

**Act 47 of 1987 Municipalities Financial Recovery Act Task Force**  
**Community and Economic Development/Tax-Exempt Property**

**Shared Services and Tax-Exempt Property Impact Fees**

**Excerpts from PEL Reports/Commentaries:**

- Merger/Consolidation Review Case Studies 2009
- Impact on the Cost and Financing of Government Services in the Host Municipalities
- Broken in the Box: A Case for Local Government Reform in Pennsylvania

## EXECUTIVE SUMMARY

### Case Studies of Municipal and School District Mergers

The case studies detailed in this report represent a sample of recent attempts at municipal and school district consolidation or merger that have taken place in the Commonwealth since the passage of the Municipal Consolidation or Merger Act. Most attempts at municipal merger and consolidation since the passage of the Act have not been successful, while some of those that have succeeded have done so on the second or third attempt. Given the interest and the predilection by economic development and business leaders to equate consolidation or merger with municipal reform, the observations gleaned from this study are particularly relevant to the continued discussions on the future of municipal government in the Commonwealth.

As detailed in the case studies, the impetus for consolidation or merger is often financial; one of the municipalities is usually experiencing significant fiscal issues or is not providing significant services to its residents. The municipal merger or consolidation process as currently required by the Act allows many opportunities for opponents to be able to prevent a municipal merger or consolidation. The joint ordinance effecting a merger or consolidation must be voted on and approved by the respective councils, commissioners, or supervisors at least 13 weeks before the election in order to be placed on the ballot. Defeat of the proposed ordinance by one municipality ends the process. Thirteen weeks following a many months long process of discussion and meetings is a long time to sustain support and enthusiasm for merger or consolidation and ample time for opponents to marshal significant opposition.

Municipal mergers or consolidations in Pennsylvania simply are not easy to accomplish. The process is laborious and there are many steps along the way where opponents can easily stop the effort. The Commonwealth, through its agencies, offers little in the way of assistance beyond encouragement and grants to pay for part of the process and nothing in the way of financial incentives to encourage municipalities to attempt the process. The Municipal Consolidation or Merger Act provided legislative reinforcement of the past practices that have effectively prevented mergers and consolidations from taking place.

The changing demographics and economics of Pennsylvania's school districts have recently brought increased attention to locally shared services, mergers or consolidations, especially under the 2009-10 Governor's Proposed Budget and its goal of reducing the number

of school districts. Some sharing discussions are driven by a declining tax base or decreasing enrollments, others by a desire on the part of communities or school districts to maintain or expand municipal or academic programs.

The process to complete a merger of school districts differs from the municipal process because no public referendum is required to approve the merger. The merger of two districts is at its root a merger of the educational delivery of a state supported function of public education. School districts in Pennsylvania share much more in common with each other due to the common mandates and regulatory oversight of the Commonwealth's Department of Education (PDE). State funding and oversight has created common accounting and reporting requirements that do not exist in the municipal sector. The school district merger process contains four public votes by representative boards (school boards) and does not directly involve the public except through public meetings and hearings for public comment.

#### Sharing Services as Alternative to Merger

While incorporation boundaries define the municipal area and often its identity, incorporation boundaries also limit the tax base potential as well as define the service boundaries for citizens. Municipal service sharing in Pennsylvania occurs in all operations of government, from police and fire contracting among municipalities or regional departments serving multiple communities to the sharing of heavy highway equipment, joint bidding of road construction and pavement repairs and even free snow plowing by the larger municipality to the residents of the smaller municipality within its borders.

The Commonwealth can modify the same basic municipal merger/consolidation procedure to allow for the provision of shared municipal services through a special purpose service delivery area that provides services without regard to municipal boundaries but operates with a unified budget funded by special purpose taxes levied uniformly on member municipalities. Approval by public referendum to create such districts may not be necessary and could be adopted with mutual municipal board approval and state agency approval as surrogates for the public referendum as is the case in school district mergers. The use of special purpose taxation is currently allowed under the Home Rule and Optional Plans Law and this use would need to be expanded legislatively to finance special purpose service districts without the prerequisite of a Home Rule Charter.

**Structural consolidation/merger is a complex and time consuming process, with a high probability of failure based on the historical record. On the other hand, functional consolidation presents more realistic and significant opportunities to share services as opposed to structural consolidation.** The requirements for boundary change are onerous and require majority consent in all municipalities affected by the proposed change. In relatively large metropolitan areas for example, consolidating or merging a wide variety of local governments into a single municipality is not a politically feasible solution. Multi-municipal consolidation/merger is thus not a viable alternative for promoting regional cooperation in the Commonwealth's major metropolitan areas.

Functional consolidation, like structural consolidation/merger, may not automatically result in cost savings. Although both functional consolidation and structural consolidation may eliminate redundant municipal services and eliminate certain staff, the immediate necessity of bringing all existing collective bargaining agreements up to the level of the highest paying entity; the practical necessity of merging pension plans and eliminating multiple plan administrators; the practical necessity of both maintaining a number of employees to provide existing service and to extend those employees to increase service activity into areas with no existing service often makes the initiation of shared services marginally less expensive. **However, over time, a shared service provision maintains or improves the service by providing a higher and broader level of service at a cost that is collectively reduced for the amount of services provided.**

Saving the service, or, perhaps more pointedly, providing and expanding the service to more citizens has been the experience of shared service activities in the Commonwealth. In regional police forces in such areas as Stroud Regional and Pocono Mountain Regional (Monroe County), and Berks/Lehigh Regional (Berks and Lehigh counties), the initial effort focused on providing efficient and effective policing in areas where the service was limited or non-existent. As the regional forces became operational, police service developed in quality and professionalism, and expanded to serve new municipalities. The costs to the original municipal members remained in line with what the expense of providing the separate police force would have been over time. In most cases when new member municipalities join a regional police force, the overall initial expense was significantly less than the cost to start a new service from scratch in that municipality.

## CHAPTER 5

### ALTERNATIVES TO MERGER/CONSOLIDATION

As the recent history of merger and consolidation attempts and the case studies examinations suggest, the large scale adoption of merger and consolidation of municipalities is not to be expected in the near future. It is likely that, in lieu of Commonwealth mandated minimum size restrictions on the number of local governments units, the future results of merger and consolidation efforts will reflect the track record of the recent past.

