Structuring Healthy Communities
Part 1: Revenue Generation and Fiscal Health

The Pennsylvania Economy League, Inc.

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Executive Summary

It is not just a city problem – or even an 'older communities' problem. The migration of communities toward fiscal decline is statewide – impacting townships, boroughs, and cities in every region of the state. The growing number of municipalities in fiscal decline impacts Pennsylvanians in rural, suburban and urban areas; in the north, south, east, west and places in between. It impacts businesses of all sizes and types. It already impacts over half of Pennsylvania's households. And based on revenue trends, it's only a matter of time until the rest of our municipalities are similarly affected – unless state leaders take heed and take action.

A Pennsylvania Economy League (PEL) analysis of municipal revenue from 1970 – 2003 shows that fiscal distress is often inevitable under existing state laws that govern municipalities. Current legislation and codes leave those who lead the Commonwealth's cities, boroughs, and townships with revenue streams that are largely inelastic, capped, and out of sync with budget needs. The best fiscal management and programs of economic and community development are not enough to turn the tide within municipal boundaries, evidence suggests.

In this study, PEL examines the relationship between municipal revenue generation and fiscal health. The study also examines municipal tax effort – that is, how much a community taxes itself--and tax capacity – simply, the ability to raise revenue based on household income and property value.

While the trend of decline over the past 30 years is alarmingly clear, PEL believes the trend can be reversed. In as much as municipal government is a creation of the state, leaders in the administration and legislature bear responsibility to create structures that allow municipalities to become and remain strong, vibrant entities. It will take legislation – and quite possibly constitutional changes through a convention or amendment process – to give municipalities the appropriate tools to reverse the current trend toward fiscal decline.

This study is the first in a series on local government policy issues. PEL initiated this important work because its leaders and members believe that healthy communities are key to a healthy state economy, key to attracting and keeping businesses, and key to attracting and keeping the people that make Pennsylvania great. Healthy local government is the base that makes Pennsylvania a better place to live, work and do business.

The fiscal health of Pennsylvania's municipalities is moving in the wrong direction.

Over thirty years of trend data show a growing problem of fiscal health in the state's municipalities. Detailed analysis of those same data dispels a commonly held belief that some communities – those that are currently fiscally sound and growing in population – are somehow immune from municipal fiscal distress. Instead, this analysis shows an alarming trend over more than 30 years: the overall fiscal condition of our communities growing less healthy. Even many communities that remain relatively healthy today have seen decline in fiscal health between 1970 and 2003.

Five stages of municipal fiscal decline show a continuing path toward distress

PEL's analysis of revenue and related data shows a clear path of five stages that municipalities follow toward fiscal distress:

1. *Prosperity with low taxes*. New development increases the revenue base, with limited demand for services. Infrastructure is new and paid for by developers. In this stage, revenues are increasing faster than the rate of inflation and faster than the cost of services.

2. Increasing demand for services and gradually rising tax rates and service fees. The pace of new development has slowed, yet citizens demand more services. Tax rates and fees are increasing, but there still is a strong tax base. The rate of revenue growth is starting to slow.

3. Reductions in non-core services. Tax base increases are minimal, yet demand for services continues to grow. Taxes increase while non-core services are reduced.

4. Reductions in core services. There is a mismatch between revenues and expenditures that results in a tax structure that is non-competitive with some neighboring municipalities. Core services such as public safety and infrastructure maintenance are reduced. Total municipal revenues begin to decrease.

5. Loss of tax base and distress. There is a noticeable decline in the number of households as residents begin to "vote with their feet." The municipality is fiscally distressed, with declining revenues and a declining property base.

Understanding this pattern and its causes allows for early identification and intervention, with the goal of stopping the cycle and avoiding distress.

The current set of tools is insufficient to reverse the current momentum.

Local government is established by the state. Its very existence is determined by, granted by, and created by state legislation. State legislation determines the functions and responsibilities of local government and limits the revenue options by various types of municipality. When asked to identify those key elements that impact local government operations, officials or policymakers most frequently cited five primary legislative Acts that are critical to the fiscal health of municipalities:

ACT 111: For public safety professionals, this Act trades the right to strike for binding arbitration. This Act limits consideration of revenue raising ability of the municipality when arbitrating contracts for public safety officials

ACT 511 of 1965: Establishes the menu of taxes that municipalities can use to raise revenue. Limits the types of taxes and caps tax rates.

ACT 47 of 1987: Allows municipalities that are declared fiscally distressed under Act 47 status additional taxing authority. This act has not provided a solution to fiscal distress. Most municipalities that have been declared Act 47 status are still in distress and still under Act 47. Those that have been released are still fiscally distressed, as shown in this PEL revenue analysis.

ACT 195 of 1970: This gives public employees the right to organize and negotiate contracts.

ACT 205 of 1984: This legislation is related to equity of funding for employee retirement obligations. The current funding formula has a disincentive for those municipalities that are downsizing employment; often downsizing leads to less state funding for those municipalities that have the greatest unfounded liability.

Together, current legislation provides an insufficient set of tools as municipalities grow in size and face increasing demand for services. Currently, their only recourse to provide sufficient tools requires legislated changes. Further, property tax revenue, which is often the foundation of municipal government finances, may not grow naturally in many communities because of poor re-assessment practices or declining property values. And local government officials must raise tax rates, a difficult political decision to make, just to keep up with escalating costs and mandates, much less to make new investments, add services, or increase service levels.

Act 47, a law enacted to help municipalities recover from fiscal distress, is not effective. State and local tax dollars are expended with limited real, long-term hope of success. Act 47 provides some additional tools for fiscal recovery – which are promptly taken away when a municipality exits Act 47 status. Of the 22 municipalities that have been in Act 47, only five have emerged from Act 47 status, and all would still be considered fiscally distressed.

While there are improvements that likely can be made to Act, the more important goal is preventing municipalities from reaching a stage where Act 47 becomes the only option. Municipal officials, state leaders, and other key stakeholders must work together to identify needs of municipalities to prevent the fiscal distress that leads to Act 47. It will require great political courage and cooperation to open up the existing laws and constitutional provisions governing municipalities and make substantive structural changes. The possibility of a constitutional convention to take a holistic look at local government structures should be considered, should the amendment process prove insufficient.

Keep local municipal identity but administer regionally.

In the 21st Century, the Commonwealth of Pennsylvania is made up of regional economies that extend beyond municipal, and sometimes county, boundaries. People can easily move from one municipality to another to live, work and shop. There is a fundamental mismatch between the fluid movement of resources within an economic and geographic region and the structured municipal boundaries that govern revenue generation for municipal governments.

Pennsylvanians like their local government to remain local with its corresponding sense of identity, but public opinion research also shows that Pennsylvanians are open to creating efficiencies in service provision and administration of local government. While they like local government because of the proximity and accountability of its officials, at the same time, they do not have a clear idea of the functions of local government.

This paper is not a call for consolidations and mergers of municipalities. The reality, however, is that many municipalities do not have the fiscal capacity – due to size, economic conditions, demographics, and other factors – to provide the necessary range of municipal services effectively or efficiently. Others, especially those municipalities with fewer households, do not yet need to provide a wide range of services. Our initial findings indicate that as resources begin to decline, the demand for services such as public safety actually grow – a fundamental conflict. But pooled together, many municipalities together as a region have a diverse mix of assets, community members and tax bases. Regional approaches would better allow leaders to meet the needs of their residents. Administrative functions, development management and land use planning, tax administration and collection, resource management such as sewer and waste water management, and public safety functions are just a few examples of services that may be shared and administered at a regional or multi-municipal level. Often sharing of resources will be invisible to the resident, but the better economies of scale will benefit all taxpayers.

Introduction

This analysis is presented by The Pennsylvania Economy League, Inc. (PEL), an independent, nonprofit public policy research organization. The Economy League is a force for positive change, and the state's leading regionally based, statewide public policy organization. Working with Pennsylvania's public and private sectors, PEL provides independent research and insight on emerging issues to stimulate public and private action to make Pennsylvania a better place to live, work, and do business. PEL has been involved in the work of local government and state policy for 70 years. For more information about PEL, visit www.IssuesPA.net/about/pel.do

PEL presents this report to state leaders, local government officials, key stakeholders, and others interested in the success of Pennsylvania's communities. An accurate understanding of the current situation is critical to the change that must take place, and the following report provides an objective, realistic picture of the current challenges facing all of Pennsylvania's municipalities. The information and analysis that follows present a basic understanding of municipal revenue tax streams and problems specific to revenue structures. Recommendations for urgent consideration and for future study are included.

This study was funded in part by the William Penn Foundation, with additional support from the members of the Pennsylvania Economy League. It is the first in a planned series of works addressing local government policy issues.

Background on local governments and state policy

How local government does business in Pennsylvania has remained largely unaltered for decades, despite considerable change in the state's demographic patterns and economy, the expectations and needs of its residents, and heightened economic competition. Regulations that govern how municipalities can raise revenues have gone largely unaltered for a half century. Pennsylvania's Local Government Commission lists seven Municipal Codes and 90 other "important laws relating to local government." Most important to municipal revenues and costs include Act 511 of 1965, Act 111 of 1968, Act 47 of 1987, Act 195 of 1970, Act 205 of 1984 and the Pennsylvania Constitution. Though amended, the first- and second-class township codes and third class city codes were established in 1933.

Fiscal distress in municipalities was a concern of state lawmakers in 1987 leading to the passage of Act 47, yet remains a concern today, twenty years later. This fact illustrates a mismatch between revenue generating tools granted to municipalities and the economic reality facing municipal leadership. Clearly, it is time to take another look at these regulations within contemporary economic and demographic environments.

Municipalities Plus Counties, Authorities, School Districts, and More: Many Varieties of Local Government

In addition to 2,565 municipalities, there are 67 counties, 501 school districts, and about 1,500 municipal authorities, most with their own revenue raising authority. And there are hundreds of planning, zoning, historic preservation, and other commissions. Each of these entities has responsibility for activities and oversight that impact community vitality and economic competitiveness.

The result is a quilt work of local governments that overlap and often intersect, connected by transportation networks, shared school districts, and a regional economy. People can live in one jurisdiction, work in another, and shop in yet another without much thought. In the same manner, local government managers should consider public safety, planning and development, and infrastructure concerns that reach across municipal boundaries.

There are two commonly held beliefs about municipal government that this study dispels:

- First, that mismanagement is the main cause of municipal distress. The reality is that the great majority of Pennsylvania's cities, boroughs and townships are managed by knowledgeable, educated and well-qualified public officials – elected and appointed – who have the best interests of their municipalities at heart.
- Second, that only older communities – almost every city and many boroughs –are experiencing fiscal stress, while townships are not affected. The data simply do not support this belief. The PEL study has found that *all* types of municipal government in every region of the state that are experiencing fiscal stress, with many continuing their decline. The data point to trying times ahead for most Pennsylvania's communities – unless there is a change to state law governing municipalities.

Every square inch of Pennsylvania is incorporated. There are currently 2,565 municipalities in Pennsylvania, each with its own governing and revenue raising authority. Municipalities fall into the following categories: 56 cities, 961 boroughs, 91 first class townships, 1,456 townships of the second class, and one town. In total, Pennsylvania's municipalities are governed by roughly 38,000 local officials (55 percent elected, the remaining appointed) and employ nearly 150,000 people. Most municipalities – about 60 percent – have populations less than 2,500. Population in municipalities ranges from about 25 people to 1.5 million. It is not only the sheer number of municipalities that proves to be a challenge, but also the size of municipalities relative to the demand for services.

To add to these challenges, the issues facing local government have changed dramatically over recent decades. Local officials, many of whom serve part-time, are expected to make knowledgeable decisions and to take action on complicated technical issues like water pollution control, landfills, economic development incentives, collective bargaining agreements, debt financing, infrastructure repair, and growth management. Long-simmering problems for municipalities recently have emerged as full-fledged crises, such as rapidly escalating costs of employee retirement benefits and health care insurance. Federal devolution of responsibility to states – and subsequently to local governments – has added to this burden. Those who think that their communities will forever remain untouched by fiscal distress, blight, or other municipal ills need to become aware of their own, very personal stake and their community's exposure to risk.

For substantive, structural changes to occur, local government officials and other stakeholders must make a strong, convincing case for change. This study helps make that case: it shows that addressing only those communities in fiscal crisis is not sufficient or effective. Municipal governments need the right tools to prevent fiscal crisis. Resolving issues of municipal fiscal deterioration is a necessary part of any strategy to improve the state's overall economy. Policymakers not only must have a better understanding of municipal decline, they also must understand that decline seldom – if ever – can be stopped by haphazard tactics, inattention, or off-loading responsibility. Even well intentioned efforts – without an accurate understanding of the problem – are ineffective.

Municipal Government = Big Business in PA

Pennsylvania's 2,565 municipal governments make up an $11 billion business that impacts every Pennsylvanian. Municipalities provide vital services to businesses and individuals, which greatly impact the state's overall economic vitality and set the direction for our shared future. Among some of the key responsibilities that fall to municipal governments are fire and police protection, land use and development planning, maintenance of local transportation infrastructure; and in many cases, services such as trash collections and sewer and water maintenance.

And local government is big business. County and municipal government together represent a $17.5 billion collective enterprise that perhaps more than any business or industry impacts quality of life and economic competitiveness throughout the Commonwealth.

Building a Case for Change: Study Objectives

Identify municipal fiscal decline and distress

Although it's clear that municipal fiscal decline is a problem well beyond the Act 47 program, there is no other official definition or measure of fiscal distress. Act 47 status is voluntary for those local governments in the deepest fiscal trouble. However, many municipal leaders don't see Act 47 as a viable solution to the distress, and so the number of fiscally distressed communities was not known prior to this study.

Detail the extent of municipal fiscal distress in Pennsylvania

Prior to the PEL analysis, there has been no widely publicized gauge of fiscal decline or known analysis of revenue trends. To fill that information gap, PEL developed a method to identify municipal fiscal decline and distress using indicators based on tax capacity and tax effort. The results provide profiles of different types of distressed municipalities, location, trends, and other information critical to understanding causes and identifying solutions.

Identify formidable threats to revenue generation by existing state legislation

Documenting the current threats to revenue generation involves analyzing how economic conditions have changed, how the tax base has changed, and the impact of demographic patterns statewide and regionally. By identifying inconsistencies and reviewing the tax bases for sustainability and growth indicators, PEL has begun to identify potential threats to revenue generation.

State law provides the tools available to municipalities, but most of the regulations have been in effect for 50 years. The specific laws that govern local governments impact municipalities in a variety ways. For instance, reassessments generally are determined at the county level, though they greatly affect municipalities. The result is a tax system that can be costly to collect, difficult to administer, and confusing for the individual payer.

Determine public attitudes toward local government and fiscal distress

Often, a lack of public support for or understanding of an issue can stop progress in its tracks. On the other hand, strong public support can move leadership into action. Therefore, it's important to find out what people know about their local governments, their attachment to their local governments, their thoughts and feelings about the role of state and local government to

Act 47 Status – Official Designation of Fiscal Distress

Information compiled by the Pennsylvania Department of Community and Economic Development shows that more than 100 municipalities, and not only cities and boroughs, meet one of the 11 minimum criteria for designation as "financially distressed" under Act 47. Hence, there is an alarming number of population centers that are eligible to seek state designation as financially distressed.

The criteria for Act 47 status include the following:

The municipality has:

- maintained a deficit over a three-year period
- experienced expenditures that have exceeded revenues for a period of three years or more
- defaulted in payment of principal or interest on any bonds or notes or rentals due
- missed a payroll for 30 days
- failed to make required payments to judgment creditors for 30 days beyond the date of recording of the judgment
- failed to forward taxes withheld on the income of employees or has failed to transfer employer or employee contributions for Social Security for a period of at least 30 days beyond the due date

continued

provide services. Through a series of focus groups, PEL was able to gauge public opinion on local and state government, functional consolidation of certain services, and other issues.

Act 47 criteria, cont.

- accumulated and operated for two years a deficit equal to 5% or more of its revenues.
- failed to make the budgeted payment of its minimum municipal obligations as required and outlined in the Municipal Pension Plan Funding Standard and Recovery Act of 1984
- sought to negotiate resolution or adjustment of a claim in excess of 30% against a fund or budget and has failed to reach an agreement with creditors.
- filed a municipal debt readjustment plan pursuant to Chapter 9 of the Bankruptcy Code (11 U.S.C. *901 et seq)*
- experienced a decrease in a quantified level of municipal service from the preceding fiscal year as a result of reaching the legal limit in levying real estate taxes for general purposes

For full detail of the 11 criteria, see Chapter 2 of Act 47 of 1987

Research Methodology

Given that the Act 47 program does not present a complete picture of municipalities in fiscal distress, how should these municipalities be identified? To conduct a complete analysis on a municipality-by-municipality basis is not possible given the multitude of factors that determine the fiscal, economic, and social health of a municipality and the sheer number of municipalities in the state. The costs and logistics make this task nearly impossible.

As a proxy, PEL developed a distress index using existing data to compare each municipality against the rest using common measures. The result is a ranking of each municipality in comparison with all others and with the state average. Each municipality earns an overall score based on the position of its index ranking and its statistical distance from the state mean expressed as standard deviations. Municipalities with a high negative standard deviation (-2 deviations or greater) are considered to be fiscally distressed. Complete information for 2,551 (out of 2,565 total) municipalities was available and included in this study. Also, using a comparison of 1970 and 2003 data, each individual municipality is compared against itself.

