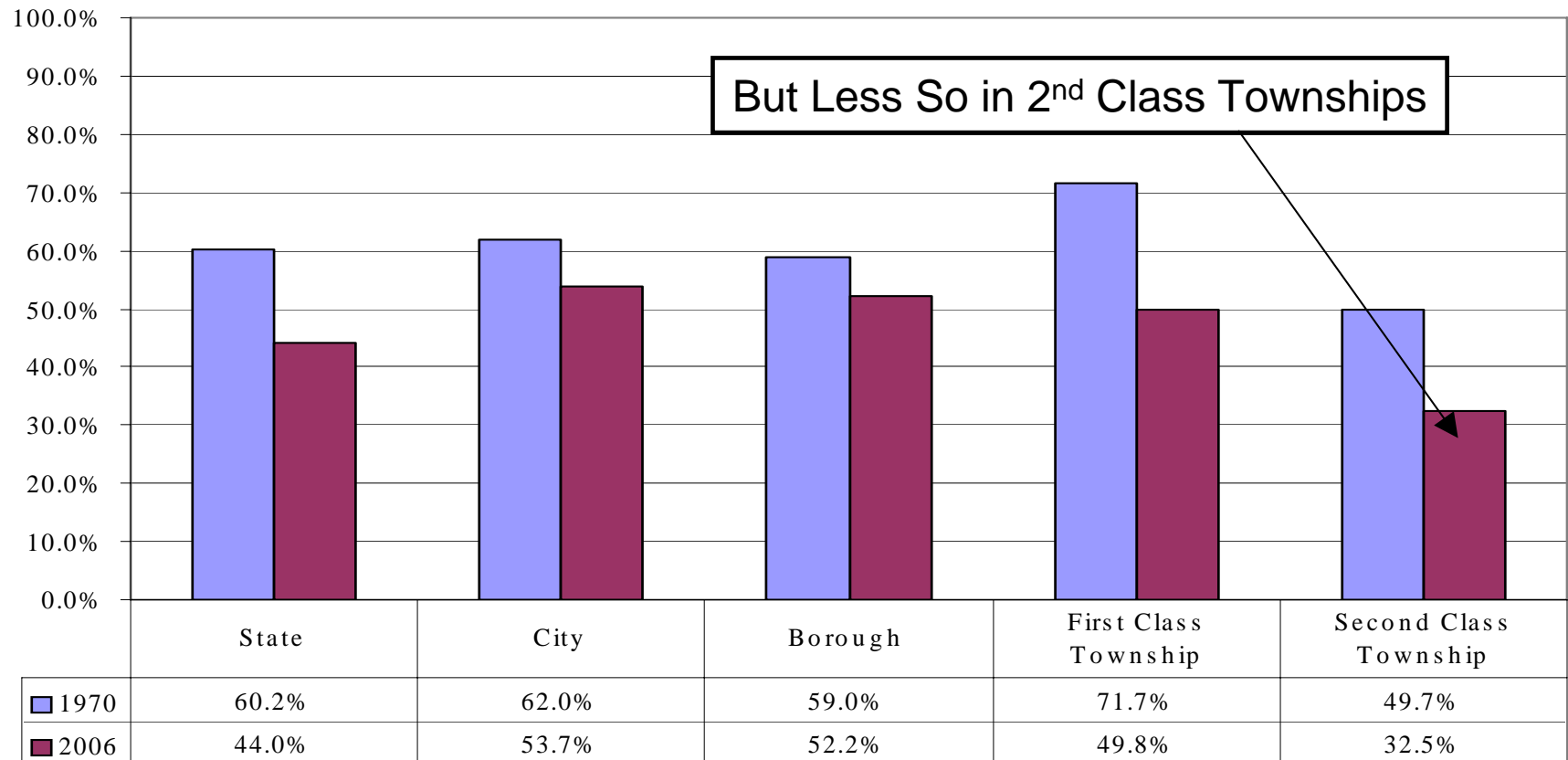
	1970 ^{1/}	2006	Change 1970 to 2006	
			\$	%
<u>Real Estate Taxes</u>				
City	315,990,969	259,684,120	-56,306,849	-17.8
Borough	315,575,926	378,512,683	62,936,757	19.9
1 st Class Township	215,771,785	290,696,533	74,924,748	34.7
2 nd Class Township	177,396,991	395,669,128	218,272,137	123.0
Total Commonwealth	1,024,735,670	1,324,562,464	299,826,794	29.3
<u>Earned Income Taxes</u>				
City	113,865,066	125,687,580	11,822,514	10.4
Borough	143,665,023	222,571,698	78,906,675	54.9
1 st Class Township	51,086,750	151,507,036	100,420,286	196.6
2 nd Class Township	120,248,518	548,826,698	428,578,180	356.4
Total Commonwealth	428,865,356	1,048,593,012	619,727,656	144.5

1/ In 2006 dollars.