What may be needed are alternatives to direct merger or consolidation that still provide efficient and effective government services while preserving municipal identity and citizen's involvement with their local government. As stated in the PEL 2006 study of *PEL Municipal Consolidation Focus Groups* the prospect of widespread adoption of merged municipalities will probably generate more citizen opposition than the prospect of sharing municipal services across municipal boundaries:

*The focus groups identified a number of key issues that are important to understand as (proponents) attempt to make a case for consolidating municipal government services. Perhaps the most important finding of this research relates to the source of citizens' attachments to their local governments: notions of representation and the concomitant benefits, especially responsiveness. At the moment, citizens feel positively about how they are represented locally and how that representation is translated into responsiveness. They currently don't see much reason to change how things operate.*

*The groups also expressed little concern about the cost of local government. There was some discussion of taxes, but no real concern about the cost of local governments. Expensive is not a word that is frequently heard nor frequently used as a descriptor of local government. In fact, when local taxes are discussed as expensive it is usually in the context of school taxes. On top of this, there is scant knowledge and concern about the level of distress facing local governments in the state outside of urban areas. Citizens do not seem to understand how distressed many municipalities are.*

And:

*Considering the general satisfaction citizens get from the services they receive, their distrust of state government, the safety they feel in having their local officials making decisions about their local area and lack of concern about the costs of those services, (proponents) face a difficult task in advocating for change. In the short term, it seems wise to take on services that do not conflict with current notions of representation. That is, (proponents) need to pursue*

*consolidating those services that citizens likely would not see as being lost if they weren't delivered locally.*

Based upon PEL research into the causes of municipal fiscal distress as well as the results of other examinations of local government fiscal conditions, mergers and consolidations may not eliminate the threat of diminishing utility of local taxes to pay for increasing expenses of local government services. A PEL review of statewide fiscal data from 1970 through 2005 showed that the ability to pay for services from existing tax revenue declines over time, as development related revenue gives way to revenue levied upon assessed value and earned income of residents. The merger case studies combined with the 2005 PEL focus groups study reinforces the conclusion that the attraction of lower local government taxes due to a merger or consolidation is not necessarily predictive of voter approval of a merger or consolidation.

A review of local boundaries and the population served and the nature of services provided could be logically expected to provide optimum sizes for a local government unit for the goal of efficiency and effectiveness. However, citizens express a knowledge of the **inefficiencies** (real or believed) in their local government form but seem to be willing to spend the perceived marginally extra tax dollars to maintain local representation as seen in their local governing bodies, regardless of the local unit's size. Given this hurdle of expectations and the ease of voting "no" when faced with the uncertain prospects of representation in a merged or consolidated community, a review of other forms of merger or consolidation to provide municipal services and to create more efficient and effective forms of local government service delivery may be beneficial.

The Commonwealth should enact legislative changes and provide fiscal incentives to directly support regional cooperation and shared services among local governments. Commonwealth financial incentives and legislative authorization of increased tax base sharing can lead to greater functional consolidation and ultimately to increased structural consolidation.

As a start, the General Assembly should undertake a systematic review of municipal legislation, including the current county code and the municipal codes that govern the basic structure and function of local government in the Commonwealth. The county code and the various municipal codes often cause financial impediments to regional cooperation and to the sharing of municipal services.

For example, an Act to promote regional police services can address the elements needed to provide incentives, encouragement, and clarification of the status of regional police forces. Multi-municipal provision of police services will cross municipal boundary lines, and require assistance in adjusting multi-municipal structures, powers and duties, budget and finance issues, ownership of assets, transfer of pension responsibilities and liabilities, collective bargaining issues, and other items that inhibit cooperation.

The same regional services legislation can also serve as a model for other types of functional consolidation legislation. The Intergovernmental Cooperation Act (Act 180) does provide a broad legislative grant of authority for inter-municipal cooperation, but does not provide enough detail or guidance to address the details of functional cooperation as might be addressed in a more specific regional services legislation.

The details of such issues as pension costs, distribution or sale of assets, allocation of debt obligations, and collective bargaining for example are often the rocks on which the ships of municipal cooperative efforts wreck. The General Assembly can adopt legislation that would encourage additional municipal functional consolidation.

The General Assembly should consider procedures to permit “disincorporation” of municipal governments that cannot provide a basic level of public safety and public infrastructure services. The General Assembly would have to define what are the basic levels of public safety and public infrastructure service provision. At some point though, a local government that exists only to collect minimal taxes to support its governing board and a minimal level of administrative activity cannot be considered a service providing general purpose unit of government and would be dissolved as a government.

Pennsylvania has 2,563 units of municipal government, not including counties, school districts, and municipal authorities. All of these units of local government are general purpose units and are incorporated entities with the authority to provide the full range of local governmental services and to levy the taxes and raise the necessary revenue to support this service provision. **The municipality is the local government tool to regulate the quality of life in its governing area. The municipality has the ordinance power to promulgate safety and health regulations through ordinances to protect its citizens and to regulate the use of public and private property in its jurisdiction.**

Of these 2,563 units of municipal government, only 249 or 9.7 percent, have a population of more than 10,000, according to the 2000 census. Several states, including neighboring New Jersey, have used the 10,000 population figure as a baseline for determining the minimum size of a viable unit of local government with the resource capacity necessary to provide the basic level of public safety and infrastructure services. A municipal unit without the capacity to provide for the regulation, protection, and enhancement of public safety, health, and quality of life may not be considered a service providing general purpose unit of government.

The Boundary Change Act of 1994 can be amended to include at least the following:

- A specific process, including timeframes, should be outlined for a consolidation/merger.
- A new home rule charter should be expressly permitted as part of any vote on the consolidations/merger.
- A consolidation/merger should be deemed to take place if a majority of all voters in the proposed new municipality approve the proposed consolidation/merger, as opposed to the now required individual municipal majorities.
- DCED or other Commonwealth agency should be designated to assist and to finance with grants or other direct state assistance proposed consolidation/merger activities.

The most significant change that the General Assembly could institute with respect to multi-municipal service provision would be to significantly expand the powers and duties of Pennsylvania counties as units of local government. Pennsylvania counties as currently structured reside in a “no man’s land” of powers, duties, and obligations as a municipal entity. Restructuring county government, disincorporating nonviable municipalities, and providing incentives for area-wide provision of municipal services should be the goal.



## CHAPTER 7

### THE EXPERIENCE OF OTHER STATE GOVERNMENTS

The fiscal impact of state universities on host communities is an issue of varying concern throughout the nation, depending on immediate circumstances in particular localities. Differences in the characteristics of institutions of higher education and the municipalities in which they are located tend to obscure their common interests and discourage concerted action. Consequently, only a few state governments have established an ongoing program to address the relationship between the tax-exempt status of universities, their service demands, and municipal revenue.

In most states, financial issues that arise between universities and their host municipalities are resolved through negotiations at the local level – or remain unresolved. University administrators consistently assert that the economic benefits they bring to the community more than compensate for the cost of providing public services to their institutions. On the other hand, local government officials throughout the United States insist that, although they appreciate the universities' ongoing contribution to the basic economy of the region, institutions of higher education pay less than a full share of costs for the services they require – at least in those municipalities that provide off-campus housing and attract a large number of students at night and on weekends. Despite these differences in perspective, some host communities in other states have successfully negotiated agreements with their universities. While a few agreements have resulted from collaborative planning, many represented compromises in reaction to coercive measures (such as changes in zoning ordinances or procedures) imposed or contemplated by the host municipality.

- **Payment in Lieu of Taxes (PILOT)**

The most direct method of state intervention to compensate municipalities for hosting state-owned facilities is a payment in lieu of taxes (PILOT) based on the assessed value or market value of that tax-exempt property.