The PEL index uses two factors: tax effort and tax capacity. Tax effort is tax collections compared to the tax base. Tax capacity is defined as the tax base per household. A ranking is calculated for each factor for each of the 2,551 municipalities for which there is sufficient data. For each factor, a lower ranking implies a poorer prospect or condition, while a higher ranking implies a better prospect or condition. Appendix A provides a more detailed explanation of the formula used for this study, with an explanation of the use of standardized effort and capacity scores to compare municipalities.

It is important to note that the 1970 to 2003 changes in fiscal health are relative; that is, change is measured and defined in terms of a single municipality's fiscal health compared with the state average. Appendix B provides a more detailed explanation of the analysis of data over time.

Additionally, PEL used focus groups to measure the public's perception of local government fiscal distress and to provide additional insight. This effort made possible a description of what is necessary for citizens to accept and support change in how and where local government services are provided. The formal analysis of group responses tested awareness of the need for change, the depth of ties to specific geographic entities or municipalities, access to and preference for services, and perceived control of their government.

Understanding Municipal Fiscal Health and Distress in Pennsylvania

The Five Stages of Municipal Fiscal Decline

A PEL analysis of revenue data shows a clear path that municipalities are following toward fiscal distress. Understanding this pattern and its causes allows for early identification and intervention, with the goal of stopping the cycle and avoiding distress. The five stages toward distress follow:

> *1. Low Taxes with prosperity*. Many newly developed townships exhibit these characteristics. New development increases the revenue base with fees and taxes, often without an increased demand for services. For example, the State Police may provide local police protection. Infrastructure is new and paid for by the developers, limiting maintenance costs. In this stage, revenues are increasing faster than the rate of inflation and faster than the cost of services.
>
> *2. Gradually rising tax rates and increasing demand for services.* The pace of new development has slowed, but citizens demand more services such as police and parks. Infrastructure costs increase due to maintenance needs and to accommodate continued growth. The public schools face increasing enrollments and growing pressure to maintain or improve academic performance. Tax rates and fees are on the rise, but the tax base remains strong without a show of financial distress. In this stage, communities are experiencing significant growth (more than doubling the number of households from 1970 to 2003), but the rate of revenue growth is beginning to slow.
>
> *3. Plateau of tax base with reductions in non-core services.* The existing tax base experiences minimal or non-existent growth at this stage. Demand for and the costs of services are growing, placing new pressures on municipal and school budgets. Local taxes rise in response and it may be necessary to cut back on non-core services. Pressure begins for residents to leave the municipality, especially for those with the resources to do so. Also at this stage, the number of households may be increasing slightly while tax revenue is no longer keeping pace with inflation.
>
> *4. Insufficient taxes or tax base with reductions in core services.* At this stage, the mismatch between tax revenues and expenditures results in a tax structure that is non-competitive with its contiguous neighbors. Core services such as public safety and infrastructure maintenance are reduced. The number of households plateaus – or begin to decline – while total municipal revenues begin to decrease.
>
> *5. Loss of tax base and distress.* At this stage, there is a noticeable decline in the number of households as residents begin to “vote with their feet.” The municipality is fiscally distressed, with declining tax revenues and loss of population.

As seen in the following table, no Pennsylvania city or borough maintained fiscal health is currently experiencing low taxes with prosperity. As a rule for this group, tax revenues have not kept pace with inflation, much less with growing expenses. Those cities and boroughs that remain in Stage 2 tend to be those with the smallest number of households. However, note that all types of municipalities can be found in stages 4 to 6. First class townships and townships of the second class are not immune; over half find themselves in stage three, four or five.

The Five Stages of Fiscal Decline: The Number of Municipalities, by Type, Identified by the Five Progressive Stages of Fiscal Decline, 1970 to 2003				
Progression	**Cities**	**Boroughs**	**1st Class Townships**	**Townships of 2nd Class**
Stage 1: *Low Taxes with prosperity*	0	0	27	399
Stage 2: *Gradually rising tax rates and increasing demand for services*	15	99	26	259
Stage 3: *Plateau of tax base with reductions in non-core services*	1	213	1	512
Stage 4: *Insufficient taxes or tax base with reductions in core services*	1	366	29	256
Stage 5 *Loss of tax base and onset of significant fiscal distress*	39	228	8	29
Totals	*56*	*906**	*91*	*1,455*

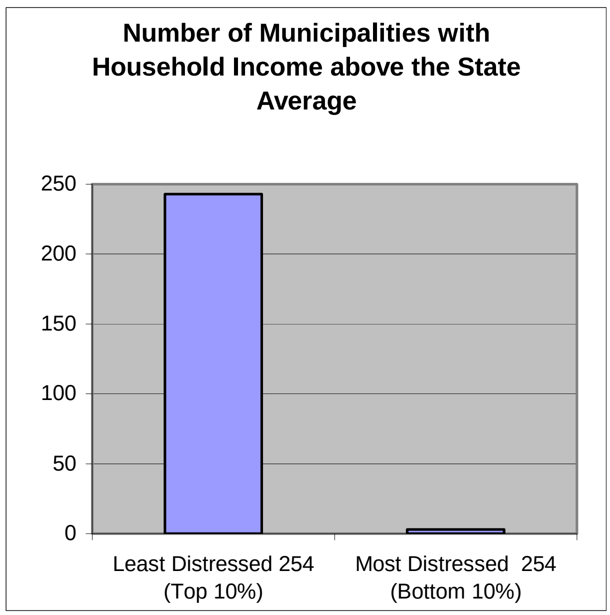
**The boroughs column does not include 43 boroughs with declining populations but growing tax revenues.*

Characteristics of Municipalities that Cannot Generate Sufficient Tax Revenue

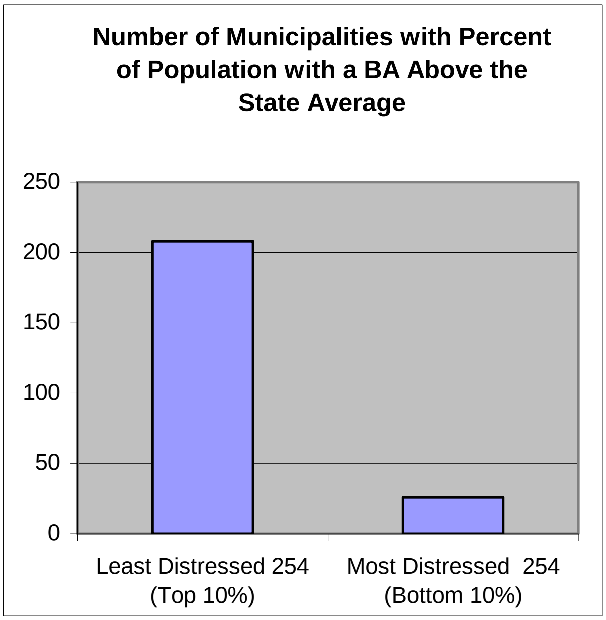
There are other characteristics that appear consistently across municipalities ranking as the most fiscally distressed, including some that may not currently assumed to be important. Recall that there are 2,565 municipalities in Pennsylvania; complete data for the following analysis can be found for about 2,540. Hence, the top 10 percent and low 10 percent on each characteristic includes 254 municipalities. A summary of characteristics for these municipalities is found in Table 6, Appendix C. Among these characteristics are:

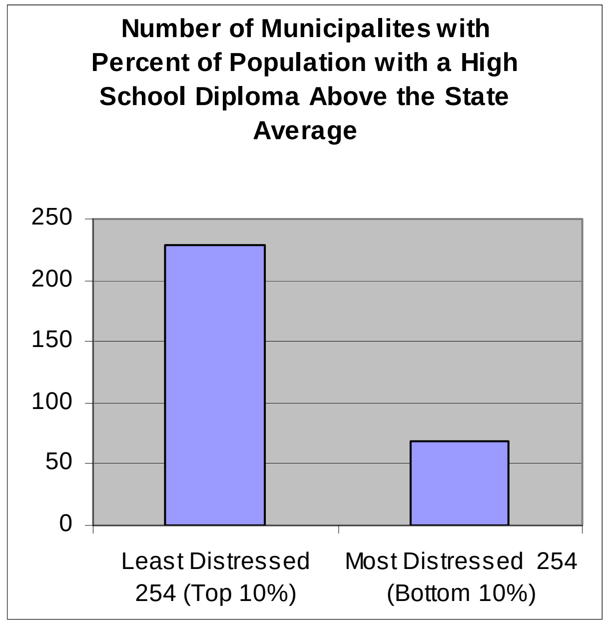
Income.

Because income is a primary driver of the formula, it naturally follows that household incomes correlate highly with the final rankings of municipal fiscal health. Figure 1 shows how important this relationship is to healthy communities. As seen, of the 254 municipalities with the highest levels of fiscal distress, four (2 percent) have average household incomes above the state average. Conversely, for the 10 percent (254 municipalities) with the highest fiscal health, 245, or 96 percent, have average household incomes above the state average.



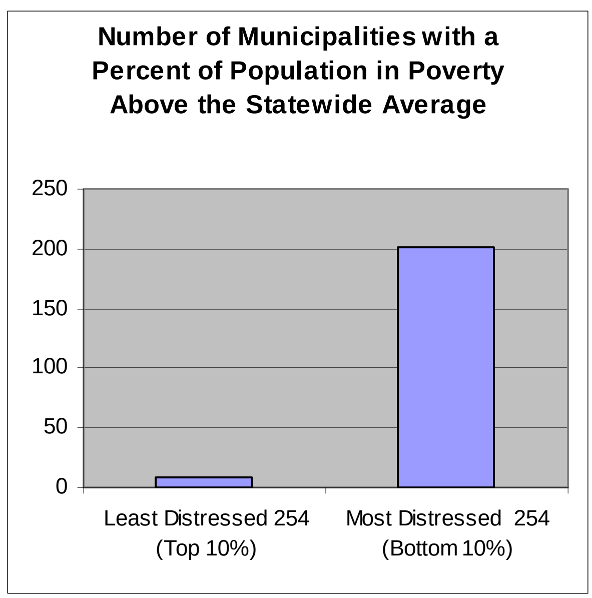
Level of Education. Distressed municipalities tend to have a lower percent of their population with a bachelor's degree. Of the 254 most distressed municipalities, only 26 or 10 percent have a higher percent of their population with a bachelor's degree than the statewide average. This number would drop significantly if the data for several municipalities on the list were adjusted to account for municipalities that host institutions of higher education that by the nature of their unique set of residents shore up the education levels. The evidence is almost as compelling when examining the least distressed municipalities. Four in five and each of the top 84 have a percentage of their population with a bachelor's degree higher than the statewide average.



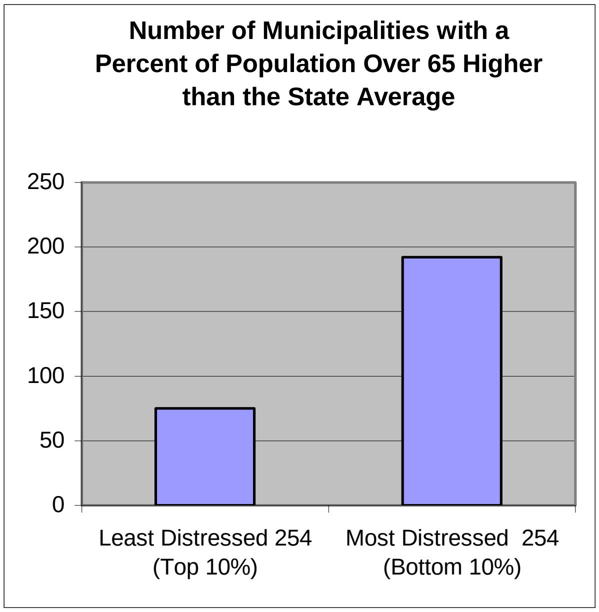


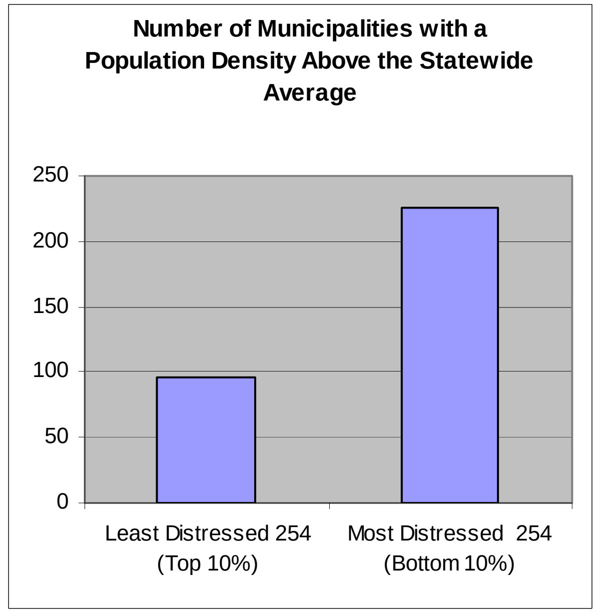
As illustrated above, when considering high school diploma as a measure of educational attainment, differences remain between the least and most distressed, although to a somewhat lesser extent than for other measures except at the extreme ends of the rankings. For example, only two municipalities in the least distressed group have high school diploma attainment levels less than the state average.

Percent in Poverty. A relatively high percent of the population in poverty appears to be a common characteristic of the most distressed municipalities. All but 52 of the 254 have a percent of their population in poverty higher than the average for all municipalities. On the other hand, only 9 of the least distressed 254 municipalities have a percent of their population in poverty above the state average. The following graph shows the difference between the number of the top 10 percent and the bottom 10 percent.



Population Age. Distressed municipalities tend to have a higher percent of their population over the age of 65 than do their better off counterparts. Of the 254 municipalities in the 10 percent of least distressed communities, only 75 have over 65 populations than exceed the average percent for all municipalities. In the 254 municipalities ranked with the most fiscal distress, 192 have a percent of their population over 65 years of age greater than the statewide average.





Population Density. Most of the high-density municipalities rank with the most fiscally distressed. Of the 10 percent (254) most distressed municipalities, 225 have population densities greater than the average for all municipalities in the state (274 per sq. mile) and of these 137 have densities greater than 1,000 per square mile.

Mixed in are a number of rural municipalities with exceptionally low densities. At the other end of the scale, only 96 of the least distressed municipalities have densities higher than the statewide average and only 16 of these have densities over 1,000 per square mile.

Changes in Ability to Raise Municipal Revenues from 1970 to 2003

As seen in the following table, 1,053 municipalities had below state average tax effort/capacity in both 1970 and 2003. Some, however, made progress toward fiscal health during that time; others experienced even higher levels of distress. However, this remains the single largest group of municipalities (41 percent of all Pennsylvania municipalities) and suggests that moving away from fiscal distress is very difficult—even over three decades. An additional 295 municipalities that were above average in 1970 joined their neighbors in 2003 below the state average. The second largest group (797 municipalities) was above the state average in 1970 and remained above average in 2003. Again, some in this group lost ground (that is, they stayed above the state average but not by as much in 2003 as in 1970) while others became more financially sound. The good news is that 406 municipalities went from being below the state average in 1970 to above the average in 2003.

Changes in Relative Fiscal Health from 1970 to 2003 For All Pennsylvania Municipalities		
1970 to 2003 Score Comparison	*Number of Municipalities*	*Percent of Municipalities*
Below state average in 1970 and 2003	1,053	41.3%
Above sate average in 1970, below average in 2003	295	11.6%
Above state average in 1970 and 2003	797	31.2%
Below state average in 1970, above average in 2003	406	15.9%
Totals	**2,551**	**100.0%**

Statewide Patterns

This analysis begins by defining and the measuring the tax effort and capacity of each Pennsylvania municipality. Individual municipal measures are then compared with the state average tax effort and capacity scores for the years 1970 and 2003. Though labeled throughout this report as "2003", this number is actually an average of revenue raised by each municipality in 2001, 2002 and 2003. This average presents a more stable measure of recent tax effort/ capacity and reduces the possibility of an anomaly for a single tax year. The 2003 data are the most recent available for research. A detailed summary of effort/capacity data is found in Appendix A.