Real Estate Taxes Still A Big Part Of The Tax Mix



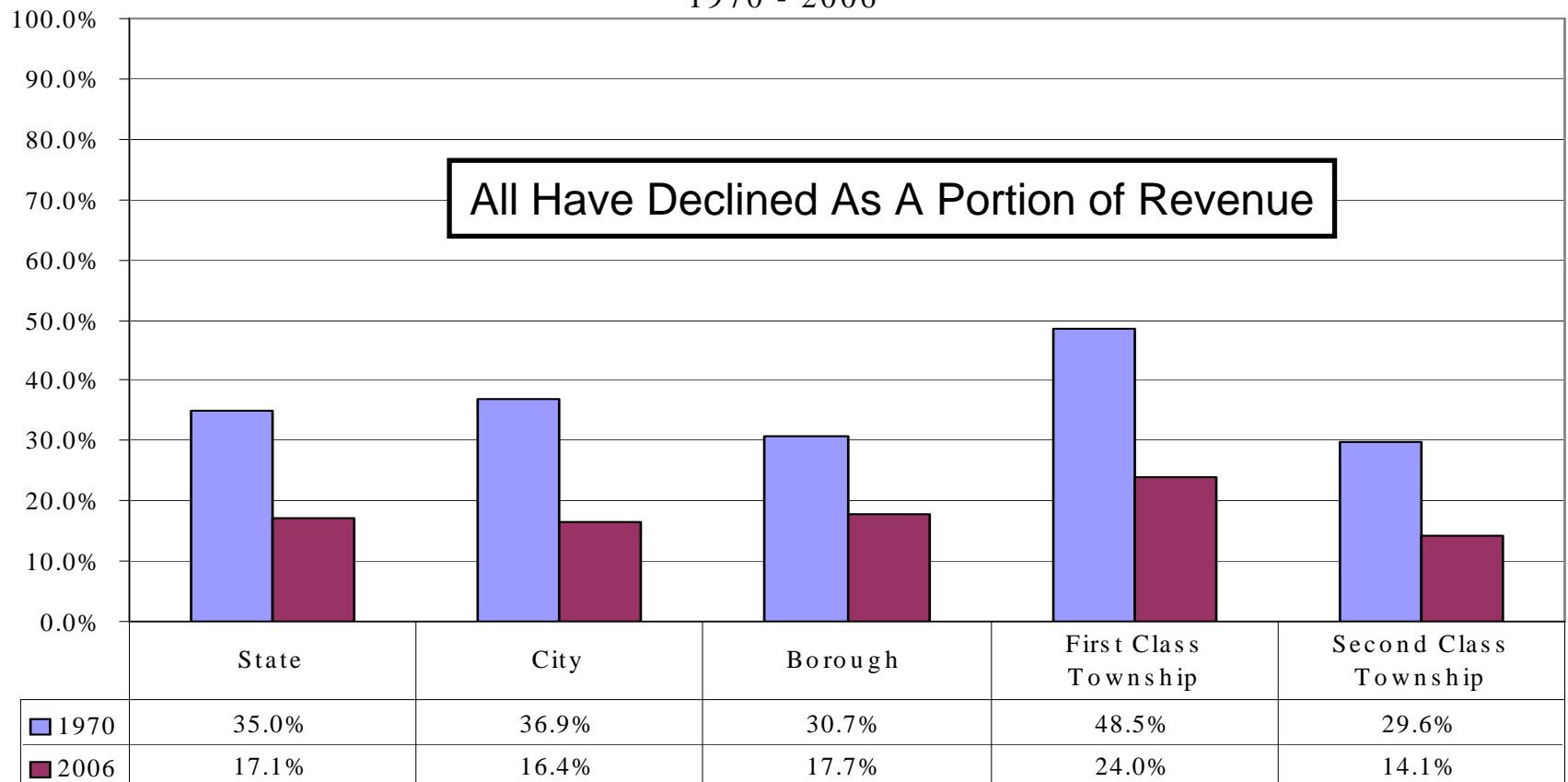
Total Municipal Real Estate Taxes
As A Percent of Total Municipal Taxes
1970 - 2006