Under a program begun in the 1970s, Connecticut currently appropriates \$78,000,000 from the general fund to compensate cities and towns for the presence of state-owned facilities (including prisons, institutions of higher education and hospitals) and remits an additional

\$111,000,000 to municipalities for private colleges, universities and hospitals within their boundaries. On a statutory basis, Connecticut's municipalities are reimbursed at a 100 percent rate for "lost" property taxes on prisons, but receive only 45 percent of the taxable equivalent in the case of public universities and hospitals. The statutory payment in lieu of taxes to municipalities for the tax-exempt property of private colleges, universities and hospitals is 77 percent of the amount that would have been collected from a taxable entity. The latter program is often characterized (in the words of the Connecticut Conference of Independent Colleges) as "a model for the nation." Nevertheless, some municipal officials in Connecticut are unhappy with the legislature's failure to fund the full statutory standard in recent years, effectively reducing the PILOT percentage and causing some budgetary uncertainty. In New Haven, community activists continue to insist that Yale University, which contributes more than \$2,000,000 of its own funds to its host municipality, should make up the entire difference between the state PILOT and the taxes that would be due from a for-profit enterprise.

Since 1988, the Rhode Island legislature has appropriated funds (nearly \$27,000,000 in 2006) to municipalities to offset a portion (27 percent) of the loss of property taxes on certain state-owned facilities (hospitals, veterans' homes and prisons) – as well as on nonprofit hospitals and private nonprofit colleges and universities. Interestingly, state institutions of higher education are not included in Rhode Island's PILOT allocations. Despite state payments on its behalf, the largest private university, Brown, was threatened in 2003 with a municipal challenge to its tax-exempt status unless it began to make an additional contribution to defray the cost of services provided by the City of Providence. After vigorous assertion of the traditional right of exemption from taxes by all of the City's private colleges and universities, Brown agreed to pay more than \$1,000,000 annually and make a lump-sum contribution of \$1,300,000 as compensation for taking properties off the tax rolls as a result of recent acquisitions.

New Jersey initiated a PILOT effort in the 1970s to cover state universities and other public facilities, but that compensatory program was folded into the state's revenue-sharing allocations several years ago.

Although recommended for consideration in Pennsylvania by The Brookings Institution in their December 2005 report, "Higher Education in Pennsylvania: A Competitive Asset for Communities," a PILOT program based strictly on assessed valuation would be difficult to apply equitably in communities hosting facilities of the Pennsylvania State System of Higher

Education (SSHE). Determining the appropriate amount of state funding would, of course, be a matter of debate. As mentioned in the case studies, it appears that there would need to be specific legislation to permit PILOTS to be made by the SSHE to municipalities.

The equitability of the PILOT approach as a method of reimbursing municipalities for the net fiscal impact of a university can be questioned in four respects:

- How accurate and consistent is the process of determining and maintaining current assessed values for such special-purpose buildings as sports facilities, laboratories and lecture halls throughout the state?
- Is the assessed value of a university's property likely to be closely connected with the nature and cost of services provided by its host municipality?
- Should municipal governments be fully compensated for the property taxes not paid because of the universities' exempt status? If not, what is a reasonable percentage of the total tax that would otherwise be due?
- What provision should be made for municipalities that have no university property within their boundaries but are adjacent to a campus – and consequently bear the cost of university-related services, such as additional police protection?

- **State Support for Specific Services**

In some states, the legislature has appropriated funds to compensate municipalities for specific services provided to state-owned facilities.

Since 1973, the Wisconsin legislature has authorized a Payments for Municipal Services Program that takes into account the value of all state buildings as a proportion of the “equalized full value of local taxable improvements,” as well as municipal revenues and expenditures. The 2006 appropriation of \$22,000,000 is distributed by means of a formula that, as described by the Department of Administration, “calculates, in effect, a form of ‘mini-tax’ for police and fire protection service and solid waste handling (where applicable) for each facility.” Compensation to municipalities for services to state-owned university buildings is partially covered by general purpose revenues and partially funded by each institution, based on an additional formula computed by the University of Wisconsin System. The main campus at Madison will contribute approximately \$5,000,000 for 2006, while the other twelve university sites will pay a total of nearly \$2,000,000 to their host municipalities. In addition, the state distributes a similar amount

directly from the Payments for Municipal Services Program to compensate local governments for services attributable to university facilities.

The legislatures of Michigan and Illinois appropriate funds to municipalities for fire protection of state facilities. They also permit negotiations for additional payments by state-owned universities to the local governments that serve them.

- **Negotiated Agreements**

Because revenues, levels of service and “town/gown” relations vary greatly from one municipality to another, direct negotiations between local government officials and university administrators have frequently proved to be the best method of achieving adequate compensation agreements in various states throughout the country. Most of these agreements have received little attention beyond the immediate locality because they ordinarily relate to a specific issue (a parking lot, a fire truck or a street sweeper) and involve a comparatively small dollar amount.

Occasionally a fiscal dispute between a state university and its host municipality becomes so intense that it attracts widespread attention. During the last three years, the city of Berkeley, California and the town of Plymouth, New Hampshire have obtained service payments from state universities within their borders after considerable public controversy. However, remittances under these agreements are far less than the municipalities believe to be fair. Efforts to elicit state support for municipal services provided to the universities have been unsuccessful in both California and New Hampshire.

Glassboro, New Jersey has amicably negotiated a year-to-year property-by-property agreement for a payment in lieu of taxes by Rowan University to compensate, to some extent, for the fiscal impact of that institution’s continuing expansion. In Massachusetts, relations between the state university and the town of Amherst (also host to two private colleges) have become so cordial that a previous local agreement has been allowed to lapse in favor of ongoing collaboration in matters of economic development and financial responsibility for municipal services.

Within Pennsylvania, an agreement by which Penn State pays an impact fee to Centre County and several of its municipalities was reached while a lawsuit concerning the validity of taxing certain university properties was undergoing appellate review.

### Applying the Experience of Other States

As described in the previous section, two state governments currently compensate their municipalities for the loss of revenue from tax-exempt universities by means of a payment in lieu of taxes (PILOT) based entirely on assessed value. Three other legislatures are known to allocate funds to defray the cost of specific services provided by local governments to state universities and other public facilities. However, in most states, municipalities either negotiate agreements with the institutions of higher education they host or simply accept the fact that university property is exempt from local taxation.

- **State Payments to Municipalities**

State government payments to municipalities as compensation for hosting Pennsylvania State System of Higher Education (SSHE) universities would presumably be based on numerical criteria, such as the assessed value of each institution's tax-exempt property in relation to the assessed value of taxable property within the host municipality. The number of university students versus the local population might also be included in the computation. However, it is questionable whether a statewide formula could be devised to make an equitable match between a payment to each municipality and the actual net fiscal impact of the specific university within its boundaries (or located nearby).

*As described later in this section, the most promising approach appears to combine an uncomplicated statewide formula with local cooperative agreements.* After a fund is authorized to provide annual payments to the primary impacted municipality (the host or adjacent borough) in each region in which a SSHE university is located, allocation of funds from the state could be based on each university's full-time-equivalent student population for the preceding year. For example, a primary impacted municipality hosting or adjoining a university with ten percent of total SSHE enrollment would receive ten percent of the total state appropriation for compensatory payments in the region. Each municipality receiving the funds would then be required to make a good faith effort to reach a cooperative agreement with neighboring municipalities to distribute the regional allocation among them in proportion to the cost of services and loss of revenue resulting from the presence of the university.

Before examining how this relatively straightforward compensatory arrangement might be implemented, it would be useful to consider the difficulties involved in designing a single, comparatively complicated, statewide formula for making an equitable distribution of funds to specific municipalities in each region impacted by a SSHE university.