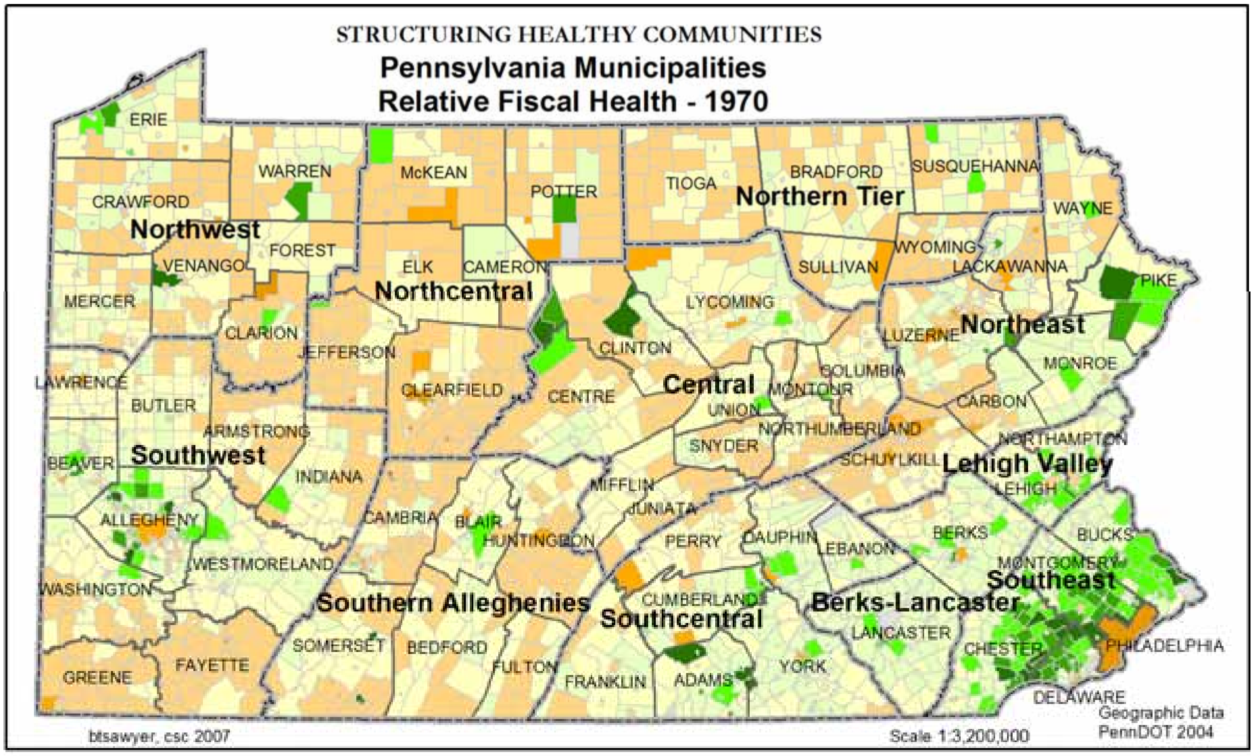
The most efficient way to present this large amount of data is mapping. A general rule to correctly interpret these maps is that shades of green show a tax effort/capacity above the state average, while shades of brown indicate efforts/capacity below the state mean. As seen, relatively healthy fiscal conditions are seen for the southeast, southcentral, and northeast parts of the Commonwealth. However, every part of the state has municipalities that are either above or below the state average, though the most rural and the most urban areas display the greatest concentrations of below-average results.

Differences among tax effort/capacity by municipality can occur for many reasons. The most likely reasons relate to the types of local taxes levied. For instance, Philadelphia has high income tax revenue as a percentage of aggregate household income. This is the result of Philadelphia's high non-resident earned income tax rate. Municipalities on both sides of the fiscal health spectrum have individual tales to tell that explain their relative position – explanations beyond traditional causes of fiscal distress and unique to communities.

An alarming number of Pennsylvania municipalities is on the verge of, or are already in, serious financial straits. Behind the weakening fiscal condition of many municipalities are disturbing trends of fading tax bases and long term cost burdens. For example:

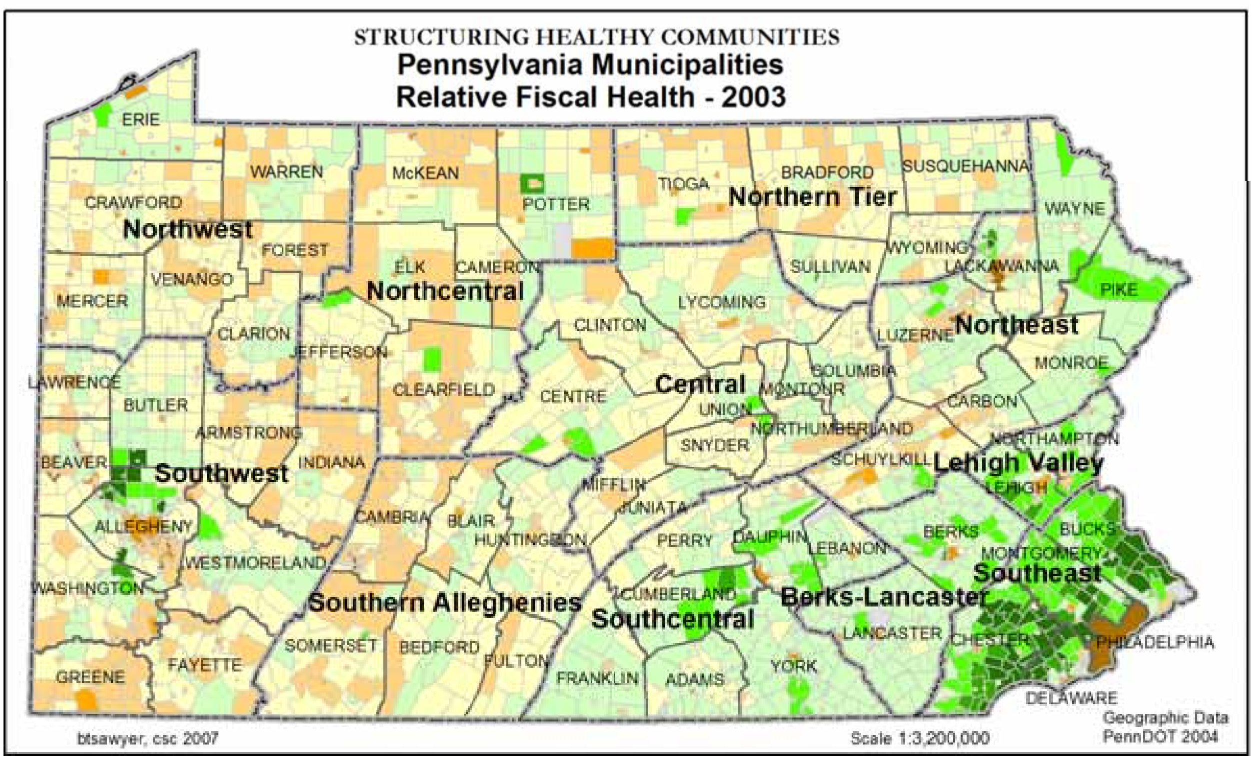
- Increasingly, the market value of real estate in the state's largest municipalities is growing more slowly than the rate of inflation, especially during the past 10 years; 33 actually lost market value
- Nearly 200 municipalities have debt that exceeds $1,000 per resident
- Over 1,000 municipalities lost population between 1990 and 2000

Hence, the single-most important statewide pattern is this: There is a widening gap between the more well to do municipalities and those that struggle to make ends meet. And it's not just the cities anymore. Serious financial problems are seen in the budgets of many other local governments in all parts of the state. On the revenue side of the ledger, stagnant (and in some cases, declining) tax bases limit available resources. On the spending side, built-in obligations may artificially raise the cost of doing government, leaving less for essential services, including public safety. The result is a downward spiral in a municipality's ability to compete economically, grow toward prosperity, and provide adequate services.



Standard Deviation

(Most Negative)	< -2.50	-1.00 - -0.26	1.00 - 1.74	No Data	Region
	-2.50 - -1.76	-0.25 - 0.24	1.75 - 2.50		COUNTY
	-1.75 - -1.01	0.25 - 0.99	> 2.50 (Most Positive)		



Another indicator of statewide patterns is provided by Pennsylvania's demographics. The U.S. Census projects the size of Pennsylvania's workforce – those people ages 18-64 – will grow less than one percent by the year 2020; by comparison, the size of the nation's workforce is projected to grow 11.4 percent. The percent of people in Pennsylvania over 65 years of age is expected to rise from 15.5 percent in 2000 to almost 19 percent in 2020. Further, migration within Pennsylvania of a slowly growing population is seriously affecting the fiscal distress of older and more urban communities. Since 1970 there has been a net increase of 1,069,709 households in the state. But this growth was distributed unevenly with boroughs gaining 126,000 households, cities losing 113,000, and first class and townships of the second class picking up 153,000 and 903,000 households, respectively.

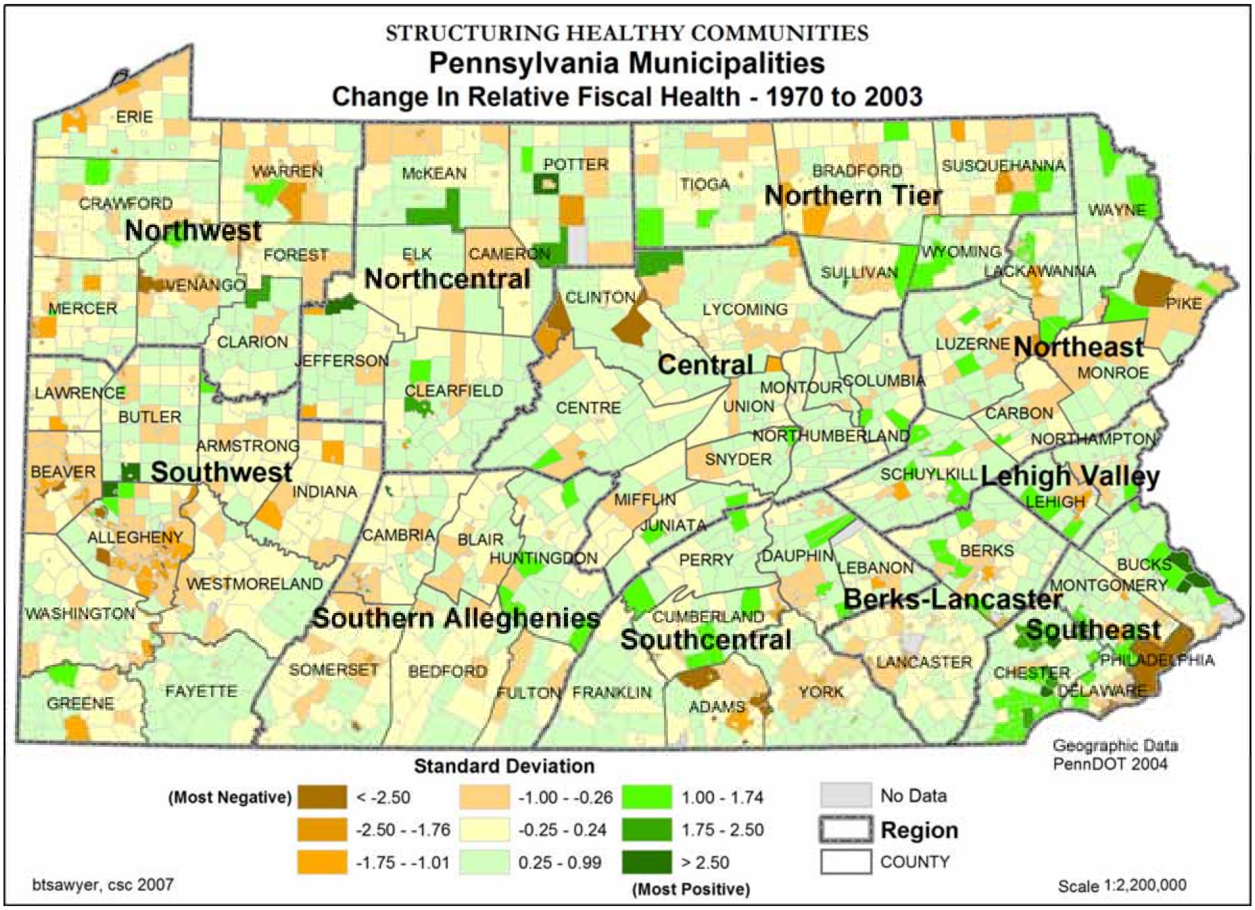
A predictable effect of those demographic trends is that they will surely exacerbate Pennsylvania's unfavorable economic trends. Most pertinent to the sustainability of local government are the effects of a workforce that is predicted not to grow—and a body of retirees that certainly *will*—on the need to provide, and pay for, local government services. In rural areas, vital services are mainly provided by volunteers – *able-bodied* volunteers. And throughout the state, local services are supported mainly by state and local taxes based largely on earnings (but not retirement income), real estate (on everybody's list for reduction), and consumption (a burden which, for obvious reasons, falls heaviest on young people).

Nor are the ever-expanding exurban areas exempt from the trends of demographics and costs. Census figures show that Pennsylvania's suburban populations are actually aging faster, as a group, than are Pennsylvania's cities. This is particularly related to fiscal distress in cities – where younger residents have left, leaving older, more dependent populations. These trends will hit home within 10 to 20 years, when probably large numbers of Boomers will expect to sell their suburban houses to supplement their retirement incomes, potentially driving down market values and lowering income levels, thereby depressing growth in the tax base. Those that remain may, over time, no longer be able to drive—but will have high expectations of services and a decreasing interest in paying local taxes for them. These powerful demographics will continue to augment each other's effects and exacerbate the problems faced by an increasing number of local governments – including local governments that, at this point, think a comfortable future is assured.

Of course some things will change, some projections will not be met, and some will be overshot. But there is absolutely no justification for Pennsylvania policymakers to cling to the assumption that the future will take care of itself with more of the same, or that the state's local governments can slowly "incrementalize" their way out of the effects of the Commonwealth's decades-long trends.

The most efficient way to present this large amount of data is mapping. The following map graphically depicts those changes in local government fiscal health from 1970 to 2003. Positive changes since 1970 are shown in shades of green; negative changes are seen in shades of yellow/orange. The map reveals the following patterns:

- The Southeast and Southcentral parts of the state are the least fiscally distressed. Northeastern Pennsylvania near the New York/New Jersey border is in a similar situation. Additional areas with less distress exist throughout the state, but not in large concentrations.
- The Southwestern and most rural parts of the state, on average, exhibit more patterns of relative fiscal distress.
- Every region of the state contains at least a few municipalities exhibiting characteristics of fiscal distress.
- Almost all of Pennsylvania's most urbanized areas rank as fiscally distressed.
- In many areas of the state there is some evidence that municipalities located closest to the urban core have a higher the level of fiscal distress. The levels of distress tend to decrease as distance from the urban core increases. However, this pattern is not readily apparent in all regions.



Regional Patterns in Municipal Fiscal Health

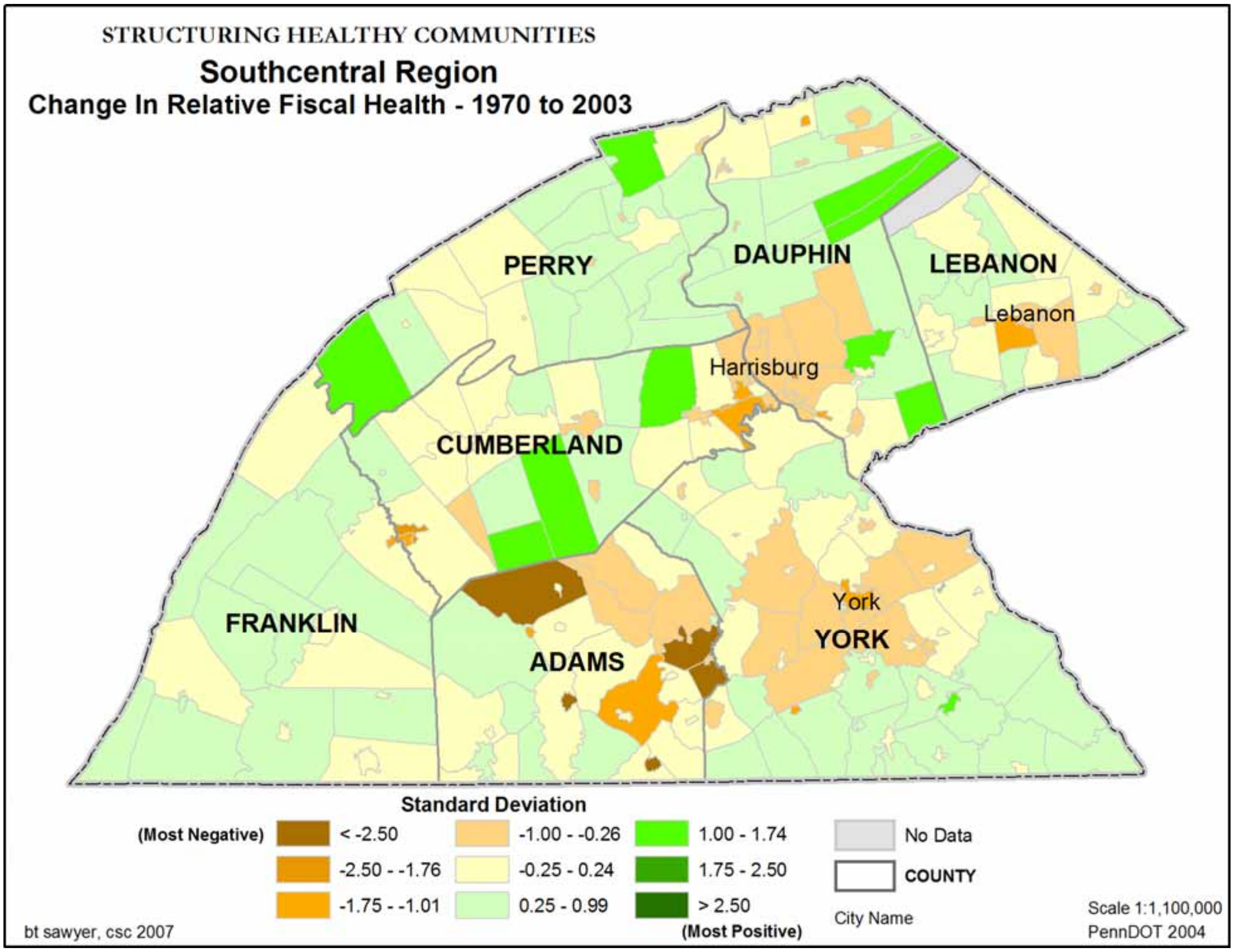
Pennsylvania is a collection of regions. For many reasons, it's useful to look at economic regions in relation to fiscal health for many reasons. Patterns or trends of fiscal distress within a region can help identify possible causes and solutions that otherwise are masked by larger and more diverse statewide data. Demographic trends vary by region, as does overall economic health, which can impact (and is impacted by) municipal government.