But Are Less Of The Total Revenues



Total Real Estate Taxes
As A Percent of Total Municipal Revenue
1970 - 2006



Earned Income Taxes 1970 and 2006



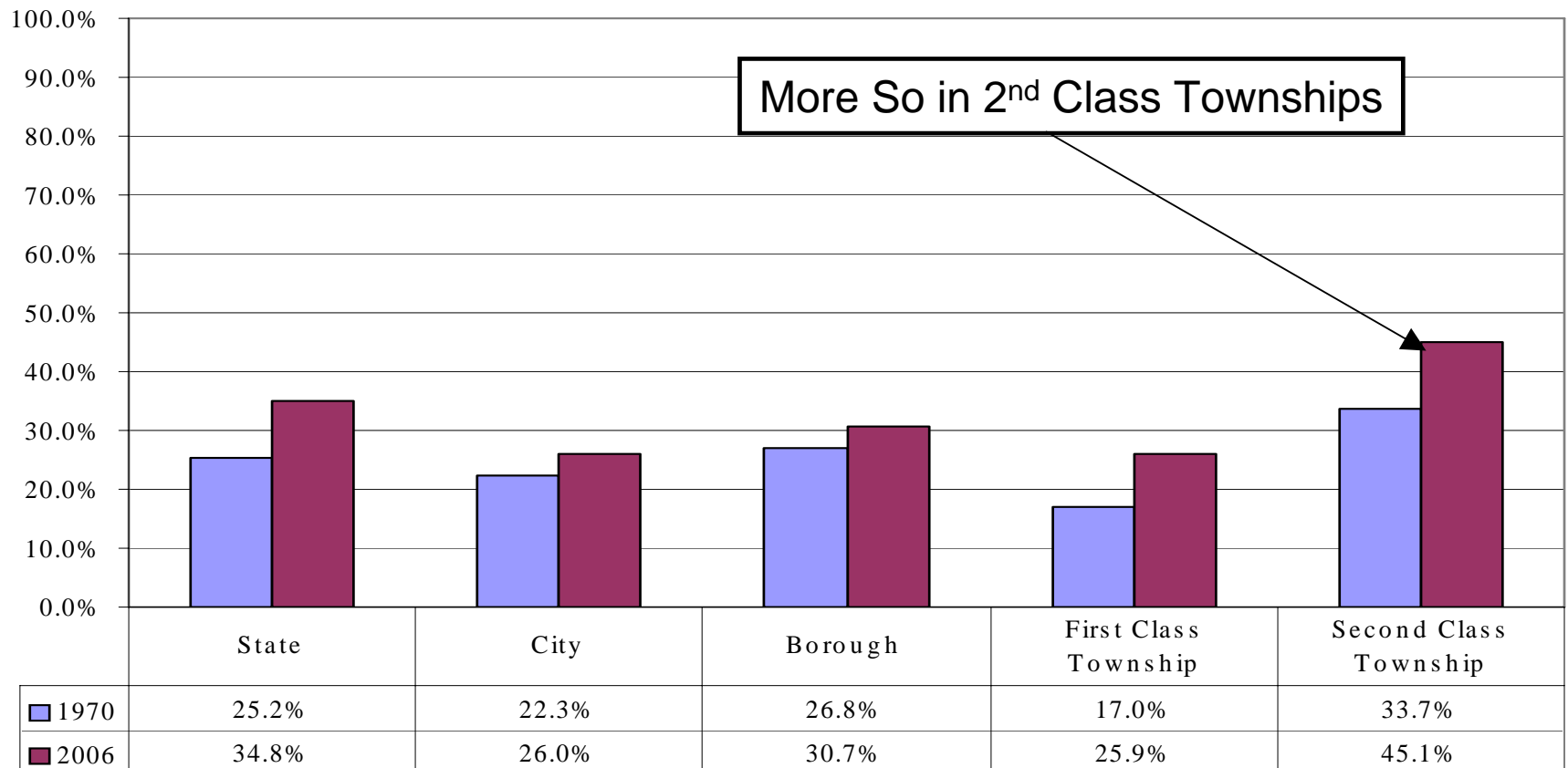
Total earned income tax (EIT) for the period

- Rose in cities by 10.4 percent;
- Rose in boroughs by 54.9 percent;
- Rose in first class townships by 196.6 percent;
- Rose in second class townships by 356.4 percent;
- Rose statewide by 144.5 percent.