The net fiscal impact of a tax-exempt institution on a municipality varies with the scope of services provided, as well as with the local cost structure. Some of those costs, such as special fire fighting equipment, may be incurred only because of the presence of the university (and the nature of its buildings, such as laboratories or high-rise structures), while others may be attributable to purely local service preferences, with no particular benefit to an institution of higher education. In some cases, fire protection services are provided by volunteers from several municipalities in the region and currently receive some form of financial support from the local university.

The distribution of university-related revenues, such as property taxes on the residences of faculty members or business privilege taxes on sales to students, among municipalities is different in each region that hosts a SSHE facility. Those revenues are influenced by many factors, including the availability of housing that meets the perceived needs of university personnel and the presence of business establishments that attract student spending (and the extent of competition from big-box stores in nearby municipalities). Local governments that own utilities, such as waterworks or telecommunications facilities, can gain substantial revenue from the services that they provide to the university.

In many communities with a SSHE university, there is no direct link between service demand, municipal revenue and the assessed value of property owned by the institution. For example, Shippensburg University is located in Shippensburg Township, which provides few services to the campus, but would receive a payment in lieu of taxes based on the value of buildings there. Directly across the street is Shippensburg Borough, containing virtually all of the non-commuter off-campus housing, as well as almost all of the establishments that attract students at night and on weekends. However, the borough's lack of university buildings would preclude any direct compensation based on an assessed value formula.

Similarly, Kutztown University is expanding into Maxatawny Township, but off-campus housing and places of entertainment for the growing student population are largely located in Kutztown Borough. Rumors of plans to construct a Wal-Mart superstore just beyond the

borough line raise the possibility of lower business privilege taxes from downtown stores in the future.

A significant number of East Stroudsburg University students live in off-campus apartments in neighboring Stroudsburg Borough, which has no university buildings within its borders – and, therefore, would receive no direct state allocation based on the assessed value of SSHE property.

Cheney University, situated several miles from any borough of significant size, straddles two townships (in two counties). In this case also, the university's net fiscal impact on municipalities in the vicinity may not be closely related to the assessed value of its property.

Any equitable formula for the distribution of state funds based on a single formula would need to encompass a wide range of regional and local circumstances. Even when a university can be shown to make a net positive contribution to the provision of public services on a regional basis, certain municipalities – particularly boroughs containing (or adjacent to) a campus – may actually suffer adverse fiscal consequences. In fact, the adverse net effect on a particular municipality may increase as a result of university expansion while the region as a whole experiences a net financial gain from the economic stimulus.

Any formula based on the assessed value of currently tax-exempt property would raise difficult questions. What is the practical market value of a stadium or a laboratory? What would the market or sale value be without a university to make use of it? Because tax-exempt properties have never represented a direct revenue source, their assessed value has not been closely examined or regularly updated on expansions. Nor, for that matter, have assessments been challenged by the owners, who have had no reason to be concerned with accurate values because no taxes have ever been due.

Even if assessments were accurate and consistent from one municipality to another, would a building constructed of expensive material (by means of a generous gift from a wealthy alumnus) cause more demand for municipal services than a less costly building used for the same purpose on a different campus in another municipality? Do old dormitories with comparatively low assessed valuation require fewer first-responder services than newly constructed living quarters?

A formula that would allocate compensatory payments to each of the fourteen regions based on the student population of the regional SSHE university would be more closely

connected with actual service costs and with the erosion of revenue that results from the private acquisition of single-family residences for off-campus student housing and the conversion of taxable property to tax-exempt status. State payments to municipalities in each region hosting a SSHE university could be allocated, in the aggregate, by means of a simple calculation: dividing each university's full-time-equivalent enrollment by the total SSHE enrollment. An alternative formula based on the student population in each municipality as a proportion of the total population in that municipality appears to be less equitable. For example, if two municipalities – one with total population twice as great as the other – provide services to universities having identical student enrollments, the larger municipality would receive only half the funds allocated to the smaller municipality.

Although student population and fiscal impact on an entire region are related, these factors are not always closely linked with respect to individual municipalities within a region. As noted earlier, a borough adjacent to a university may house only a small part of the total student population but may contain most of the off-campus residences and almost all of the eating and drinking establishments frequented by students. Only local public officials would be able to negotiate an equitable distribution of funds to municipalities in a specific region. A simple formula based on university enrollment could be used to determine the allocation to each region, but it is difficult to envision a statewide formula that could fairly compensate each specific municipality within each region.

The history of grants to municipalities in other states suggests that a PILOT program would be difficult to implement and maintain. Regardless of the formula for distributing funds, the annual legislative appropriation for these programs has often been less than the statutory requirement, resulting in a prorated remittance to municipalities. At the local level, year-to-year variability in receipts from these programs has caused budgeting problems.

University administrators who have traced the experience of the two states that currently provide a payment in lieu of taxes (PILOT) to local governments for hosting institutions of higher education might have reason to be concerned about this approach. In both Connecticut and Rhode Island, where municipalities receive compensatory payments for private as well as public universities, cities (New Haven and Providence) have pressured local institutions (Yale and Brown) into making additional contributions to preserve their tax-exempt status and promote local harmony. Although major private universities are more vulnerable than state institutions to



coercion by local governments and their constituents, the history of those two PILOT programs indicates that general compensatory formulas will not necessarily meet the expectations – or demands – of local officials.

Even in Wisconsin, where the state and its university system have developed a rather elaborate set of formulas for allocating funds to reimburse municipalities for specific services provided to state-owned institutions of higher education, the compensation program has not eliminated all disagreement about the balance between services and revenues.

- **Negotiated Agreements**

The experience of universities and their host municipalities in states with no reimbursement program suggests that direct negotiations about financial issues can yield somewhat satisfactory results. However, these agreements have often been preceded by considerable acrimony and waste of time – both of which might have been avoided if guidelines for planning, fiscal impact analysis and ongoing communication had been in place.

Universities bring to a community special resources and special challenges. Consequently, they require a special approach to negotiations. In the case of SSHE campuses, the state legislature may be able to facilitate that approach. The SSHE universities and Pennsylvania's municipalities are, after all, creations of the state.

Because each local agreement reflects particular circumstances and ordinarily focuses on a relatively narrow issue, pacts negotiated in other states provide only limited guidance for prescriptive legislative action. In fact, they suggest that the most constructive legislative role would be to encourage university administrators and municipal officials to work together to identify the fiscal impact of future plans and assure that revenue is possible and sufficient to cover the services provided.

- **State Payments versus Negotiated Agreements**

Devising a workable legislative formula to allocate state payments to local municipalities for the net fiscal impact of SSHE universities would have the advantage of addressing this issue on a comprehensive basis. The continued delivery of municipal services that will protect and enhance Pennsylvania's investment in the SSHE system is clearly a matter of importance to those institutions, their host communities and the entire Commonwealth. However, as noted

previously, developing an equitable formula to disburse funds directly from the state to all impacted municipalities would present a formidable challenge.

As a practical matter, ad hoc agreements at the local level might be the best means of achieving an appropriate balance between costs and revenues for specific services in specific regions. However, without a statewide framework for negotiations, this approach would fail to address the fundamental issue: sustaining the fiscal and social health of the municipalities that provide the public services and supportive environment necessary for SSHE universities to compete effectively for superior students, faculty and administrators.