The regions used in this study were adapted from a Team Pennsylvania Foundation report prepared by IBM consulting and are based upon shared economic development factors and existing industry clusters throughout the Commonwealth. Two changes were made by the Pennsylvania Economy League: the Southwest region was expanded to include Lawrence County, and the Southeast region was reduced by two counties by removing Berks and Lancaster Counties and establishing a new region of these two counties. Hence, this study looks at eleven distinct previously defined economic regions in Pennsylvania. As this analysis will show, individual regions are experiencing significant and profound changes that are also reflected in the resulting fiscal health of their municipalities.

It was found, generally, that the fiscal health of the *municipalities* in these eleven regions clustered into similar patterns as those economic characteristics that first defined the regions. The following pages show each region, moving from southcentral PA 'clockwise' through the state.

Southcentral Pennsylvania

The southcentral region includes the counties of Adams, Cumberland, Dauphin, Franklin, Perry, Lebanon, and York. This region is characterized by comparatively high stress in rural municipalities in the northern part of the region and in cities and many boroughs throughout the region. In many ways this region serves as a sample of the entire Commonwealth. Municipalities within a reasonable distance, but usually not next to, the urban centers are in the best fiscal shape. In addition, the areas near the Maryland border in York County are doing well, probably the result of out migration from the Baltimore economic center.



Overall, the municipalities in southcentral Pennsylvania are in relatively good fiscal condition. Municipalities in four counties are fiscally healthy and improving (Franklin, Lebanon, Perry, and York); municipalities in three counties remain relatively healthy but are declining in fiscal health (Adams, Cumberland, and Dauphin). Fiscal distress centers around Harrisburg, York City, and Gettysburg).

Corridor Analysis: Clusters along Geographic Markers

In addition to general regions, corridors have been discovered that further explain differences in municipal fiscal health. These corridors are self-defining based upon changes in fiscal health status observed between 1970 and 2003 and generally follow existing demographic or geographic patterns. The value of identifying and understanding corridors is the discovery of shared interests and economic opportunities among municipalities in the same corridor.

cont

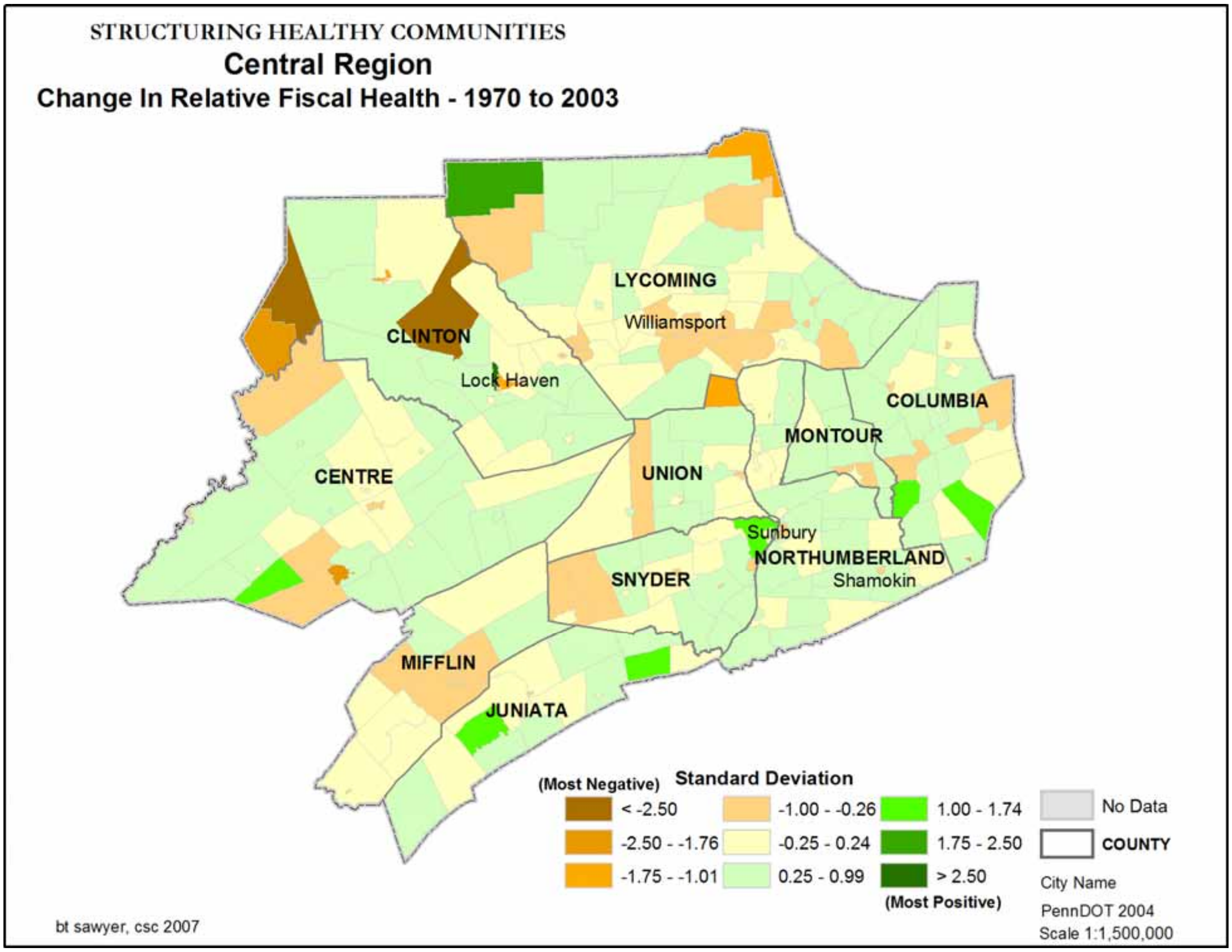
Corridors cont.

In some cases, corridors lead to – and from – economically healthy locations. For example the Route 83 corridor from York City to the Maryland border includes only about six Pennsylvania municipalities. But, in fact, that corridor extends into Maryland and the Baltimore/Washington area. Much of the growth along this corridor, in fact, is attributable to the migration of people from the Baltimore/Washington area who commute to work from South Central Pennsylvania.

In some cases, corridors are in decline. For example, the Route 30 corridor from Gettysburg to York City to Lancaster City can be clearly identified by the colors on the map. The corridor passes through many of the oldest communities in the southcentral region.

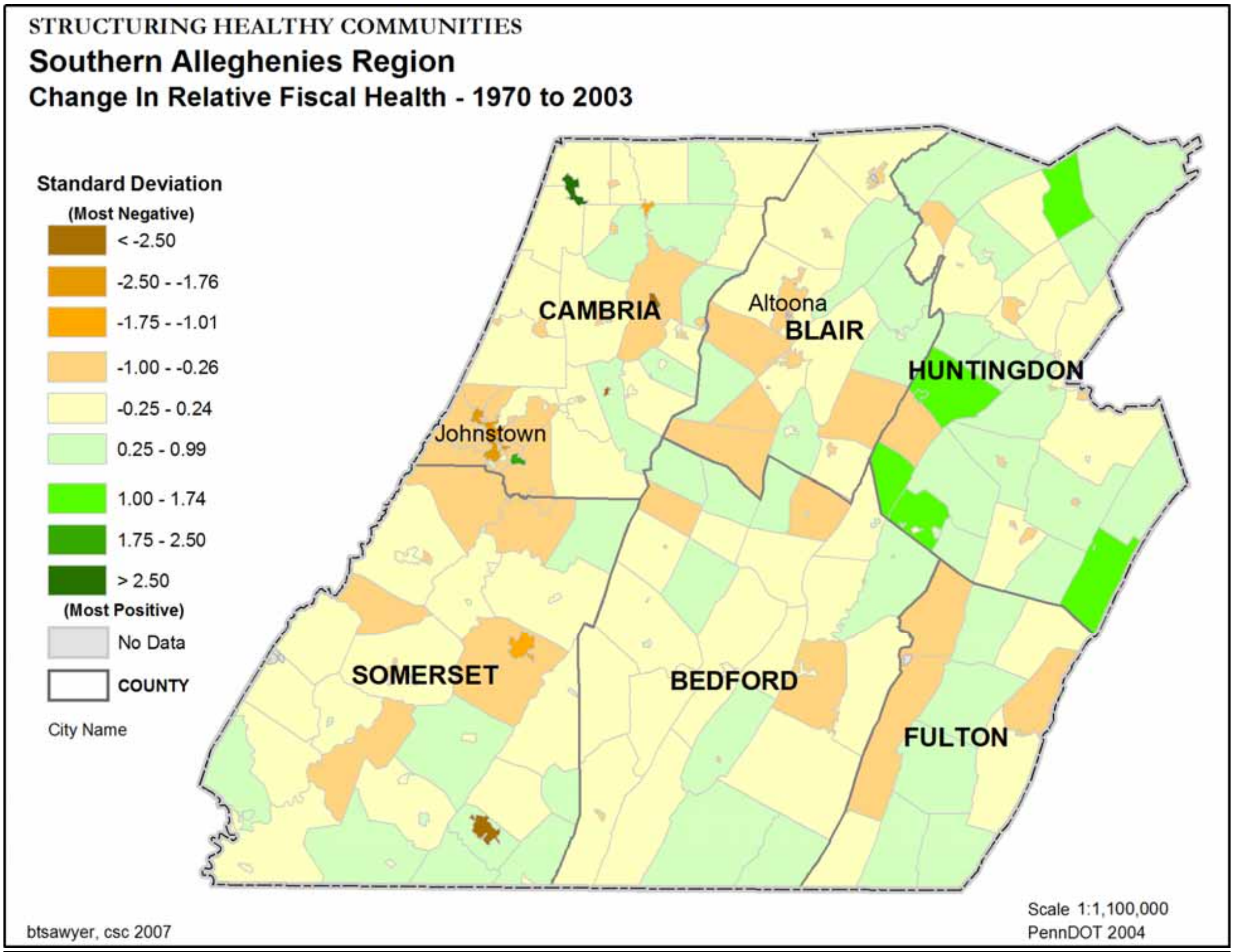
Central Pennsylvania

Central Pennsylvania is made up of nine counties in the center of the state. Among them are municipalities that are fiscally healthy and improving. Also among them are less healthy communities that are improving with time. Municipalities in six counties -- Centre, Clinton, Juniata, Lycoming, Montour, and Union -- are healthy and are showing improving fiscal health over time. Fiscal health is improving for municipalities in three counties (Columbia, Northumberland and Snyder) though all groups still remain fiscally constrained. Mifflin County municipalities are continuing to decline.



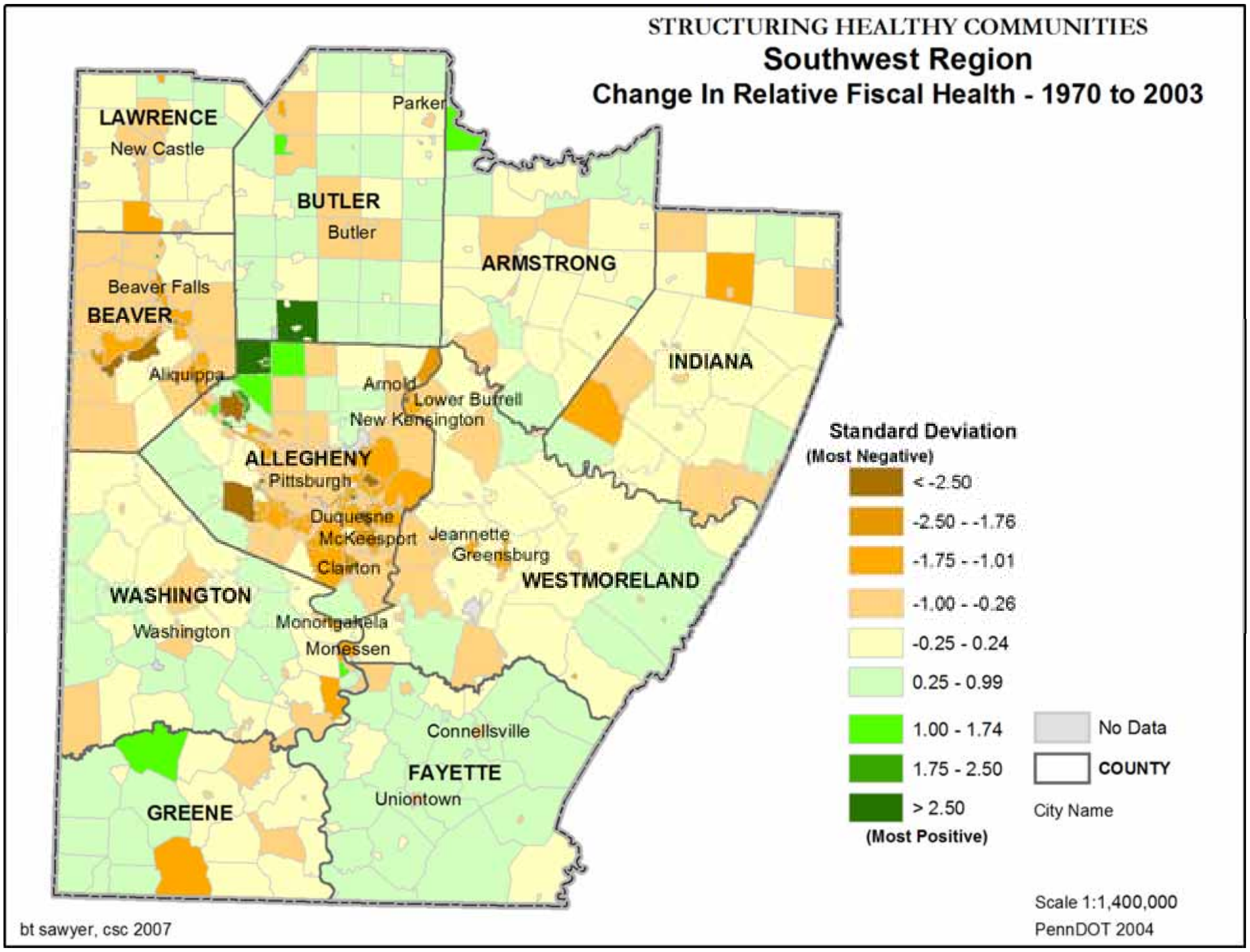
Southern Alleghenies

Municipalities in four counties (Bedford, Fulton, Huntingdon and Somerset) are improving, although most municipalities in all counties except Fulton remain in relative fiscal distress, Significant distress is observed for municipalities in Cambria and Blair Counties, with the level of distress worsening over time.



Southwest Pennsylvania

The southwest region consists of municipalities from 10 counties: Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington and Westmoreland. There is a fairly consistent pattern of distress concentrated in and around the city of Pittsburgh. The relatively health portions of the region are located north and south of the City, close to Interstate 79.



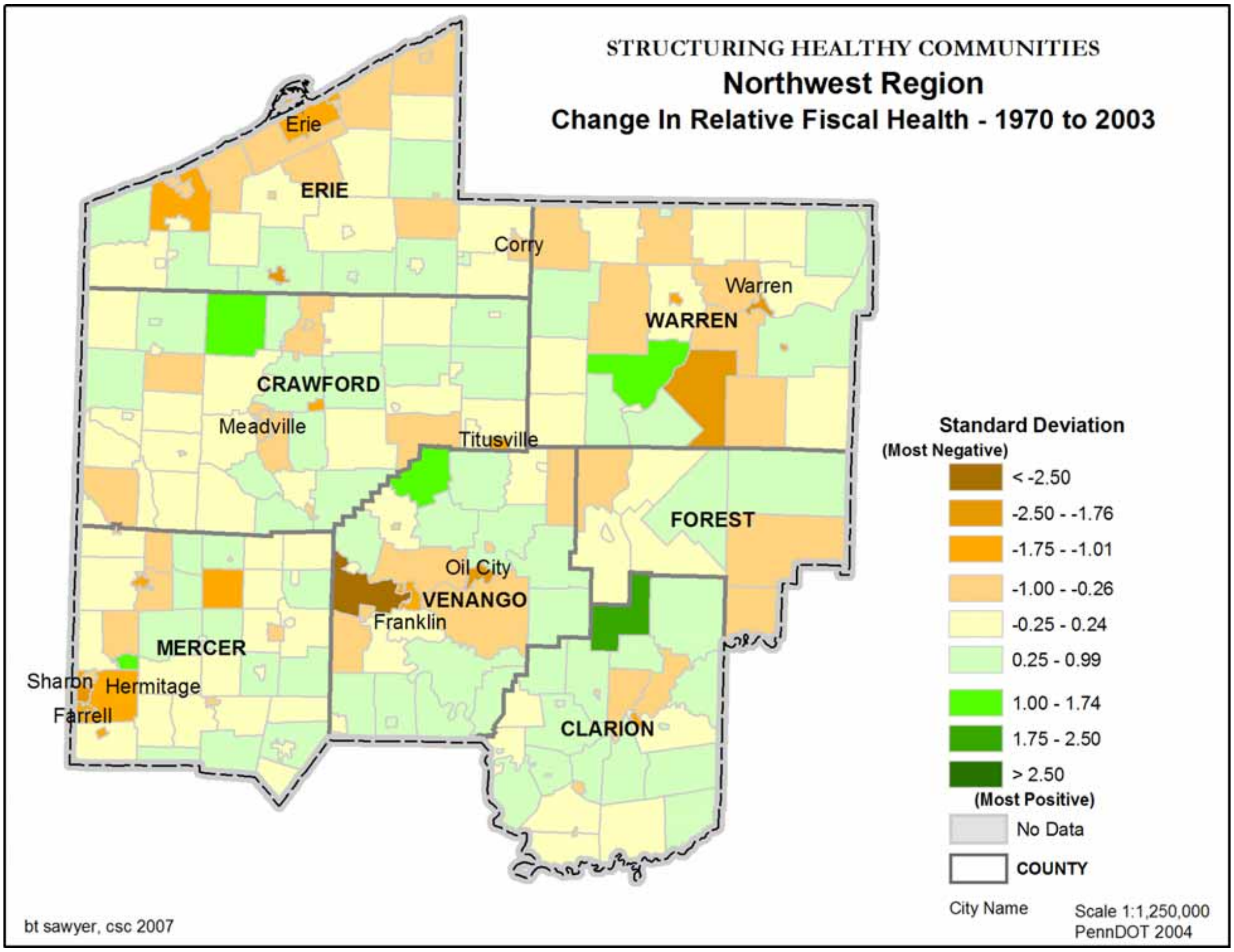
Two counties (Allegheny and Beaver) in southwest Pennsylvania contain the Commonwealth's largest cluster of cities, boroughs and townships in relative fiscal distress. A relatively high percent of municipalities in six counties have shown a relative decline in fiscal health since 1970: Allegheny, Beaver, Indiana, Lawrence, Washington and Westmoreland. However, municipalities in Butler and Fayette Counties are demonstrating increasing fiscal health.