Earned Income Taxes Are A Bigger Part of The Mix



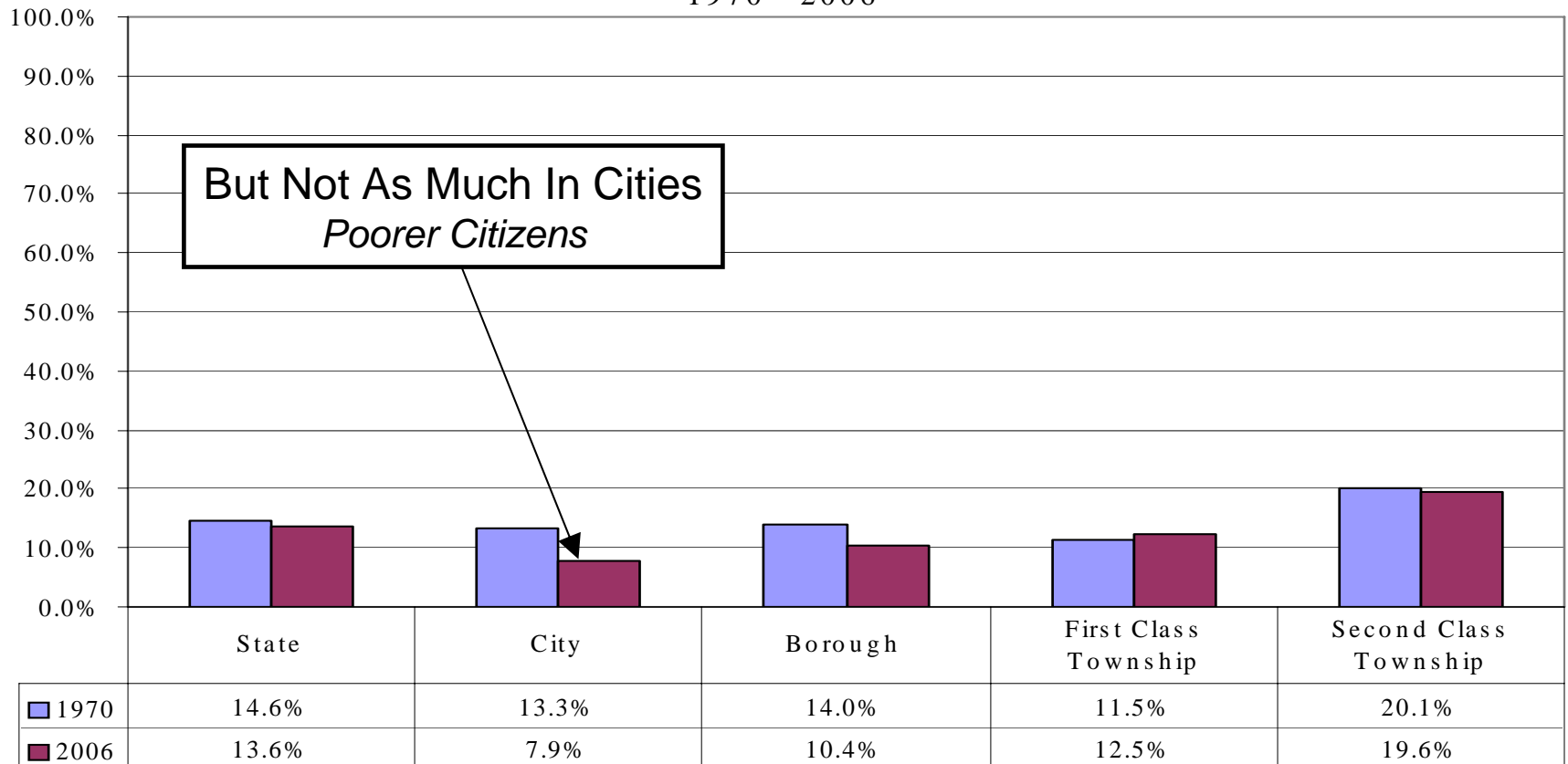
Total Earned Income Taxes
As A Percent of Total Municipal Taxes
1970 - 2006