Combining the positive features of these two alternatives – by means of an uncomplicated statewide formula for the distribution of funds to each region, together with a provision requiring a cooperative agreement for the distribution of funds to municipalities within each region – appears to be the most promising approach.

The first step in compensating municipalities for the cost of services and the loss of revenue resulting from the presence of a SSHE university would be legislative authorization of a fund for that purpose, together with a rationale for determining the amount of the annual appropriation. Discussions with municipal officials in boroughs impacted by the presence of an SSHE university suggest that additional requirements for public safety are needed to respond to enforcement issues related to the off-campus behavior of students. However, this expense tends to vary in proportion to the number of students attending each University. Although other expenses – and the loss of revenue from tax-exempt university property as well as the conversion of single-family residences to off-campus student housing – are more difficult to quantify, the appropriation might be increased to include these factors as well.

The next step is determining the formula for allocating funds to each region. *The number of full-time-equivalent students enrolled in each SSHE university appears to be a reasonable measure of the impact on municipal service costs in the region.* Consequently, the allocation to each region would be a proportion of the total appropriation computed by dividing the number of students in the regional SSHE university by total SSHE enrollment for the year. This formula would not attempt to make a direct connection between the financial impact of each university and the amount of money distributed to specific municipalities (such as Shippensburg Borough and Shippensburg Township or Kutztown Borough and Maxatawny Township). Instead, the

funds would be remitted to the primary impacted municipality, which is, in fact, the borough or city that includes or adjoins each university.

The third step would involve negotiation of a cooperative agreement between each primary impacted community and its neighboring municipalities for distribution of regional funds received from the state to compensate for the cost of services and loss of revenue resulting from the presence of the university. A nearby township or borough may have a significant number of student residents, resulting in costs that should be reimbursed as a proportion of the total regional allocation. The opportunity to receive funds from that allocation would be an incentive for all affected municipalities to take part in negotiations. (See Table 6-1.)

Table 6-1  
 Comparison of Possible Fund Distribution to Host Municipalities  
 Based Upon HB 1418 Formula and Simple FTE Formula  
 Distribution Based on HB 1418 \$3,000,000 Funding Request

|                  | Students<br>(FTE) | HB 1418<br>Original<br>Formula<br>\$ | Percentage<br>of SSHE<br>Enrollment<br>(FTE) Factor<br>% | Simple<br>Formula<br>FTE<br>Distribution<br>\$ |
|------------------|-------------------|--------------------------------------|--|--|
| Bloomsburg Town  | 8,304             | 159,000                              | 7.84   | 235,236  |
| California       | 6,640             | 246,000                              | 6.27   | 188,098  |
| Cheyney          | 1,545             | 114,000                              | 1.46   | 43,767   |
| Clarion          | 6,421             | 267,000                              | 6.06   | 181,895  |
| East Stroudsburg | 6,553             | 156,000                              | 6.19   | 185,634  |
| Edinboro         | 7,773             | 246,000                              | 7.34   | 220,194  |
| Indiana          | 13,998            | 195,000                              | 13.22  | 396,536  |
| Kutztown         | 9,585             | 342,000                              | 9.05   | 271,525  |
| Lock Haven       | 5,126             | 159,000                              | 4.84   | 145,210  |
| Mansfield        | 3,556             | 249,000                              | 3.36   | 100,735  |
| Millersville     | 7,998             | 201,000                              | 7.55   | 226,568  |
| Shippensburg     | 7,653             | 324,000                              | 7.23   | 216,795  |
| Slippery Rock    | 7,928             | 192,000                              | 7.49   | 224,585  |
| West Chester     | 12,822            | 150,000                              | 12.11  | 363,222  |
| Total            | 105,902           | 3,000,000                            | 100.00   | 3,000,000                                      |

Municipalities with significant University presence that would share a negotiated allocation:

|                        |                   |
|------------------------|-------------------|
| Maxatawny Township     | Berks County      |
| Shippensburg Township  | Cumberland County |
| Slippery Rock Township | Butler Township   |
| Thornbury Twp.         | Chester County    |

To assure that each primary impacted municipality attempts to negotiate a cooperative agreement in good faith, the state appropriation might require a brief, but specific, annual report of the basis for the regional distribution of funds to be submitted to the Department of Community and Economic Development. In fact, the negotiation process might serve as the basis for more serious exploration of shared services, particularly police and code enforcement activities, through DCED's Shared Municipal Services Program.

As a practical matter, each SSHE university should be invited to participate in regional negotiations. Increased cooperation in the future is likely to result from better understanding by university administrators of the actual and perceived negative influence of off-campus student behavior, event traffic, and conversion of single-family homes to student apartments on municipalities in the region.

In addition, the Pennsylvania legislature might consider the potential benefits from a resolution requiring every university within the SSHE system to include in its long-range plan a detailed analysis of the anticipated fiscal impact on local municipalities from all future actions – including property acquisitions, construction of new facilities, and any increase in enrollment (particularly as it would relate to greater demand for off-campus housing). Legislation authorizing SSHE universities to enter into agreements for payment in lieu of taxes or for impact fees as compensation to municipalities for the services they provide would encourage negotiations and discourage lawsuits, punitive actions and public controversies.

Because Pennsylvania's universities contribute so much to the state's economic competitiveness, the legislature should direct special attention to assuring the fiscal soundness of the municipalities that provide the services they need to grow and prosper.

#### Observations and Conclusions

The Pennsylvania State System of Higher Education (SSHE), which serves as a valuable resource for residents throughout the Commonwealth, has long brought particular economic and social benefits to the regions in which its facilities are located. However, as these institutions have grown from "normal schools" to university status, their beneficial impact has been increasingly dispersed beyond the boundaries of their host municipalities. At the same time, expansion of SSHE facilities has put ever greater fiscal pressure on the municipalities in their respective regions in two important respects: (1) increased demand for services coupled with (2) reduced revenue as a result of private conversion of single-family residences to off-campus

student housing and, in some municipalities, acquisition of taxable property by the local university, which enjoys tax-exempt status.

In concept, SSHE universities are doubly protected against taxation. Institutions of higher education – public and private – are customarily tax-exempt because of the many benefits they provide to the local community and to citizens throughout the Commonwealth. In addition, state property, regardless of use, cannot be taxed by municipalities.

Nevertheless, if the legislature perceives that host municipalities need assistance in providing the level of service required by state-owned universities, it has the power to appropriate funds for payments in lieu of taxes (known by the acronym PILOT in discussions between educators and municipal officials). In fact, since 1929, the Commonwealth has compensated counties, municipalities and school districts for acreage dedicated to state forests, parks and game lands within their boundaries through similar payments (abbreviated to PILT in connection with public lands). Alternatively, the legislature might authorize the State System of Higher Education to include some form of PILOT program in its operating budget or direct each SSHE campus to make its own payment arrangements, based on a state formula.