Corridor Analysis: Decline by Geography in Southwestern PA

The southwest region, centered on Pittsburgh and Allegheny County, is part of several important corridors: land, water, and air. The significance of both rivers and land demographics can be seen by following the colors in the southwest map. For instance, the Monongahela River can clearly be seen snaking from Pittsburgh into Greene County. The Ohio River is discernable from the City of Pittsburgh north to Beaver County, with the Beaver River continuing north into Lawrence County. Clearly, municipal fiscal health in this region is closely tied to its historic and geographic economic development.

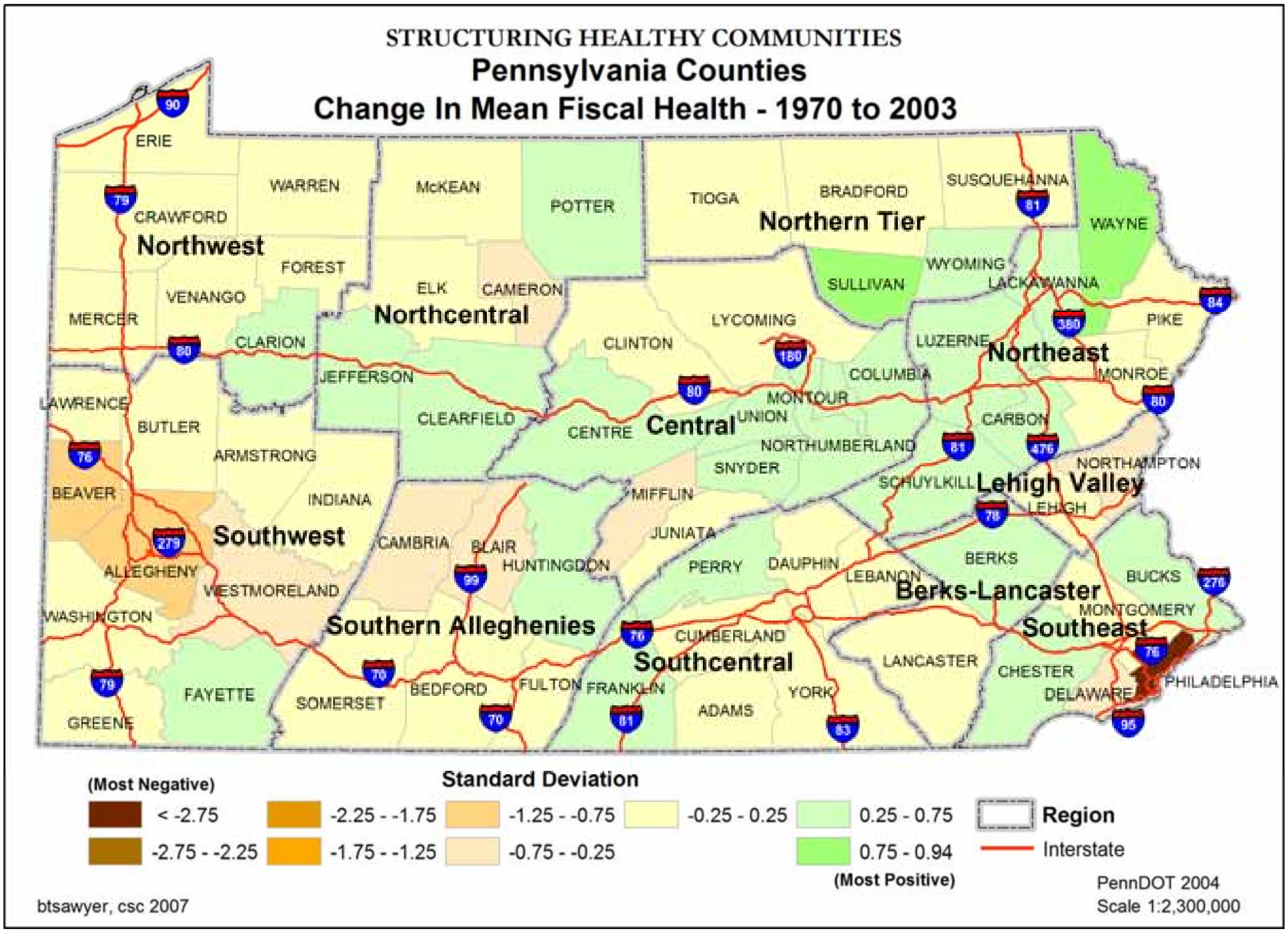
Northwest Pennsylvania

Municipalities in these five counties (Clarion, Crawford, Forest, Mercer and Venango) show a spectrum of municipal fiscal health, but as seen in the map, many municipalities are becoming increasingly healthy. However, municipalities centered around the City of Erie and Franklin (Venango County) are still showing relative fiscal distress. Relative fiscal health for the municipalities in Erie County have shown very little movement between 1970 and 2003. However, some municipalities in Warren County are showing increased fiscal straits since 1970.



Route 80 -- Road to Municipal Health?

Clusters of municipalities growing more healthy emerge along certain corridors in the state, and Route 80, which cuts through the middle of the state on an East-West path, is one example. Along the Route 80 Corridor, every county from Monroe County in the east to Mercer County in the west had an improved fiscal outlook. Further, additional corridors seem to have spurred from Route 80, such as the Route 219 corridor from Clearfield County north to McKean County into New York.



Corridor Analysis: Other Noteworthy Examples

Corridors where negative changes in fiscal health were observed from 1970 to 2003 include:

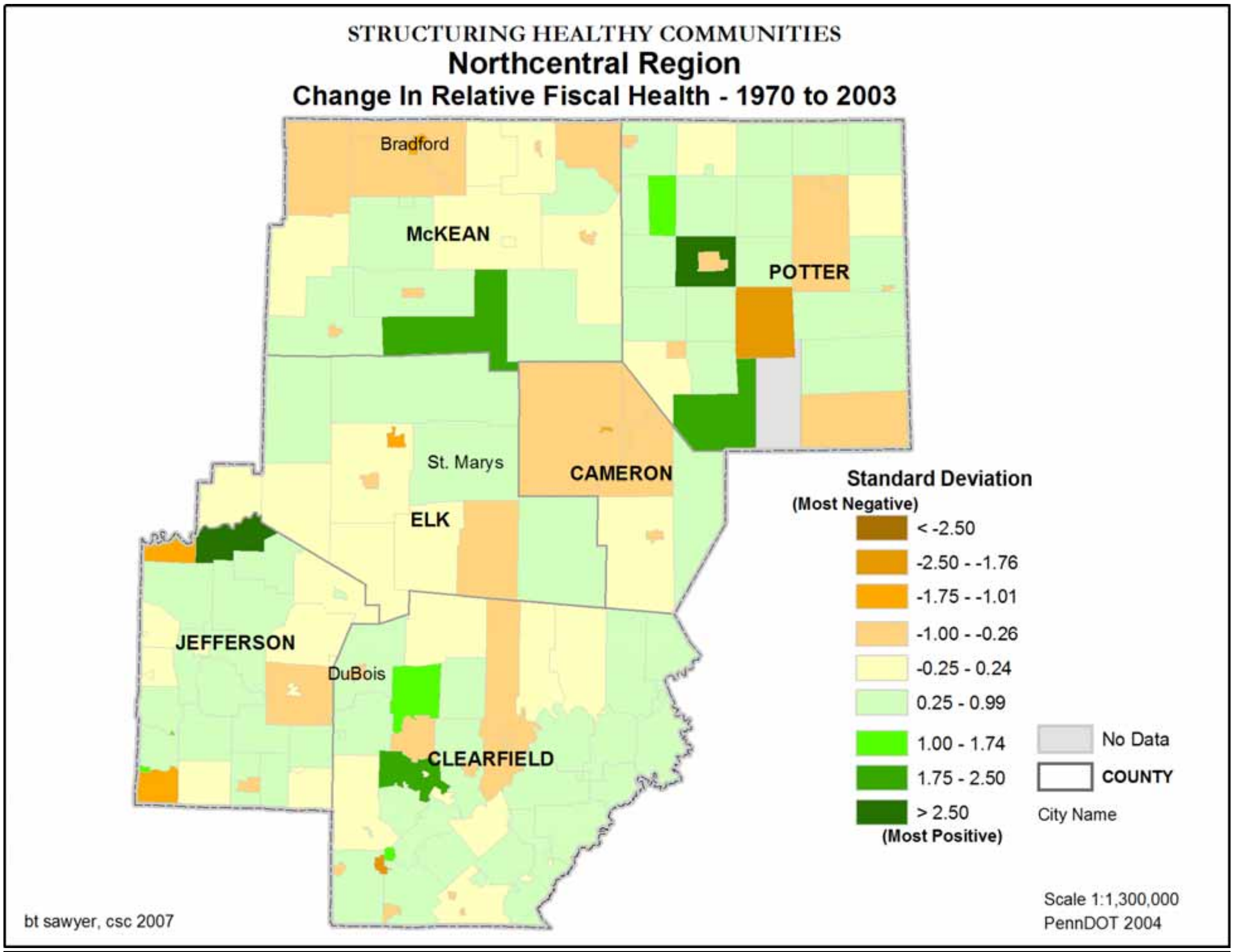
- Parallel routes 51 and 65 from Pittsburgh through Beaver County to New Castle
- Route 20 throughout Erie County
- Route 6 west from the New Jersey border to southern Susquehanna County
- Route 422 Huntingdon west to Altoona to Kittaning to Butler to New Castle
- Route 322 west from Clearfield to DuBois to Brookville to Clarion to Oil City

Corridors that exhibit positive changes in fiscal health for municipalities include:

- Parallel routes 100 and 202 from Pottstown to West Chester to the Maryland border
- Route 80 from the New Jersey border west to the Ohio border
- Route 83 from York City to the Maryland border
- Route 174 from York City to the Maryland border
- Parallel routes 100 and 309 through western Lehigh County south to Pottstown

Northcentral Pennsylvania

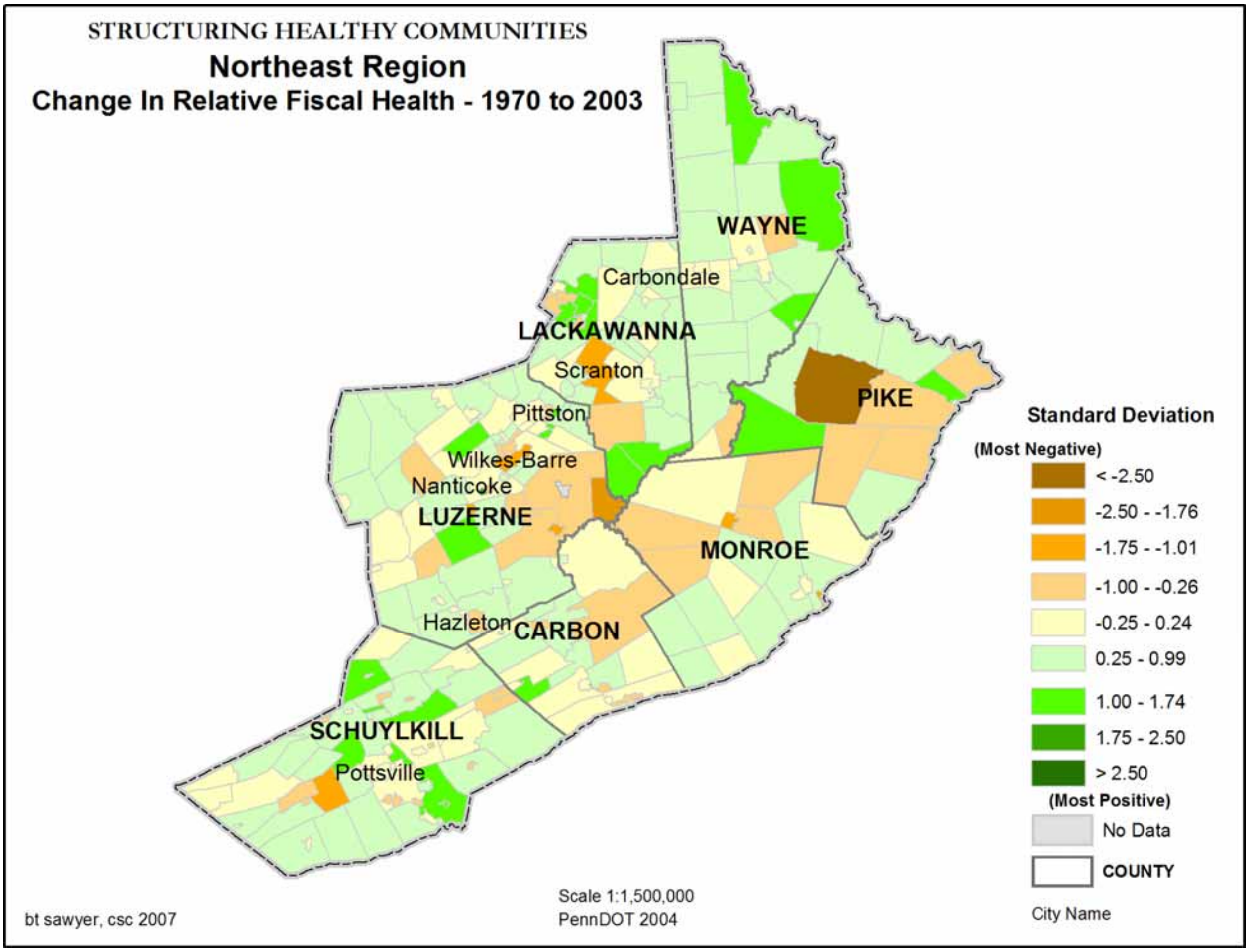
Within northcentral Pennsylvania, some municipalities in Cameron County are showing increased levels of fiscal decline. Though the municipalities in the remaining five counties continue to show moderate levels of negative fiscal health, this group is showing improved fiscal health over time.



Northeast Pennsylvania

The northeast region (Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill, and Wayne Counties) continues a pattern of high levels of fiscal stress in the most urban areas, accompanied by lower but still higher than average distress levels in many municipalities located adjacent to those cities and boroughs.

