

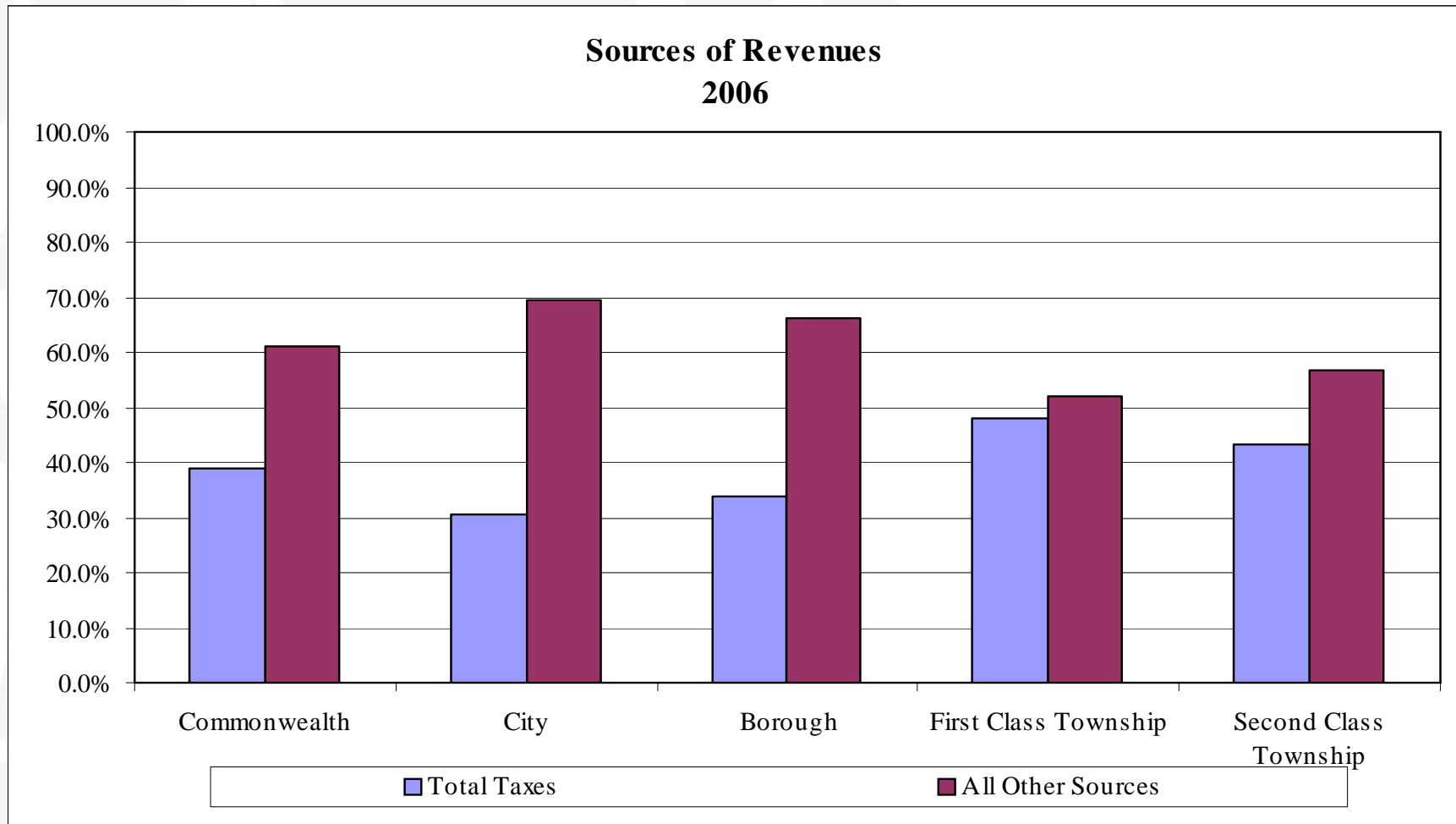
*The Challenge of
Sustaining Your
Local Government*
Where Does the Money Go?