Earned Income Tax Has Held Its Own in Total Revenue



Total Earned Income Taxes
As A Percent of Total Municipal Revenue
1970 - 2006



Expenditures

1970 and 2006



Total Expenditures 1970 to 2006

	1970 ^{1/}	2006	Change 1970 to 2006	
			\$	%
City	891,174,549	1,547,974,806	656,800,257	73.7
Borough	1,056,062,602	2,077,437,184	1,021,374,582	96.7
1 st Class Township	471,113,687	1,173,639,507	702,525,820	149.1
2 nd Class Township	<u>606,818,904</u>	<u>2,611,491,561</u>	<u>2,004,672,657</u>	330.4
Total Commonwealth	3,025,169,742	7,410,543,058	4,385,373,316	145.0

1/ In 2006 dollars.

Police And Administration 1970 and 2006



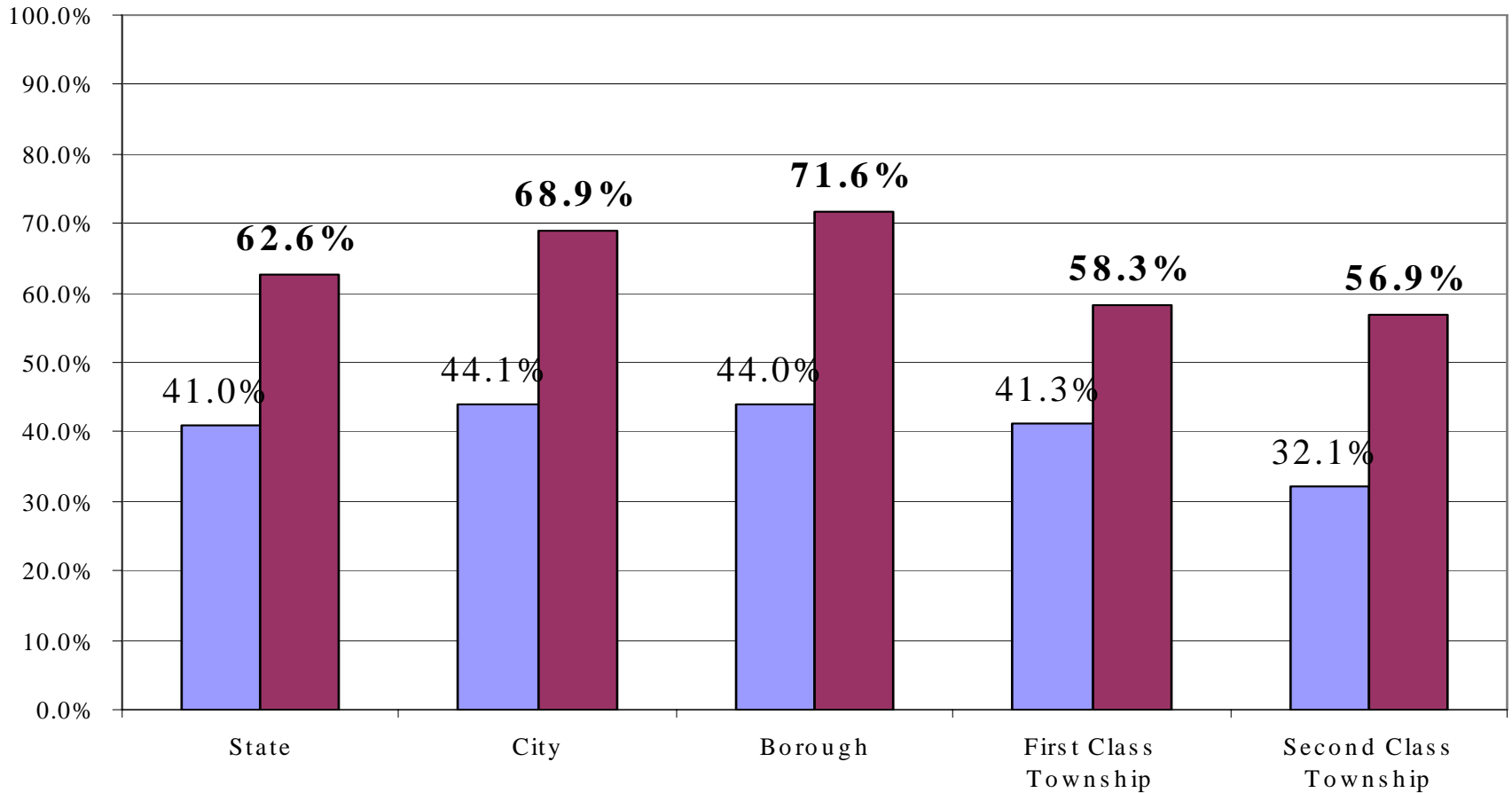
Combined expenditure proportion of total municipal taxes for general administration and police has increased by:

- 27.6 points in the boroughs;
- 24.8 points in the cities;
- 24.8 points in the 2nd class townships
- 17.0 points in the first class townships.
- Costs are rising in the 2nd class townships**

Consuming More Tax Revenue



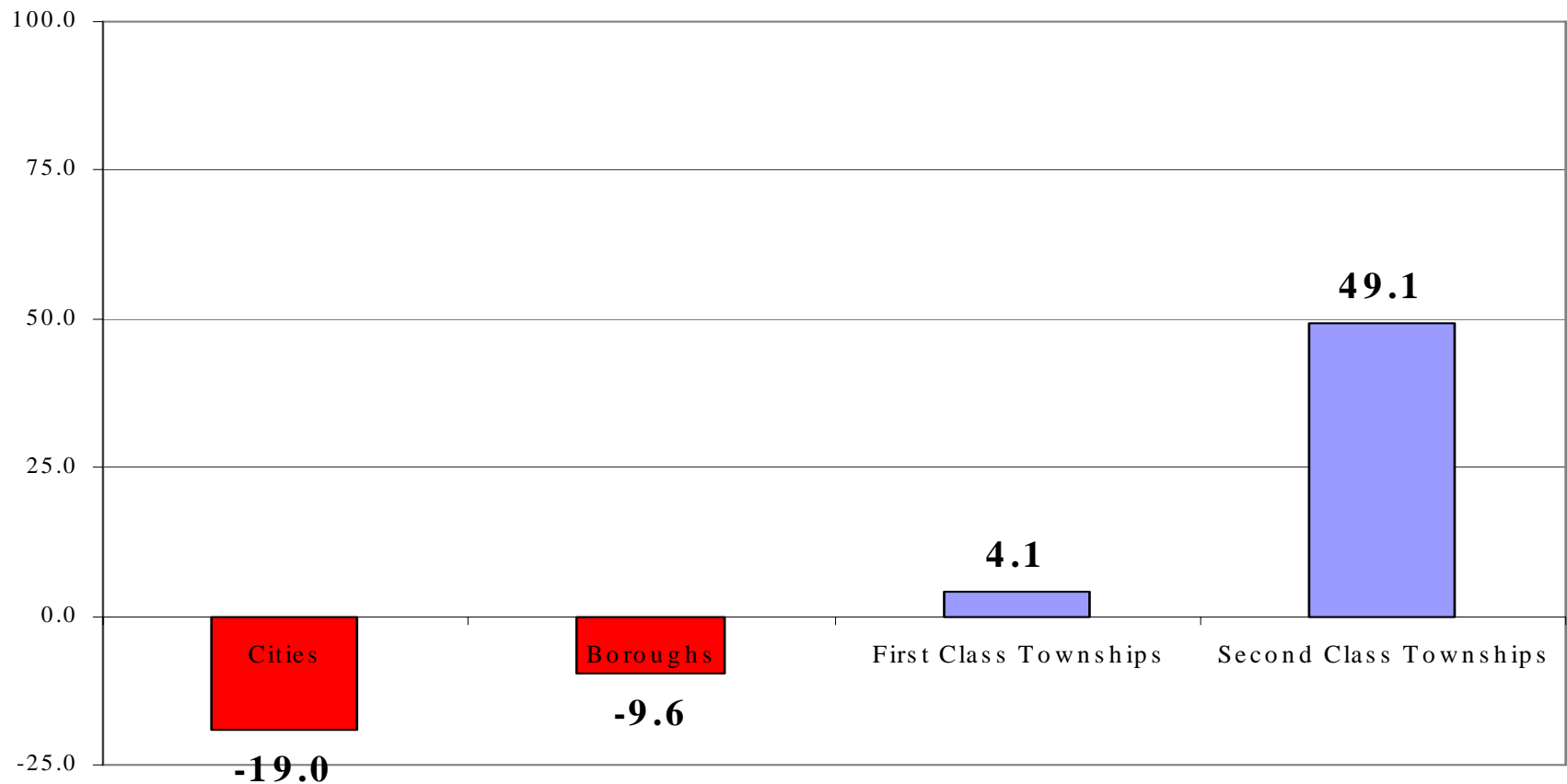
General Administrative and Police Expenditures as a Percent of Total Municipal Taxes
1970 - 2006