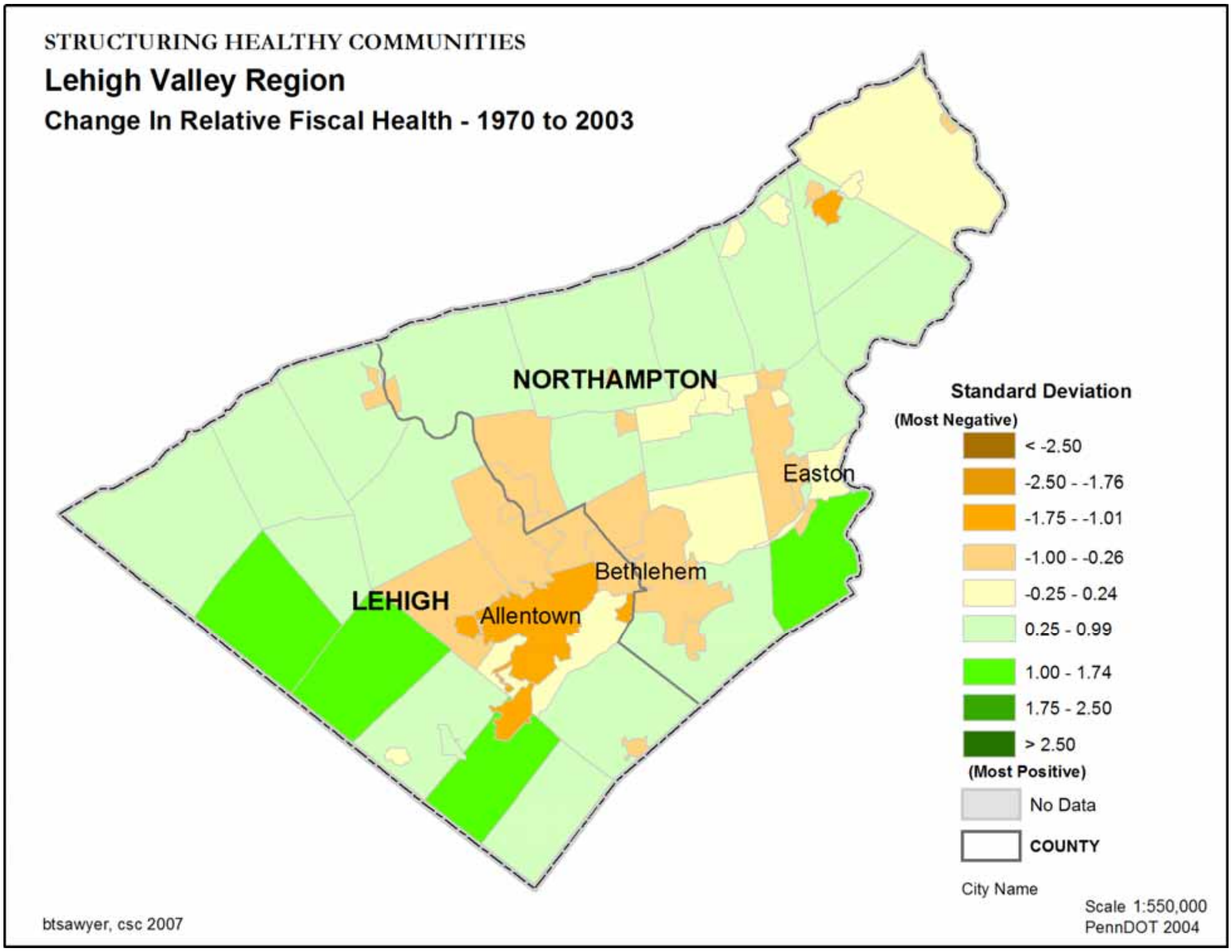
Note that municipalities closest to New Jersey and New York are gaining fiscal strength even as other municipalities closer to the urban areas are not yet sharing that increase in fiscal health. Though a significant part of the central area of this region continues to experience negative relative fiscal health, some improvement is noted.



The northeast region is unique with strong decline in the central municipalities but strong improvement in eastern parts of the region. Wayne and Pike counties are rapidly growing in population and economic health, while sections of the region to the east of Pike County and the northern part of Monroe County declining in relative wealth. While progress toward health is occurring in Lackawanna County and Luzerne County, both are still below the state average in municipal distress

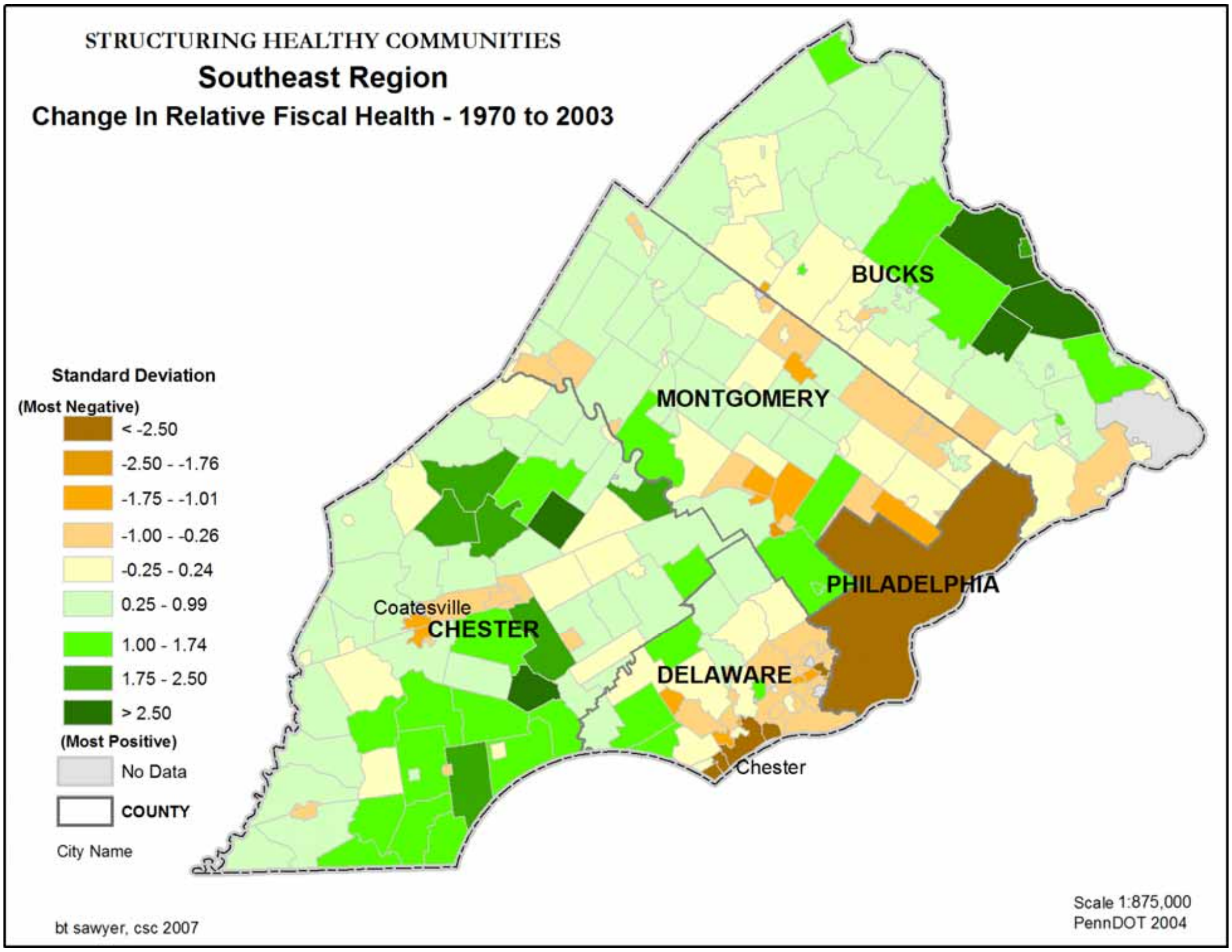
Lehigh Valley Pennsylvania

Most municipalities in Lehigh County are fiscally healthy, but less so for the cities and
the suburbs immediately surrounding Allentown. A pattern of reduced fiscal health can be seen for those municipalities *immediately* surrounding Allentown, Bethlehem, and Easton.   Though the fiscal health of communities in Northampton County has generally improved since 1970, it remains an anomaly because many communities are not sharing the relative health of the region.



Southeast Pennsylvania

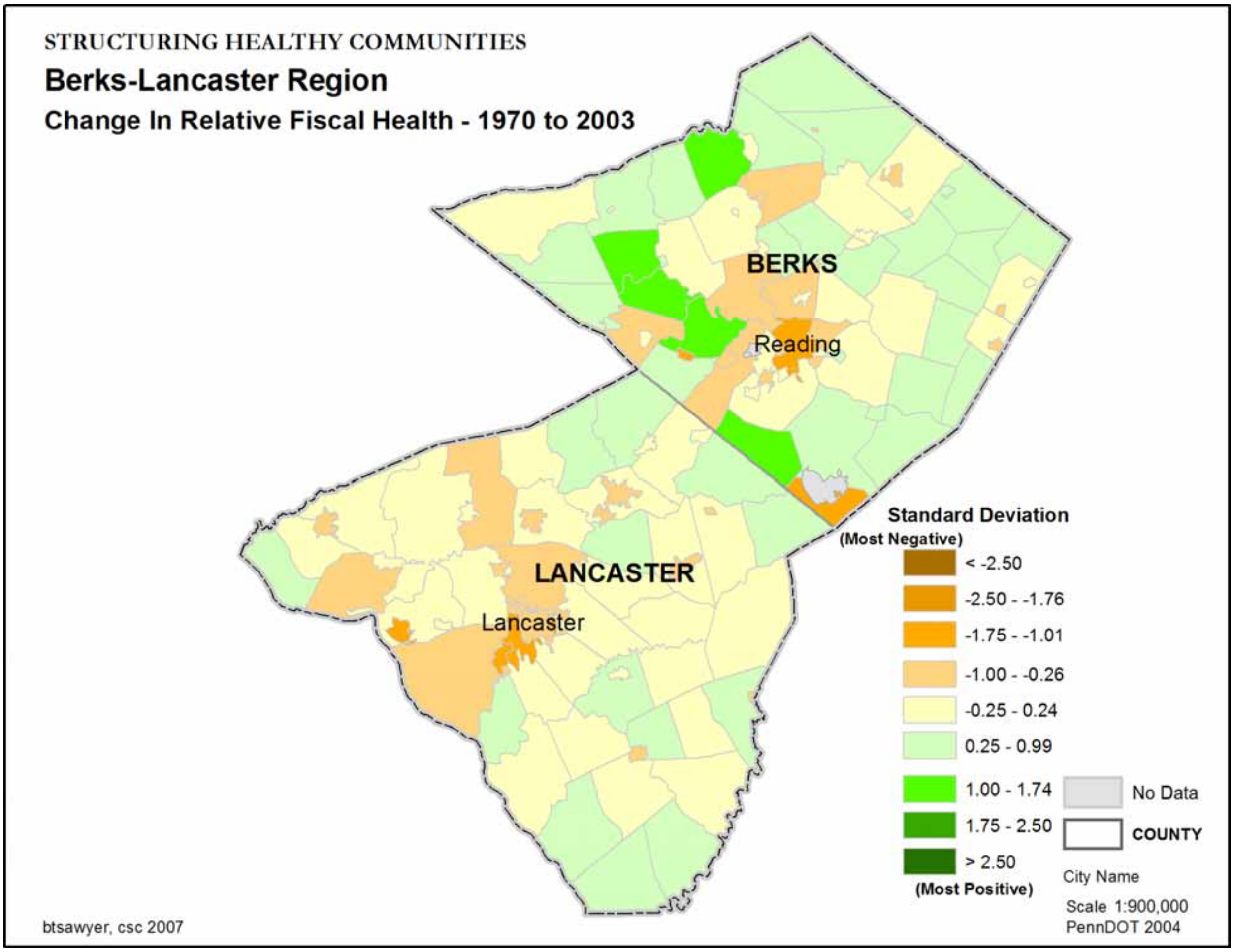
The southeast region consists of the City of Philadelphia and its adjoining counties of Bucks, Delaware and Montgomery, as well as nearby Chester County. The pattern of relative fiscal stress in 2003 is clear: Philadelphia and many municipalities to its south in Delaware County remain the most distressed in that region – and statewide. Most of Chester, Montgomery and Bucks Counties are at the other end of the spectrum, except for a few of the older urbanized boroughs exhibiting higher levels of fiscal distress.



Most municipalities in three counties (Bucks, Chester, and Montgomery) are in good fiscal health. The most fiscally viable municipalities are townships clustered in these three counties. Philadelphia, however, continues to show signs of relative fiscal distress. Some municipalities in Delaware County are also in decline, as are several in the most southern parts of Bucks and Montgomery counties.

Berks/Lancaster Pennsylvania

Berks and Lancaster County municipalities are in relatively good fiscal health, with the exception of Lancaster City and Reading. Despite the historic relative health of this region, most municipalities in Lancaster County are not improving or have started to decline, some significantly. Berks County municipalities are improving, but distress remains around the city of Reading.



Patterns by Type of Municipality

There are four types of municipalities in Pennsylvania: cities, boroughs, first class townships and townships of the second class. Each category differs in how it is incorporated, how it is governed, and how taxes are regulated under state and federal statutes.

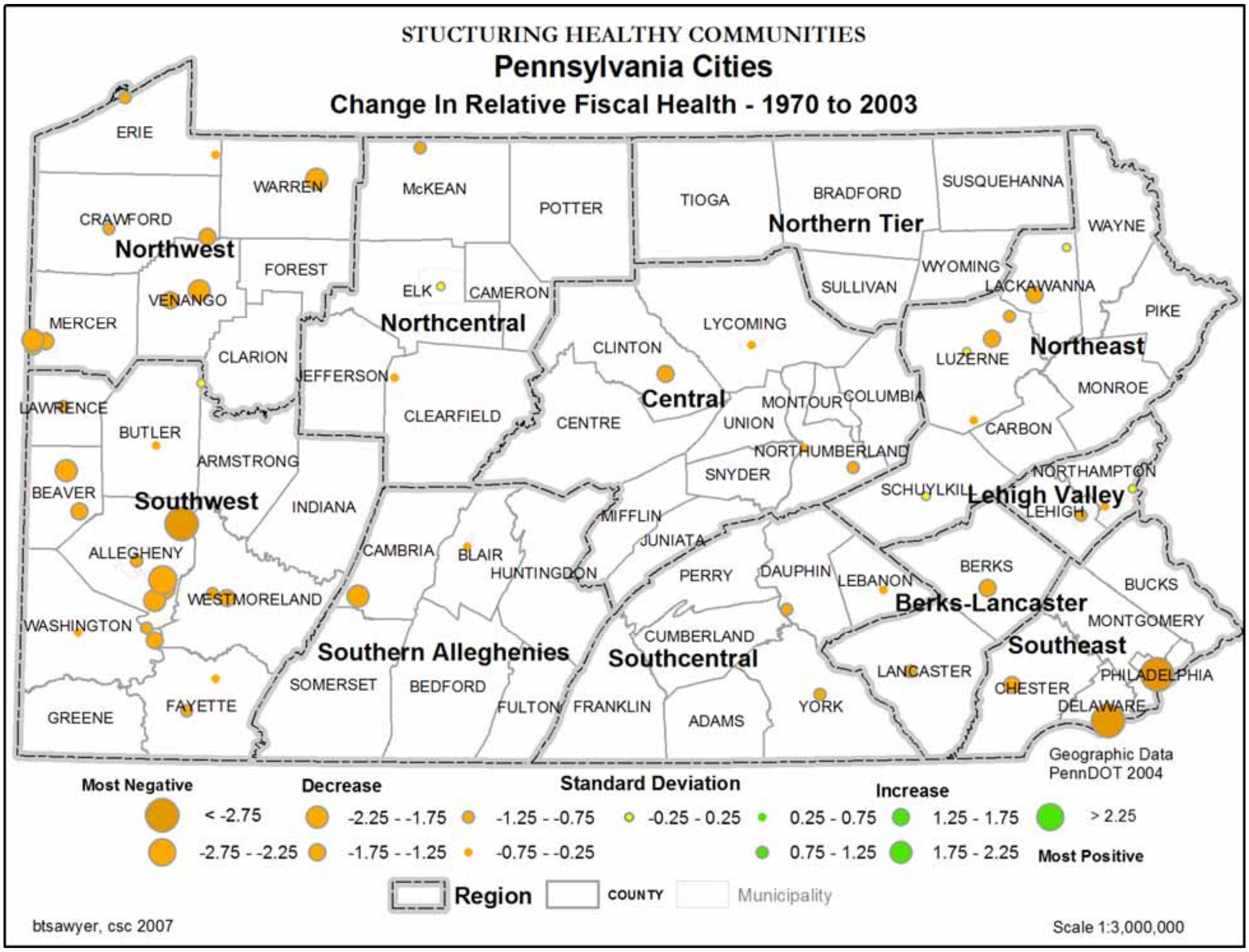
It is important to remember that there are more differences within municipal categories in Pennsylvania than between those categories. For instance, the number of households in Commonwealth cities ranges from 309 to 590,071. Household numbers for boroughs range from 10 to 13,361, and 151 to 32,551 for first class townships. The number of households among the state's 1,456 second class townships ranges from 13 to 22,627. Hence, this report relies more on research findings across economic regions than between types of municipalities. Table 2 in Appendix C offers more detailed information.

That said, it is still useful to understand the effort/capacity differences among the types of municipalities (see Table 3 in Appendix C). For instance, annual household income varies from $39,756 in cities to $67,669 across first class townships. Annual real estate revenue per household ranges from $209 for boroughs to $573 for cities. As a rule, cities rely more heavily on non-real estate revenue than do boroughs and townships, which average about $230 annually. Boroughs and first class townships rely more heavily on real estate taxes than non-real estate taxes, while townships of the second class rely more heavily on non-real estate taxes. Cities depend upon both sources of revenue (real estate and non-real estate) more than other types of municipalities.

Cities

Pennsylvania enjoys a wide diversity of cities with many amenities for its residents and visitors. These 56 cities range from about 300 to 590,000 households with other characteristics, including population density, square miles, and type of governance also showing great variance. One thing they have in common is fiscal distress. In 1970, 54 of 56 cities in Pennsylvania were below the state average for fiscal health, many significantly so. By 2003 all 56 cities fell into the below average category. In fact, of the 66 municipalities that that make up the highest one percent of fiscal distress in the state, 29 were cities. Examples include Philadelphia, Chester, Johnstown, Wilkes-Barre, Duquesne, Pittsburgh, York, Scranton, Reading, Harrisburg, Washington, Erie, and Bradford.

