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88 North Franklin Street, Suite 200 • Wilkes-Barre, PA 18701-1393
phone: 570-824-3559 • fax: 570-829-8099
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The Quiet Boom and Potential Bust of Pennsylvania Townships

By Gerald E. Cross

Since the 1970s, Pennsylvania's cities have grabbed headlines as they sank into a financial morass while the state's townships quietly prospered.

But recent data indicates that the once booming townships – where almost half of state residents live – are also seeing troubling signs including rising service costs and tax revenue that is either declining or flattening.

The challenge for townships may soon be the same issue facing distressed cities: how to provide quality services at a price that taxpayers can afford. By recognizing that challenge now, townships can begin to implement measures to avoid severe financial problems in the future.

Pennsylvania Economy League research clearly shows the explosion of tax revenue collected by townships beginning in the 1970s as residents fled the cities and took their wealth to townships.

For well over 30 years, Pennsylvania's third-class cities experienced an exodus that dropped population by almost 20 percent. In contrast, population grew by almost 50 percent in second class townships, where residents moved to take advantage of new housing developments.

As people left the cities, income from taxes began to decline. Meanwhile, townships were increasingly able to capture additional revenue as both population and the earnings of that population expanded.

Real estate tax collection and real estate transfer taxes in townships jumped from the development boom. Officials in these communities had the advantage of revenue increases that were the result of natural growth rather than a politically sensitive property tax hike.

In addition, escalating earned income tax revenue contributed an increasingly larger amount to township budgets so there was less need to rely on property taxes, in contrast to cities, where property taxes are the dominate source of tax dollars.

Cities not only lost earned income taxes from those who left - many of whom were higher income residents - they also saw declining revenues as the remaining population aged, retired and no longer had to pay earned income taxes.

Meanwhile, as populations moved from urban areas, the taxable property values in cities did not increase at the same rate as the townships, and in some cases decreased. Cities were also hurt by the lack of readily developable land that limited easy expansion of the property tax base. The result was a decline in property tax dollars.

Revenue sources are not the only difference between cities and townships. Cities spend the bulk of their money on public safety costs including police and fire protection. In some cities, total tax revenue alone has failed to keep pace with the cost of police and fire expenses.

Townships spend more of their money on roads and public works. Still, township spending on general administration and police has increased, indicating possible problems down the road if revenues stagnate.

The trend can already be seen. Earned income tax in townships peaked just prior to the 2008 economic crash and is now either declining or leveling off. Real estate transfer revenue crested in 2005 and 2006. Townships that heavily relied on those tax sources to increase services and avoid a property tax hike may now have to look to other revenues.

To meet the challenge of sustaining public services, townships should explore more regional options to both provide and pay for them. By recognizing the fiscal trends, townships can work now to implement corrective actions in an attempt to avoid the dire financial predicament currently faced by Pennsylvania’s cities.

Gerald E. Cross is the Executive Director of the Pennsylvania Economy League Central LLC

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