To avoid the difficulties inherent in designing a single statewide formula for disbursing compensatory funds to all impacted municipalities – and to avoid the uncertainty that would be involved in arriving at an equitable financial arrangement strictly by means of town/gown negotiations – the legislature should consider a two-stage approach. After determining the proper annual appropriation (perhaps in relation to the aggregate cost of additional police coverage related to off-campus student behavior), the legislature might allocate funds to the primary impacted municipality in each region in proportion to the number of full-time-equivalent students in each SSHE university as a percentage of total SSHE enrollment. At the regional level, each primary impacted municipality (the host or adjacent city or borough) would be required to enter into good-faith negotiations with neighboring municipalities to determine the distribution of funds within each region.

In addition, the legislature might consider requiring each SSHE university to include in its long-range plan an analysis of the fiscal impact of future actions on municipalities in its region. Whenever warranted by the facts set forth in that plan, universities might also be directed to negotiate a “hold harmless” impact fee (which would apply to increased university-

related service demand not offset by greater revenue to the municipality) or PILOT (in the case of taxable property converted to tax-exempt status).

At a more comprehensive level, legislation permitting municipalities to reduce reliance on property taxes by increasing earned income taxes or municipal services taxes might enable certain Boroughs to capture a greater proportion of the economic benefits resulting from the presence of a university. Edinboro utilizes 1.5 percent EIT under Home Rule but is considering a reduction in this rate and a shift back to more reliance on property taxes. Of course the EIT is for the most part not paid by students because their domicile is elsewhere.

Compared with host municipalities in many other states, Pennsylvania's municipalities are generally at a disadvantage in their ability to convert regional economic benefits into revenue to support the services required by universities. Our municipalities are relatively small in area, with a limited range of housing choices and little or no vacant land for new development. These conditions tend to restrict the proportion of faculty members and administrators living within their boundaries. Consequently, the municipalities are deprived of revenues from the property taxes and earned income taxes paid by university personnel who choose to reside in neighboring townships. The inability to levy a local sales tax, an option permitted municipalities in most states, limits Pennsylvania's boroughs to a comparatively small amount of revenue (through the business privilege tax or gross receipts tax) from purchases by students, faculty and the university itself.

***At this time, the balance between financial benefits (including both direct revenue and more general economic activity) generated by SSHE universities, versus the growing demand for services as these facilities expand, shows the prospect of becoming increasingly unfavorable for many of the municipalities in host regions. Some may soon experience difficulty in maintaining the level of service that the universities have come to expect. Any significant deterioration of services or evidence of local fiscal distress might well have the effect of making SSHE universities less attractive to prospective students, faculty and administrators. Because the long-term success of the university and the host municipality are so interdependent, it would be prudent to establish a statewide process for examining and addressing this issue in a timely manner.***

A review of efforts in other states to determine what compensation, if any, municipalities should receive for providing university-related services yields the following conclusions:

- Because of the unique characteristics of each region and its municipalities, as well as the specific service needs of each university, an equitable statewide formula to support the provision of appropriate services would be difficult to design. No other state has devised an entirely satisfactory program to resolve this issue.
- Locally negotiated agreements between universities and their host municipalities have shown the greatest likelihood of achieving a reasonable settlement regarding the sources and amount of revenue necessary to fund the scope and quality of services required by a university.
- Many locally negotiated agreements are reached only after a contentious, prolonged and expensive process.
- Amicable agreements between universities and their host municipalities most often result from the initiative of one skilled administrator (from either side) who is determined to reach a mutually acceptable settlement with a minimum of acrimony.
- No negotiated agreement is entirely satisfactory to both sides. In almost every case, municipal officials have expressed at least some unhappiness with a settlement that, in their opinion, represents less than the university's "fair share" of the costs. On the other hand, university administrators continue to regard any impact fee or payment in lieu of taxes resulting from a negotiated settlement as a generous accommodation in view of the institution's tax-exempt status and its contribution to the economic health of the region. Grudging settlements occur because public officials generally prefer to receive some additional revenue instead of nothing, while educators are often willing to pay something to avoid a prolonged dispute, unfavorable publicity and the possibility of some restrictive measures by the municipality.

A combination of a straightforward state funding formula and mandated negotiations at a regional level is likely to yield the most satisfactory results. At the same time, analysis of these observations suggests that an outside facilitator – one capable of encouraging ongoing communication, conducting factual research, providing procedural guidance and offering problem-solving skills to support the process – might well help SSHE universities and their host municipalities collaborate more effectively. Regular, constructive, forward-looking dialogue between public officials and university administrators would enable them to avoid unnecessary

confrontations, allowing Pennsylvania's financial and human resources to be directed toward the achievement of mutually beneficial goals.

Both sides of the "town and gown" relationship should continuously share their plans and expectations. Municipal officials need to know how projected enrollments, new construction (particularly with respect to on-campus residences to accommodate increases in the student body), and any planned acquisitions of currently taxable property are likely to impact public services. Both parties should be involved in determining the source of revenues needed to support additional services or compensate for any loss of revenue from properties converted to tax-exempt status. University administrators should be given early notice of any municipal plans to alter services, increase utility fees, make zoning changes, redirect traffic flow or take other actions likely to affect the institution's budget, daily operations, student life or future expansion. Whether this level of communication can be fostered by a designated facilitator – and whether legislative action would stimulate this process – are important questions that deserve further consideration.



## Attachment A

### “Hold Harmless” Provision versus Legislated Compensation

#### Comparison of two approaches:

**“Hold harmless” legislation encouraging or requiring SSHE universities to compensate municipalities for any adverse fiscal impact of future expansion or new service requirements**  
*versus*

**Legislative funding of compensation to municipalities for the presence of SSHE universities**

**ALTERNATIVE 1: “Hold harmless” legislation** would require universities to estimate the fiscal impact of future actions – such as purchase of currently taxable property, construction of a new facility, or expansion of enrollment without providing additional dormitory space – and then negotiate a special financial arrangement (payment in lieu of taxes or impact fee) with the municipality for any anticipated loss of revenue or increase in service demands.

#### ADVANTAGES:

- No direct funding by legislature
- No complex allocation formula
- Local responsibility for agreement; involvement of municipality and university in joint planning effort
- Future-oriented; no retroactive effect
- Full recognition of specific costs (which can be built into each university’s operating budget in advance) for all new projects
- Certainty of revenue, which would not be dependent on annual legislative appropriation to municipalities
- Encouragement of regional planning

#### DISADVANTAGES:

- No compensation for any current imbalance between university-related services and revenue
- Potential for recurring disputes as universities continue to grow

**ALTERNATIVE 2: A compensation formula** would be designed by the legislature – for the purpose of offsetting at least some portion of any negative net fiscal impact of SSHE universities on their respective host municipalities – as the basis for allocating funds, which would be appropriated annually.

**ADVANTAGES:**

- Appropriation from general fund; university operations not directly affected
- Tendency to reduce current differences in net fiscal impact of universities on certain municipalities (assuming satisfactory allocation formula)
- Possibility of avoiding local disputes through reliance on system-wide formula

**DISADVANTAGES:**

- Complexity of formula required to compute equitable allocation (See Attachment A1.)
- Potential disagreement over amount of total appropriation for SSHE facilities and its relation to actual fiscal impact of universities collectively and individually
- Annual budgetary uncertainty by municipalities regarding level of funding likely to be approved by legislature and possible changes in allocation formula
- Lack of encouragement of cooperative planning process between university and municipality

*A review of the advantages and disadvantages of these alternatives suggests a third approach:*

**ALTERNATIVE 3: A straightforward compensation formula** that distributes funds to the primary impacted municipality in each region based on the student population of the regional SSHE university **combined with a requirement for local cooperative agreements** as the basis for distributing funds among municipalities at the regional level.