Though still showing some fiscal distress, only one city showed improvement from 1970 to 2003: St. Mary's, a small city in Elk County that was part of a municipal consolidation. Of the remaining cities, 19 became more distressed since 1970 and an additional 23 showed a significant change for the worse. The negative changes are highest for Clairton, McKeesport, Beaver Falls, Scranton, Farrell, Sharon, Oil City, Warren, Johnstown and Duquesne. The cities that are now in the most serious fiscal distress are Chester, Arnold and Philadelphia. Table 2 in the Addendum has more detailed information.



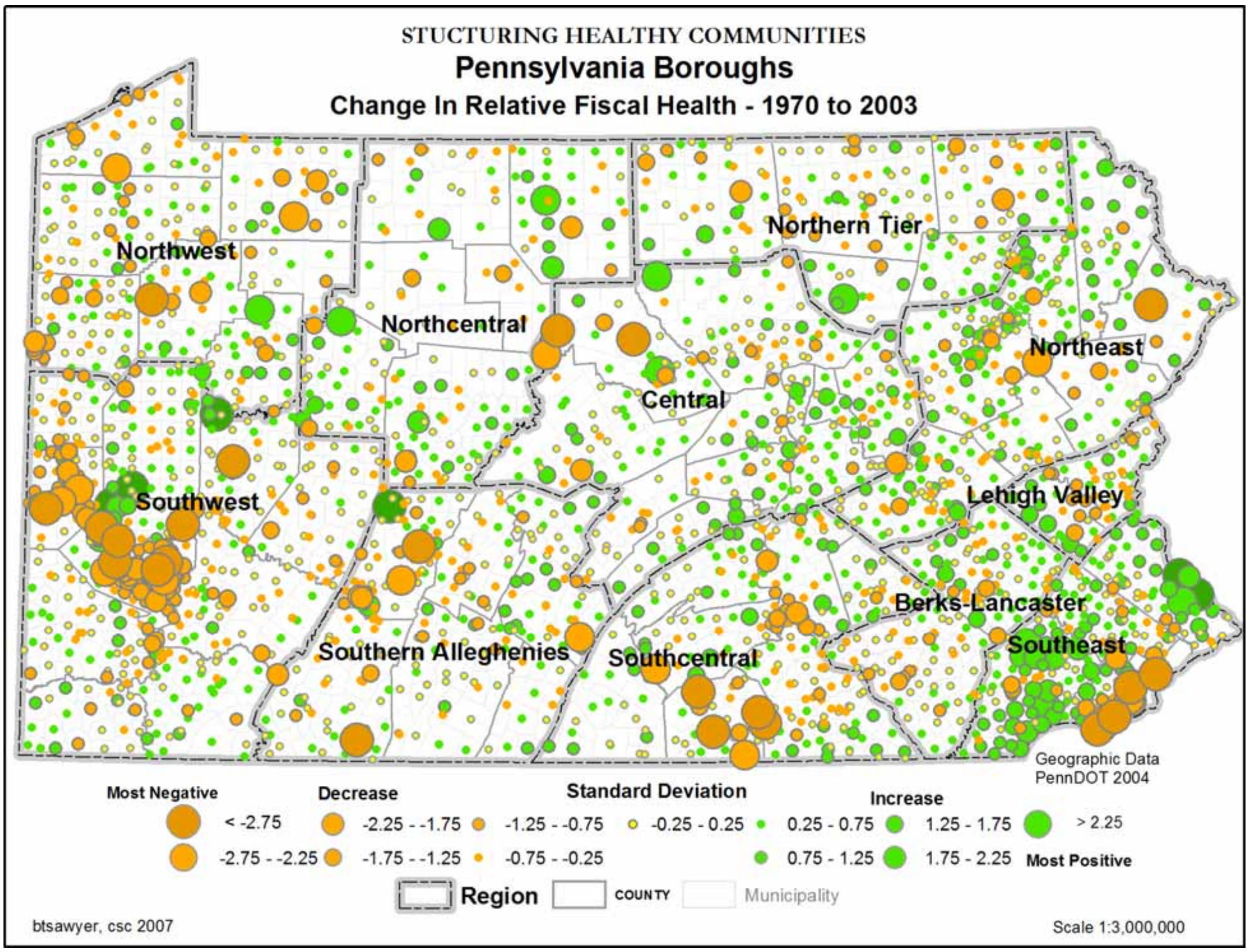
Boroughs

The term “borough” was brought to America from Britain by the early settlers of Pennsylvania. A borough is a self-governing, incorporated town with specific rights specified under its incorporation. There are 961 boroughs in the Commonwealth and, until the latter part of the 1900s, they represented significant population growth in Pennsylvania.

Generally, boroughs are not contiguous. They do, however, tend to cluster within counties or regions, often with an urban or economic anchor. Like cities, boroughs in Pennsylvania widely vary in terms of population, income levels, population density, and types of household.

When fiscal distress is seen in a particular region it tends to include clusters of boroughs, not stand alone communities. However, boroughs whose fiscal pictures improved from 1970 to 2003 generally experienced limited progress and did not cluster in any region of the state. Examples of boroughs that improved in relative status are listed in the following table.

Table 3 – Improving Boroughs: Those Below the State Average in 1970 and Above the State Average in 2003			
County	*Borough*	*County*	*Borough*
Allegheny	Haysville	Mercer	Clark
Beaver	Georgetown Homewood	Montour	Washingtonville
Butler	Fairview West Liberty	Schuylkill	Deer Lake
Cumberland	Newburg	Somerset	New Centerville
Huntingdon	Marklesburg	Sullivan	Eagles Mere
Jefferson	Timblin	Union	Hartleton
Lawrence	Enon Valley	Washington	Long Branch Honker
Luzerne	Hogestown Warrior Run Yatesville	York	Crossroads



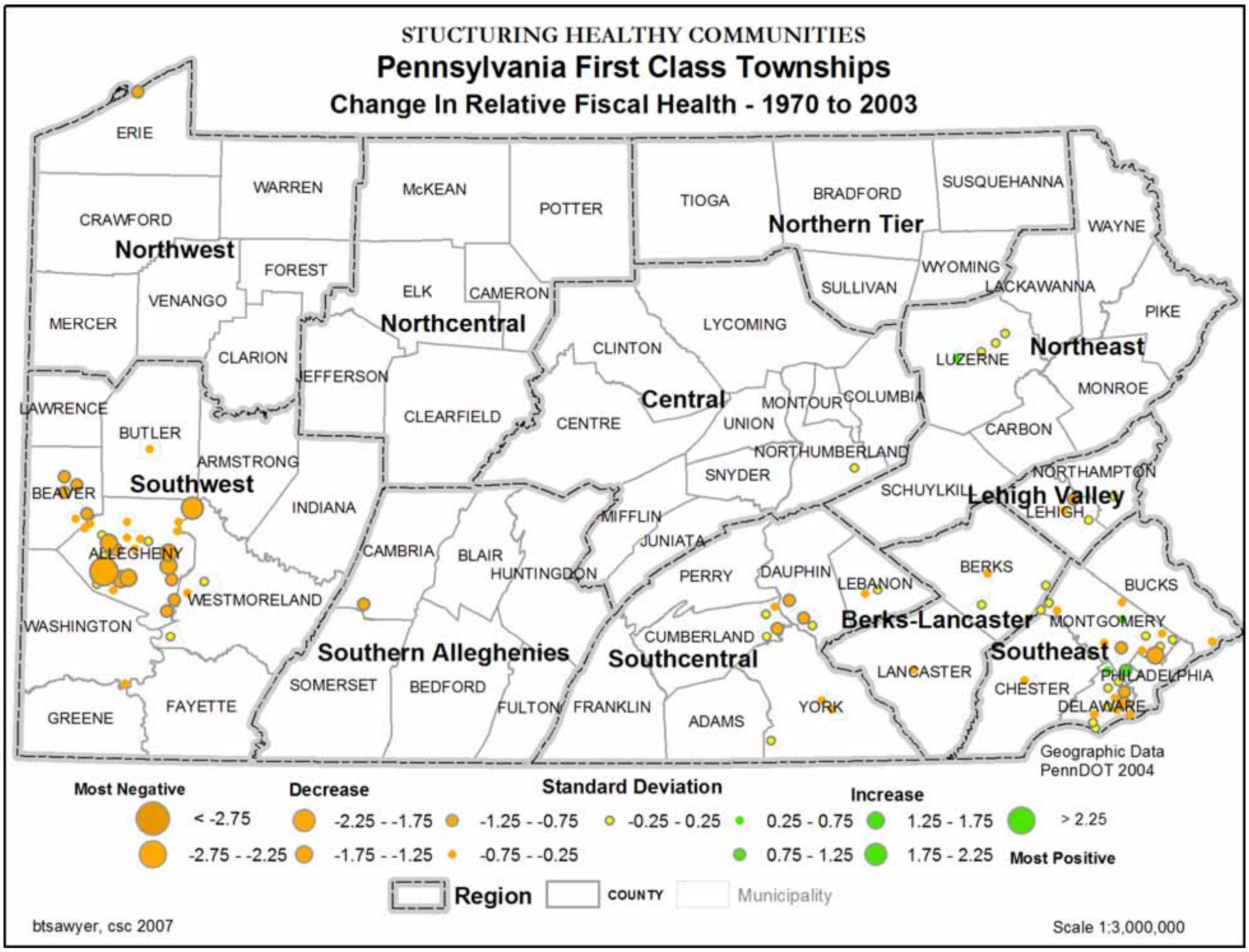
The preceding map shows that significant negative change was observed for 14 clusters of boroughs in as many counties. These communities went from above the state average in 1970 to significantly below the state average in 2003 and were observed in the following counties: Adams, Allegheny, Beaver, Berks, Cambria, Chester, Dauphin, Delaware, Erie, Lawrence, Lehigh, Perry, Somerset, and Westmoreland. Less severe, but still negative, patterns were seen for borough clusters in Bradford, Cumberland, Lancaster, Lycoming, Montgomery, Northampton, Snyder, and York Counties.

The change in fiscal health from 1970 to 2003 is not consistent within counties, meaning that a particular county has subgroups of boroughs that show different levels of relative fiscal health or distress. For instance, a group of counties has an environment where about half of the boroughs are improving and about half are not, but all remain below average in 2003. These counties are Centre, Clearfield, Crawford, Fayette, Greene, Indiana, Mercer, Northumberland, Somerset, Susquehanna, and Tioga.

First Class Townships

Pennsylvania has 91 first class townships. As a group, these townships generally enjoy fiscal health, but there is reason to be concerned. Since 1970, 70 of these 91 townships lost ground against the state average. For the group 57 (63 percent) remain healthy and above the state average for municipal health. However, of those that remained in healthy status in 2003, 41 (46 percent) declined against the state average since 1970.

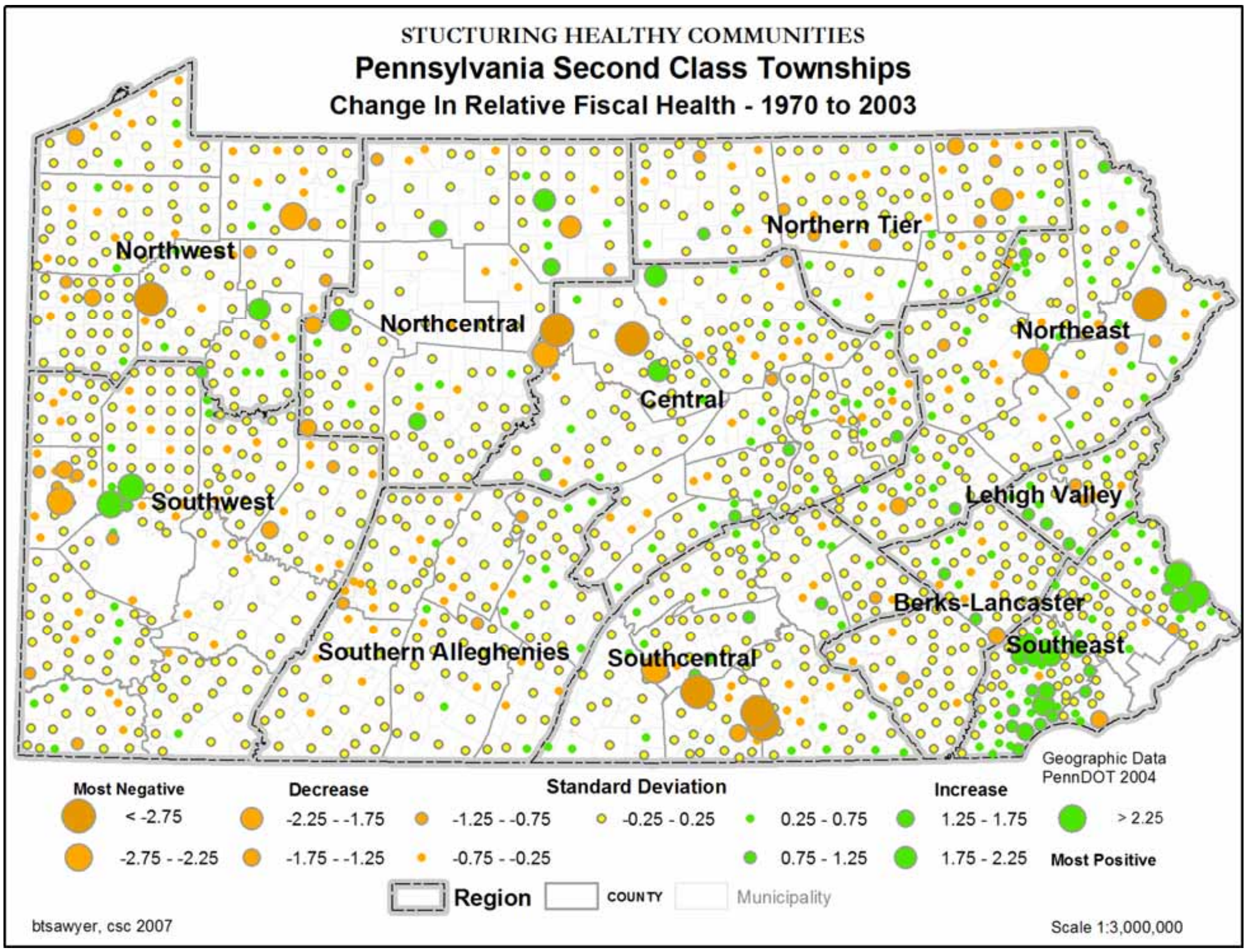
More telling, only one township moved from below average in 1970 to above average in 2003, but 25 moved from above average to below average.



Townships of the Second Class

Townships of the second class, the most numerous (1,456) type of local governments in Pennsylvania, have in recent decades shown the most rapid growth in population and number of households. For many reasons, for the past 30 to 40 years Pennsylvanians chose to move from more urban areas to live in these townships. This migration, sometimes called "urban sprawl" or "suburbanization" reflects the reality of population growth or change during the second part of the twentieth century. This reality changed the economic and social patterns in Pennsylvania forever.

This group, on average, shows relatively good fiscal health with 948 townships (65 percent) above the state average in 2003 for tax effort/capacity. Of these 948 fiscally sound townships, however, 400 (42 percent) have experienced a decline in relative fiscal health since 1970.



Counties

Though counties are not municipalities, there are, nevertheless, interesting comparisons. Counties often exhibit similar geographic and economic characteristics, but there are exceptions. For instance, the following counties have at least two clusters of municipalities where one group is healthy and a second group is experiencing fiscal stress. These include Centre, Clearfield, Crawford, Fayette, Greene, Indiana, Mercer, Northumberland, Somerset, Susquehanna, Tioga, Washington, and Westmoreland Counties. Those counties with the highest number of fiscally healthy communities in 2003 are (ranked highest to lowest): Chester, Bucks, Montgomery, Pike, Lehigh, Wayne, Lancaster, Monroe, Berks, Lebanon.

Public Understanding of Fiscal Distress and Local Governments

Six focus groups were held during 2005 in four parts of the state ranging from rural to the most urban with the intent of gaining varied perspectives on local government. This research focused upon two primary questions. The first was the degree to which the public believes services delivered by the most local of governments are always best. Second, under what conditions and in which areas will citizens give up or modify their current diffused local access and control in favor of consolidated services that are believed to increase efficiencies and effectiveness?

The focus groups were structured to establish context for understanding citizens' reactions to the functional consolidation of some municipal services. First, participants to discussed what they know about their local governments, their attachments to their local governments, their thoughts and feelings about state government, and their support for state government providing some of the services their local governments currently provide.

After the broad discussion about local and state government was complete, specific proposals regarding the consolidation of municipal tax collection and the consolidation of health care and pension benefits for municipal employees were then introduced and discussed. In each section that follows, there is an overview of the major themes that emerged from the discussion, as well as representative comments from the group members. It's important to note that the themes expressed during the focus groups *did not differ* by geography. That is, groups in Allentown, Philadelphia, Pittsburgh, or Williamsport identified similar themes.

The focus group findings fall into these broad categories:

- Representation and responsiveness: citizens' attachment to local government
- Limited knowledge of services and functions: local government is detached from citizens daily lives
- Bigger not necessarily bigger: local government more responsive and reflective of community needs than state
- Consolidation of services, under certain circumstances, would be acceptable to members of the public

Representation and responsiveness

Generally, focus group participants had positive associations with local government. Citizens' attachments to their local governments emerge from their notions of governmental representation and responsiveness. Citizens equate local governments with the local elected officials that run them. The local government is visible, and local government officials are part of the local community.