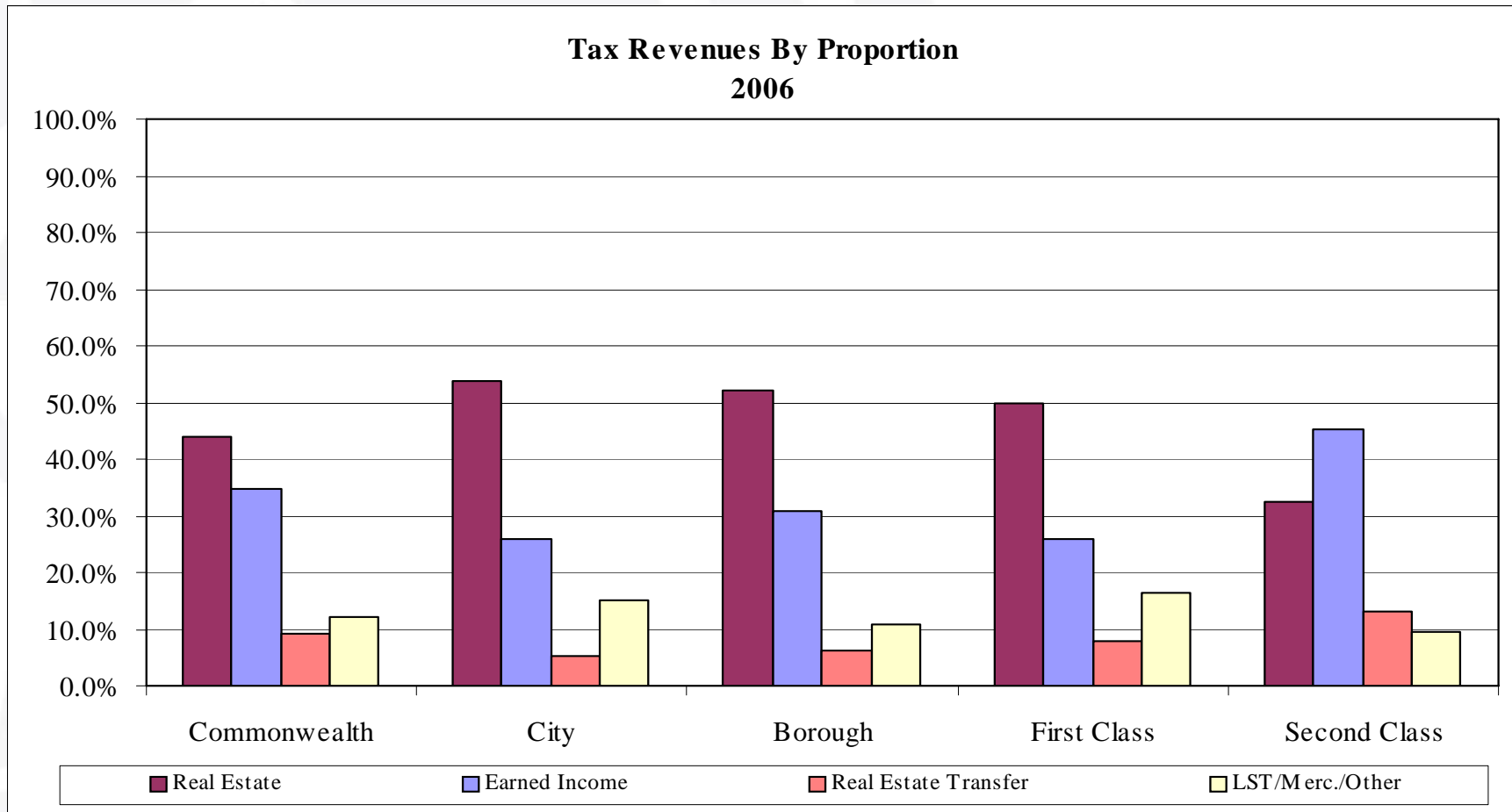
August 2010

Pennsylvania Economy League Central PA Division

Sources of Revenues



Tax Revenue By Proportion



Poor Tax Revenue Growth 1970 - 2006



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

	Change 1970 to 2006 ^{1/}	
	\$	%
<u>Real Estate Taxes</u>		
City	-56,306,849	-17.8
Borough	62,936,757	19.9
1 st Class Township	74,924,748	34.7
2 nd Class Township	<u>218,272,137</u>	123.0
Total Commonwealth	299,826,794	29.3
<u>Earned Income Taxes</u>		
City	11,822,514	10.4
Borough	78,906,675	54.9
1 st Class Township	100,420,286	196.6
2 nd Class Township	<u>428,578,180</u>	356.4
Total Commonwealth	619,727,656	144.5

^{1/} In 2006 dollars.

Expenses:

Police And Administration



From 1970 to 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**

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 above can span 30 to 50 years of a municipal life cycle.**

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.

What Can Be Done-- Obstacles



- 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-- Obstacles



- Expenditure Control is Difficult:
 - Public Safety Cost Reduction Is Hard To Do
 - Fixed Size of Municipality But Not Expenses
 - Poorer and Older Population Demand More Services
 - Legacy Costs Of Employees (Pensions, Health Care)

What Can Be Done Now?



•For Municipalities:

- Realize your problems are common to all
 - It really is just a matter of time for “wealthier” municipalities
- 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

Next Steps



- Organize and demand change to state laws
 - More flexibility needed to foster:
 - Support for Shared Services
 - Merger/Consolidations where local agreement exists
- Look To Sharing Resources
 - Support a Regional Approach to Tax Base Revenues
 - Realize that Sharing Services Saves the Service Not the Costs
- Join Local and Statewide Efforts
 - Building OnePA
 - RenewLV, LV Partnership

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