Population Change Does Not Always Affect Expenses



Population Change By Municipal Type
Percent Change 1970 - 2006



The Five Stages Of Municipal Fiscal Decline



- *Stage 1. Low Taxes with prosperity.*
- *Stage 2. Gradually rising tax rates and increasing demand for services.*
- *Stage 3. Plateau of tax base with reductions in non-core services.*
- *Stage 4. Insufficient taxes or tax base with reductions in core services*
- *Stage 5. Loss of tax base and distress*

The Five Stages Of Municipal Fiscal Decline



The Five Stages of Fiscal Decline
Number of Municipalities, Type, By Stage of Fiscal Decline
1970 to 2003

<u>Progression</u>	<u>Cities</u>	<u>Boroughs</u> ^{1/}	<u>First Class</u>	<u>Second Class</u>
Stage 1:	0	0	27	399
Stage 2:	15	99	26	259
Stage 3:	1	213	1	512
Stage 4:	1	366	29	256
Stage 5	39	228	8	29
Totals	56	906*	91	1,455

^{1/} The boroughs column does not include 43 boroughs with declining populations but growing tax revenues.

The Five Stages Of Municipal Fiscal Decline



SINCE 1970:

- *Total taxes from all sources have declined as a proportion of total revenues in each class of municipality. Taxes are not keeping up.*
- *Real Estate Taxes As a Proportion of Total Municipal Taxes Are Less. Higher Tax Rates Do Not Keep Pace With Budget Growth.*
- *Real Estate Taxes Are a Smaller Proportion of Total Municipal Revenue.*

The Five Stages Of Municipal Fiscal Decline



SINCE 1970:

- ***Earned Income Taxes As a Proportion of Total Municipal Taxes Are Greater. The Indexing Nature of EIT Helps.***
- ***Earned Income Taxes Are a Smaller Proportion of Total Municipal Revenue. The Fixed Rate Keeps the Growth Below Needed Levels.***

What Can Be Done?



- Revenues are often constricted by:
 - Low Assessment Growth (Cities/Boroughs)
 - Limits on Real Estate Tax Rates (Cities/Boroughs/1st)
 - Limits on Earned Income Tax
- Revenues At Risk:
 - Reduced Increases in Income (Townships)
 - Reduced Real Estate Transfer Taxes (Townships)

What Can Be Done?



- Expenditure Control is Difficult:
 - Act 111 arbitration (Cities/Boroughs)
 - Fixed Size of Municipality But Expenses For Streets/Roads/Sewers (Cities/Boroughs)
 - Poorer and Older Population Demands Services
 - Legacy Costs Of Employees (Pensions, Health Care)

What Can Be Done?



- For Cities and Borough:
 - Realize your problems are common to all municipalities in PA
 - It really is just a matter of time for “wealthier” municipalities
 - Organize and demand change to state laws
 - But in the Meantime ...

What Can Be Done?



- For Cities and Boroughs:
 - Consider Home Rule:
 - Not for the change in structure
 - Do it to get rid of Act 511 limits
 - Earned Income Tax is underutilized in its potential
 - Try to cooperate more fully with your neighbors
 - It might just save the services, maybe not save money
 - Citizens expect services, but don't really care who provides them