**ADVANTAGES:**

- Appropriation from general fund; university operations not directly affected
- No complex allocation formula
- Funds allocated to host regions in general proportion to municipal costs attributable to students
- Future-oriented based on changing student population; no retroactive effect due to assessed value of capital investment by university
- Encouragement of regional planning, intergovernmental cooperation and shared services
- Potential involvement of universities in cooperative planning process

**DISADVANTAGES:**

- Annual budgetary uncertainty by municipalities regarding appropriation by legislature
- Possibility of disputes between municipalities over distribution of funds at regional level

## Attachment A1

### Issues in designing an equitable formula to distribute state funds to all impacted municipalities for the services costs and revenue losses related to hosting a university

- **LIKELY COMPONENT:** *Assessed value of tax-exempt property as proportion of total assessed value of property within each municipality*

ISSUE: Certain municipalities provide services (such as additional police protection) attributable to a university located entirely or partially in a neighboring municipality.

ISSUE: Accurate valuation of tax-exempt property would be expensive and controversial.

- Special-purpose use of university facilities makes valuation difficult.
  - Few, if any, comparable sales
  - No income data to serve as basis for valuation
  - Limited options for sale of buildings to a similar institution or conversion to alternative use
- Accuracy of valuation of tax-exempt property has been relatively unimportant to municipalities and state universities until now, but careful examination and challenges would be likely as assessed value becomes a component of the compensation formula.

ISSUE: Assessed value of university property may have little relation to the cost of services provided by a municipality or benefits received by a university.

- Special-purpose use of university facilities impacts costs in unusual ways.
  - Identifiable municipal operating costs (such as traffic control) can be traced to certain university facilities (such as a performance center or athletic facility).
  - Specific capital costs (such as a snorkel truck or hazardous materials equipment) may be required only for certain university facilities (such as a high-rise dormitory or a laboratory).

- Construction of an expensive library building endowed by a generous alumnus may cause the host municipality to incur no additional service cost, but would boost the assessed value of university property.
- POSSIBLE COMPONENT: *Student population as proportion of total population of each municipality*

ISSUE: Certain municipalities provide services (such as additional police protection) attributable to visits by students living in dormitories located in a neighboring municipality, which would receive all of the benefit from this factor in the formula.

ISSUE: Determining the number of off-campus students living in each municipality may be difficult (even in a census year).

- Students tend to move frequently.
- Universities may have inadequate information about actual residence of off-campus students.

ISSUE: Students living off campus may exert a significantly different financial and social impact on a particular municipality than do students residing in dormitories – perhaps requiring a weighting factor in the student population formula.

- Noise, parking and property maintenance issues generally increase with the presence of off-campus students.
- Conversion of single-family residences to student rental housing ordinarily reduces earned income tax revenue.

- POSSIBLE COMPONENT: *Current scope of services provided by each municipality*

ISSUE: Which, if any, services provided by a municipality should be considered in the formula?

ISSUE: How would special university-related service demands be quantified?

- POSSIBLE COMPONENT: *Financial capacity of each municipality*

ISSUE: Should a municipality's tax base and current revenue effort be considered in the formula?

## Attachment B

### Methodology

Preparation of this section of the study was based on the following methodology:

- Review of recent (1995-2006) articles in journals of higher education, public administration and economic development, as well as newspaper articles relating to payments in lieu of taxes, impact fees and other financial arrangements between universities and their host communities.
- Telephone discussions with university administrators and public officials – including legislators, municipal managers, finance directors and assessors – in communities named in the reviewed articles, as well as with administrators and officials in other communities suggested during the first round of interviews. This aspect of the study (involving conversations laced with innuendo, wry comments, suppositions and observations offered only on condition of anonymity) was more akin to investigative journalism than ordinary research – suggesting the complexity and subtlety of local relations between “town” and “gown.”
- Telephone contacts with professional organizations representing municipalities and institutions of higher education to obtain an overview of current fiscal issues.
- Examination of relevant state statutes, current legislation, university regulations, municipal budgets, economic studies, and public policy papers.
- Analysis of the information gathered from other states to determine how it applies to the characteristics of municipalities hosting SSHE universities.

## CHAPTER 10

### RECOMMENDATIONS

The following recommendations are offered as starting points for the Pennsylvania League of Cities and Municipalities (PLCM) to present to the Legislature for its consideration in assisting host municipalities of the State System of Higher Education.

- Based upon PEL’s statistical analysis, host municipalities consistently collect less revenue per capita in earned income tax, real estate tax and total taxes than their municipal counterparts. PLCM should request that the legislature **amend the definition of "domicile" in the Local Tax Enabling Act** to provide for a student definition that would permit some portion of student earned income tax payment to the municipality of their rental residence.
  - “Domicile.” The place where one lives and has his permanent home and to which he has the intention of returning whenever he is absent. Actual residence is not necessarily domicile, for domicile is the fixed place of abode which, in the intention of the taxpayer, is permanent rather than transitory. Domicile is the voluntary fixed place of habitation of a person, not for a mere special or limited purpose, but with the present intention of making a permanent home, until some event occurs to induce him to adopt some other permanent home. In the case of businesses, or associations, the domicile is that place considered as the center of business affairs and the place where its functions are discharged. (As amended 1978 P.L. 930, No. 177)
- PLCM should request legislation authorizing the State Legislature to develop a **straightforward compensation formula** that distributes funds to the primary impacted municipality in each region based on the student population of the regional SSHE university **combined with a requirement for local cooperative agreements** as the basis for distributing any funds among municipalities at the regional level. Such payments would be paid from the Commonwealth General Fund.
- **PLCM should anticipate the need for an outside facilitator – one capable of encouraging ongoing communication, conducting factual research, providing procedural guidance and offering problem-solving skills to support the process – that will help SSHE universities and their host municipalities collaborate more effectively. Cooperation is of the essence and the use of a third party facilitator can provide the necessary impartial information on costs and effects to both sides as well as assist in the development of cooperative agreements.** Regular, constructive, forward-looking dialogue



between public officials and university administrators would enable them to avoid unnecessary confrontations, allowing Pennsylvania's financial and human resources to be directed toward the achievement of mutually beneficial goals.

- PLCM members and all municipal officials need to **better communicate to their residents** that the university is an integral part of the municipality and an asset to the community.
- **University affiliated development foundations should be structured so that new dorms and apartment complexes pay real estate tax.** PEL has observed examples of "university affiliated" non profit entities that make a specific pledge to continue paying real estate taxes on land and buildings converted to student use. There did not seem to be a direct market penalty for the payment of these taxes as reflected in the cost of rent or in the occupancy rates for these facilities.
- **PLCM should request the specific authorization of a tax on creation of a lease.** Millersville Borough has established a tax on leases and is currently defending the levy in Court. Such a specific authorization would allow the municipalities to recoup some of the cost of increased code enforcement required by the high proportion of rental units in host municipalities; other local governments could use the levy to begin or enlarge code enforcement of rental properties and landlord reporting requirements.
- **PLCM should consider legislation that would allow a local tax option of a ten percent tax on alcohol sold by the drink** such as in Class 'A' cities (Philadelphia). In addition, some **sharing of the state sales tax for regional assets and local services could be expanded**, as has been done in Allegheny County. Otherwise, there is a significant shift of the tax burden to the residential neighborhoods or a reduction of services for both. West Chester sparked the success of its downtown revitalization and the opportunity to flourish for restaurants, bars, shops, and businesses. But in order to meet increased service demands, local government must be able to share in the sales expenditures the expanding economy has created. Residents of a community should not have to trade higher taxes for a healthy economy. **The opposite should be true: good economic development should be able to subsidize additional municipal services.**
- **PLCM should request a review and amendments of the various municipal codes** to allow the payment for street lighting by assessment districts or other means. The Second Class Township Code already allows these assessments upon all entities, exempt or not.

Specific authorization for SSHE from the legislature to pay a fee may be granted upon amendment of the various codes. Currently, street lighting is provided by all municipalities visited as hosts for this report, campus interior lighting is the university's responsibility. The lighting of streets on the perimeter of a campus is also a municipal service to the university and consideration of a payment based on services provided would be useful.

- Differences in interpretation of Act 80 and the inability to create mutual aid agreements are of even greater concern if a major criminal or catastrophic event (such as a pandemic or other community/region wide emergency) should occur requiring an integrated cooperative solution. Further, PEL is of the opinion that these differences preclude the development of a rational comprehensive plan for effective use of both police forces. PEL believes that it would be in the best interest of all parties to come to a common interpretation and if necessary PLCM should seek clarifying legislation.
- **Neighboring municipalities should consider police force consolidation, with universities as a participating commission member of a regional police commission.** PEL has noted the pressures on local governments to provide adequate levels of police protection, both in established municipalities and in rapidly growing second-class townships. West Chester Borough contracts to provide dedicated police coverage for a neighboring township. While the provision of police protection for other municipalities may be beyond the means of other host municipalities, the creation of a regional police commission is recognized statewide as an effective means of leveraging existing departments and satisfying the growing need for rapidly developing townships. Consideration should be given to allow the University force to be a part of any regional police commission and pay a portion of the costs as long as the commission police force can provide assistance to the university without sacrificing the internal security of the campus.
- **Clarification of the various interpretations of existing police legislation** between municipal and university police should be undertaken and clarifying legislation enacted if necessary.
- At a minimum a **mutual aid agreement should be developed between municipal and campus police** delineating response protocols under the controlling legislation.
- The State system cannot ignore the experience of many of Pennsylvania's boroughs and cities: inadequate revenue streams and rising costs have resulted in reduced service levels

regardless of higher taxes. The problems of out migration from the older urban centers is now affecting urban centers that host the SSHE schools. **Municipal decline will affect the ability of the SSHE to compete for students; increased legislative funding for the SSHE to provide current assistance to the municipalities in the maintenance of valuable public services will be money well spent.**

- **PLCM should request a legislative or administrative review of the holdings of excess land by SSHE within Edinboro Borough. As shown in the report, the amount of land held by the University is in excess of future demands and is a burden on the Borough.**
- **Universities should consider how its expertise might be used through in kind services to assist municipalities in such areas as data system processing and development.**
- **Good capital and infrastructure investment and development in the areas of water and sewage capacity have historically involved both the municipalities and the SSHE.** This should be continued and enlarged where possible. Municipalities need to partner with the Universities for all types of capital activities when there are mutual benefits.
- **Universities should determine if capital contributions for items like police equipment and vehicles may be made, as is now the case for contributions for fire equipment.** Alternatively, donations for such items might be made through foundation grants, SSHE leases or other third party arrangements to benefit the municipality.
- **“Town and Gown” meetings should be encouraged and an attempt made to elevate them to address substantive issues.** A third party facilitator could arrange for regular meetings, relevant topics, and impartial information as the basis for Town and Gown meetings.
- To the extent possible and without violating any privacy issues student resident information should be shared between the municipality and university.
- As some of the universities begin to house major campus components outside the host municipality, inter municipal and university planning meetings with all the municipalities should be instituted.
- Some of the university campuses are locked into limited physical configurations which limit their potential for expansion. PEL has seen within its case studies an approach where a university has acquired for the most part existing non-taxable property. This approach has

the practical effect of not further reducing the existing municipal tax base and should be encouraged.

- Assuming the public's interest and usage can be provided for, municipalities should consider the "transferring" of certain defined public areas to the university on condition that the university will maintain them.

## **Broken in the Box: A Case for Local Government Reform in Pennsylvania**

Like an eagerly awaited gift that turns out to be in pieces when the wrapping is torn away, Pennsylvania's inadequate method of raising revenue for local government services is broken in the box.

The result: Many municipalities are either teetering at the edge of a fiscal cliff as they struggle to pay for a comprehensive range of services for their residents or they remain in the black by reducing or eliminating costly services that attract businesses and boost quality of life.

The state's municipalities require both retooled ways of generating revenue and a fresh vision for service delivery that adequately provides for the health, safety and welfare of all citizens regardless of where they live and work.

There are a multitude of options worth considering. One approach that is worthy of study - based on the Pennsylvania Economy League's extensive research and work with municipalities - is a reform model that not only delivers services regionally but, perhaps more importantly, funds services regionally by using existing municipal wealth while maintaining current municipal boundaries.

Pennsylvania's more than 2,500 municipalities – only 249 of which have a population of 10,000 or above – already have a dizzying array of taxes available to generate revenue including real estate, earned income, local services, business privilege and mercantile taxes.

Despite those options, cities and many suburban boroughs are reeling from skyrocketing personnel and legacy costs, tax base erosion, outdated assessments, millage rate restrictions and more that makes it difficult if not impossible to keep up with escalating expenses. Many are turning to one-time strategies including selling an asset, borrowing money or another creative financial bridge to make ends meet.

Booming townships and rural boroughs are not immune. While many towns benefited from residential and business development that escaped the densely packed urban areas for the wide open green spaces nearby, growth there appears to be slowing.

Meanwhile, many Pennsylvania communities fail to provide sufficient services, even though all are general purpose, incorporated separate governments with the authority to offer the full range of services and the power to raise revenue to pay for them. And this lack of consistent local services makes Pennsylvania less competitive in attracting businesses when compared to other states.

Consolidation and merger of the state's multitude of municipalities is often held out as a solution, but the complex and politically charged merger process has a high degree of failure. Obstacles range from a citizen's attachment to municipal identity and municipal officials' fear of losing power to technical and legal issues like the need to reconcile different pension plans and collective bargaining agreements.

Municipal borders not only define a community and its identity, they also limit tax base potential and set the boundaries for public service delivery. Although municipalities can already share the costs of providing joint services, they do not have a dedicated regional taxation method to cover the payment for services like police protection that is reliable and uniform.

One proposal is to commit a portion of a municipality's existing tax base to a regional body that would operate the designated regional service with oversight from member municipalities. Local governments would benefit from no longer paying the total cost of the service out of their budgets, and citizens would benefit from better services at no additional costs.

The concept of a shared tax base is not new. It already exists for counties and school districts. A shared tax base alternative could give municipalities the flexibility to do the same in order to ensure that all of Pennsylvania's citizens enjoy an equal level of local government services.