Citizens often expressed that local officials are "people like us" who are always available. Local governments are a reflection of the people who live there. The sentiment seems to be, "the more local people are involved, the better it is." Importantly, local officials cannot get re-elected if people are angry about their policies or performance. Many supporters of local government are concerned about losing their representation and funds.

Limited knowledge of local government

Despite strong sentiment, citizens generally do not know a great deal about their local governments; nor do they spend much time at all thinking about their local governments. The protective services that local governments provide are most important to citizens. They can identify some other services they offer and understand they pay taxes to support those services, but many are not even sure what local governments do or how they can learn more about what they are doing.

> *"We said before, when you were asking about local government, that these people are all visible to us and I think that there's probably a sense on a lot of people's part that the farther government gets away from the people, the less responsive they are going to be."*

None of the discussions revealed much concern about municipal fiscal distress. The perception was that municipal distress happens in the larger cities, but does not tend to be viewed as vitally important to smaller, local communities. Residents of some of the larger cities such as Allentown and Pittsburgh, tended to understand that their areas had some fiscal difficulties, but those living in the suburbs especially tended to attribute municipal distress to other places.

Bigger not necessarily better

Local governments represent community norms and standards in a way that the state government cannot. Each municipality reflects and nurtures the particular character of the local area in a way the state could not, citizens frequently said. Local government knows what is happening locally, is always nearby, and doesn't make decisions that are simply "by the book" as perhaps more distant officials might.

There is some sentiment that local governments are wasteful and may indeed be expensive to a degree, but further discussion suggested that the waste and expense is smaller in scale than at the state level. All levels of government are wasteful, according to citizens, but the waste increases in scale as the level of government becomes more removed from the local level.

Citizens acknowledged that change in local government has been difficult, incremental and slow, despite numerous efforts. The most common reason that makes change difficult is a strong belief that citizens like things they way they are and don't want to change local government. However, the offered "proof" is usually anecdotal and locality-specific.

Based on the comments of the focus group participants, it appears that citizens cannot envision how the world would work without their local governments. In fact, the groups' discussions suggested that local government is the primary form of government; for example, they believe the state functions to support local governments, not vice versa.

> *"I think what a lot of people that like the local governments are concerned with is that they won't have the same representation, they won't have the same access to funds that they do now. I think maybe they feel that there's better representation having their neighbor sitting on the borough council or someone that they personally know, rather than a congressman that represents 100,000 people. I think they feel it's a more personal government. Not that it isn't duplication."*

State government: distant, unresponsive

Thoughts about state government also reflect citizens' feelings about the nature of representation. Among them: Decisions made in Harrisburg are too far removed from the locality. Proximity is what makes local government better and state government is too distant. If a bad decision is made in Harrisburg, to whom does a citizen complain? State government officials do not provide the same thought and care about local areas in the way that local officials do. State government is also impersonal. It "couldn't care less about you."

The state's role is to serve as a re-distributor of funds, according to citizens. The state serves as a middleman, a bridge or a buffer between the federal and local governments. The state identifies inequities and tries to remedy them. Citizens express concern that the state, in its role as a re-distributor, re-distributes money into "black holes" where problems are never resolved.

> *"I think one of the most important functions of the state government is that they channel federal funds to the local government, which is totally essential. So they may not provide the services themselves, but they provide a conduit for the financing"*

Some support for functional consolidation

Following the broad discussion of local and state government, the focus group discussions moved to specific ideas for reforming local government, including functional consolidation such as tax base sharing, health care and pension administration, and shared police services. There were concerns about certain local governments getting their fair share, but there was general support for the idea of consolidating functions to improve services and save money.

> *"You just want to make sure I'm still saving money at my level instead of them saving money here and it is not reaching back down to us."*

Summary of Findings

As a group, Pennsylvania municipalities are increasingly fiscally distressed.

An analysis of revenues, tax effort and tax capacity reveals systematic patterns of fiscal decline, with some pockets of improving fiscal health, in Pennsylvania's municipalities. No region is left untouched by distress, and fiscal decline impacts all types of municipalities, including townships, cities, and boroughs.

A general analysis reveals the following patterns.

- The southeast, southcentral, and northeastern (near the New Jersey and New York borders) regions of the state generally exhibit fiscal health (though there are exceptions); no other large concentrations of fiscally healthy municipalities are seen in Pennsylvania.
- The southwest and most rural parts of the state, on average, exhibit the highest degree of relative municipal distress.

There is a connection between population density and fiscal distress. The most financially distressed municipalities in Pennsylvania continue to be the most high-density cities, including Philadelphia, Pittsburgh, Lancaster, York, Harrisburg, Scranton, Allentown, Bethlehem, and Erie. Townships and boroughs in close proximity to high density cities experienced greater decline in fiscal health since 1970 relative to their closest neighbors, showing that proximity to decline is relevant. Examples include:

- The very southern parts of Bucks and Montgomery Counties and most of Delaware County surrounding Philadelphia
- Most of Allegheny County surrounding Pittsburgh, including most of Beaver County to the northwest and most of Westmoreland County to the southeast
- Townships immediately circling smaller cities including Lancaster, York, Reading, Allentown/Bethlehem, Easton, Williamsport, Scranton, Wilkes-Barre, Johnstown, Altoona, Franklin, Warren, Hermitage, and Erie
- A number of older boroughs are beginning to mirror their more urban neighbors with surrounding townships sharing relative declines in financial health, including Gettysburg, Hamburg, Tamaqua, and Susquehanna

In central Pennsylvania and for many counties bordering New York State, the most significant fiscal distress in rural areas overlaps municipalities with large amounts of national or state forest lands, especially in Warren, McKean, Cameron, and Clinton Counties and southern Potter County.

Municipalities that experienced relative fiscal declines in fiscal health since 1970 are found in Allegheny, Beaver, Cameron, and Philadelphia Counties. These four counties account for 24 percent of Pennsylvania's households.

In a perfect tax generating world, Pennsylvania residents would live and work in the same municipality, share the same governance and public infrastructure, have population and wealth characteristics similarly distributed across an economic region, share increasing property values and household incomes, and see no major loss or migration of population. Such an environment would also provide the perfect budgeting situation, where demand and resulting costs for services remain relatively stable. This world is not evident at the municipal – or even county – level.

From 1970 to 2003 Pennsylvania's population moved from urban to suburban, but household wealth particularly migrated from the cities, resulting in earned property and incomes moving from urban centers. There was also significant migration from rural areas, increasing stress in rural counties and regions. As a result, an urban center's historic reliance on property taxes became problematic.

In economically depressed areas, or due to poor reassessment practices, revenue from property taxes has not kept pace with inflation – nor with the revenue needs for efficient and effective service delivery. A declining property tax base is made worse when income *and* population are decreasing because of migration from economic cores. Other problems that evolved during this period of time that continue to threaten the current revenue structures of municipalities include the following:

- Earned income tax is paid to the place of residence, not the place of work
- Property taxes are paid to the municipality of residence, but school districts share taxing authority and municipalities are dependent upon assessments set by counties
- A primary source of revenue, the Earned Income Tax, also follows the employee to the residence municipality of the individual
- Taxes that do stay with the municipality where individuals work are often capped at low levels—for instance, the occupational privilege tax at $10 annually

Statewide from 1970 to 2003 the market value of residential property increased by 64 percent *after adjusted for inflation*. But this new wealth was not evenly distributed across Pennsylvania. In 1970 the average household real estate tax paid to the municipality was $97 and the average for non-real estate was $95—roughly equivalent. By 2003 the average municipal real estate tax was $325 and $487 for non-real-estate taxes. Non-real estate tax levies now provide 60 percent of municipal revenues statewide. The highest dependency upon the property tax remains among cities and boroughs.

Municipal non-real estate taxes, as a percent of household income, remained virtually unchanged since 1970 when adjusted for inflation. However, when adjusted for inflation, 2003 property taxes have fallen far behind the levels of 1970—though there are significant differences in the use of the property tax across the state.

A second problem--declining property values—disproportionately hurts cities where, on average, 67 percent of revenue is raised through property taxes. Cities are especially hard when revenues levied through property taxes provide 70 percent to 100 percent of all combined taxes. These cities include: Nanticoke, Carbondale, DuBois, Butler, Lock Haven, Jeanette, Williamsport, Allentown, Connellsville, Corry, New Kensington, Uniontown, Meadville, Lancaster, Aliquippa, Washington, Harrisburg, Erie, Bradford, Monessen, new Castle, Pittsburgh, Monongahela, Oil City, Reading York, Sharon, and Titusville.

Further, property values in Pennsylvania have not kept pace with national statistics. In 2003 the national median value for a residence was $140,000, but that number for Pennsylvania was $107,000 (23 percent below the national level). The same was true in 1970 when Pennsylvania was 20 percent below the national median. Pennsylvania also has lower property values than contiguous states, except Ohio and West Virginia.

Growing use of earned income taxes.

During the migration from urban centers to townships, higher earned income taxes became key to growing municipalities where, on average, household incomes are higher. In addition, annual taxes rise "automatically" with increasing incomes. For the state in 2003, the average real estate tax revenue per municipality was $606,000 and the average non-real estate tax was $910,000. Even removing the effects of the largest cities, average real estate revenues per municipality were $153,000 and average non-real estate taxes were $117,000. A majority of municipalities, then, still rely primarily on the property tax for revenue generation.

Household income growth in Pennsylvania exceeded inflation from 1970 to 2003, growing from $46,608 in inflated adjusted dollars in 1970 to $52,706 in 2003. This represents a 13 percent increase in real dollars, while (again in inflation-adjusted dollars) non-real estate taxes rose from $450 per household in 1970 to $487 in 2003—an eight percent increase. Non-real estate taxes have not kept up with inflation in Pennsylvania.

Revenue caps remain unchanged.

With few exceptions, caps on real estate, per capita, earned income, deed transfer, and business taxes have remained unchanged for decades.

In 2003 non-real estate taxes for cities ranged from 0 percent to 5.39 percent of household income (only six cities that year had rates higher than 1 percent: Chester, Scranton, Warren, Wilkes-Barre, Hermitage, and Philadelphia, with Philadelphia at 5.39 percent). The average for all 56 cities in Pennsylvania is 0.65 percent. Without including Philadelphia, total receipts for real estate taxes for cities was $346,327,105 and the total for non-real estate taxes was $172,013,389.

Making matters worse, tax revenue caps are not tied to demographics or actual municipal expenditures; per capita expenses for services can, and frequently do, *increase* during times of fiscal distress.

Diversity of individual municipalities and the ability to provide services.

Many municipalities with a small number of households are not able to provide needed services. For this reason alone, municipalities need to more frequently partner with neighboring municipalities to provide the broadest array of services to residents—and to provide them more efficiently. This is especially true for municipalities with a high number of summer homes, farmland, and state/federal lands.

Most of the population and wealth shifts described in this study took place within the eleven economic regions presented. Even when the tax effort/capacity of the *region* may stay relatively stable, there are often big winners and losers by municipality. This puts *all* municipalities at risk for future shifts in population or changes in the tax base. It also provides the opportunity to examine and eliminate redundant service infrastructure at all levels of local government, including counties and school districts.

Raising revenue outside of the municipal tax structure.

While it is true that higher tax effort does not guarantee fiscal health, one-time or short-term revenue enhancements do not address the tax effort at all. Examples include loans to pay past deficits, loans against future tax revenues to balance the current budget, overly optimistic economic forecasts that later become unrealized revenue, sale of revenue-generating assets, postponing payment of bills into the next fiscal year, and other accounting “gimmicks” that include paper transfer of real municipal property. Such fiscal policies do not address the real problem of revenue generation or create a long-term solution to fund shortfalls or future service levels. They can also exponentially and negatively affect a municipality’s ability to manage growing deficits or unexpected changes in tax revenues.

General lack of flexibility in current legislation.

This analysis sheds light on a problem that is structural and inherent to the laws that govern Pennsylvania local government. In general, the most formidable threats to revenue generation by municipalities in Pennsylvania are linked to outdated tax laws. Population, demographic and economic changes over the past 40 years resulted in a more spread out population that may work, live, and shop in different municipalities. The tax structures established decades ago have not kept pace with the realities of today’s local governments and regional economies.

There are substantial differences between the types of municipalities in Pennsylvania, but even greater differences within each category. Further, existing differences are growing wider apart, making existing tax laws even more inelastic.

Flexibility in revenue generation must address:

- An ever-evolving municipal environment that includes economic development, program/service requirements, changing state grants, real property valuations, and the need to choose revenue generators from a wide array of possibilities
- Taxpayer discontent over rising taxes, especially the real estate tax
- Impacts on *individual* taxpayers that can be dramatically different when changing the mix or rates of existing local taxes
- Often must share tax levies and procedures with the school district or county
- Taxes can be costly to collect, difficult to administer, and confusing for individuals and businesses who file

Recommendations

Analysis provided by this study documents the current extent of municipal fiscal health in Pennsylvania, profiles the continuing decline of fiscal health, and identifies barriers that keep municipalities from achieving fiscal health. With the ultimate goal of *avoiding* future municipal fiscal distress, the following recommendations pertain to *every* municipality. Some recommendations might be addressed in a short period of time; others are longer-term and will require coordinated efforts among levels of government or among types of municipalities. Each recommendation includes specific actions for individual municipalities, the state legislature, and for the executive branch and its agencies.

This is not a call for municipal consolidation or border change. The record to date shows that very few municipalities have attempted to go through a regional process of consolidation in Pennsylvania, and only a fraction of those that have tried have actually achieved their goal. We see nothing on the political, public opinion, or legal front to indicate that the situation will soon change. Some state and local government observers believe that the relatively large number of local governments in Pennsylvania is itself a root cause of many problems. However, experience has shown that combining local governments in Pennsylvania is a lengthy and often expensive process. Merging long existing municipalities is generally inconsistent with powerful forces like local culture, pride, and "the way things have always been done."

It's clear from the data that a municipality's ability to turn around current decline or to grow out of distress into fiscal health is limited by existing municipal boundaries. Therefore, future legislation should encourage and assist communities to pursue shared services agreements, including shared tax base agreements, to better align resources with the needs of an entire region. Communities are connected, and the fiscal decline of one municipality will have an impact on its neighbors, as the regional and corridor analysis shows. Though it will be difficult in a world of fiscal "winners and losers," future programs should encourage less healthy and healthy communities to work together through incentives.

Legislative discussion should also target regionalization of core services, or functional consolidation of programs that gain economies of scale or that help municipalities maintain current level of services. These might include:

- Regional police forces
- Streamlining of the volunteer fire company structure
- Multi-municipal parks
- Regional land use planning
- Shared tax base and/or revenue sharing
- New criteria for tax exempt property
- Community development by regions or economic corridors
- Economic development by county or by economic corridors
- Regional mass transit
- Extended or merged water and sewer systems
- Consolidation of local tax collections

New or changed legislation should encourage, even provide incentives for, increased regional cooperation. Communities (municipalities, counties, authorities, school districts, etc.) should work together to maximize use of existing resources. Increased taxing flexibility should be tied to *regional* planning and economic development.

Regional planning and sharing of services can help:

- Avoid a deteriorating tax base
- Take advantage of regional and corridor strengths (for instance, joint proposals for non-tax funding and grants)
- Encourage more interaction with school districts and counties
- Encourage better use of services now provided by DCED, especially training
- Form a shared pool of consultants, internal auditors, and other professionals that are beyond the affordability of a single municipality

The following list of general recommendations is then broken down into specific actions for municipalities and state government branches/agencies.

GENERAL RECOMMENDATIONS:

- Allow communities to locally decide how and how much to tax based primarily on the need to provide services
- To the greatest extent possible, expand and enhance existing tax revenue options
- As soon as possible to prevent future fiscal distress, provide a wide menu of revenue (not just taxes) generating tools to communities (not only individual municipalities, but service districts)
- Provide shared expertise for very complex issues
- Keep and enhance current Executive Branch/DCED programs
- Conduct further study

Recommendation #1: Allow municipalities to locally decide how and how much to tax (with minimum restrictions by legislation and maximum input by constituents)

Given additional freedom to determine tax methods and rates, municipalities must document a correlation between services and revenues to ensure taxpayers do not pay more for less.

For Municipalities

- Consider a menu of taxes beyond the current revenue program that best fits your demographics, budget and political realities
- Especially consider moving from a property tax base to a varied tax base if the property tax remains your primary tax generation vehicle
- Document and analyze current effort and capacity among all existing streams of tax revenues
- Have entire communities—business, organizations, non-profits—participate in planning and solution finding
- Consider shared municipal resources and services, including tax collection efforts and tax base sharing
  - Work with peers instead of "neighbors" when that makes fiscal sense (for instance, similar cities or boroughs within a single economic region or corridor)
  - Start functional consolidation efforts with administrative and service needs such as bidding and purchasing, shared administrative staff and costs
  - Consider multiple community contracting for services and materials, collective maintenance efforts and contracts
  - Sharing of professional expertise and consultants
- Analyze and understand regions and corridors that affect your economic standing, market value, and future opportunities for generating revenues

- Commit to regional planning and economic development
    - Consider combining pension systems, health care benefits, and local tax collection efforts
- Make full use of services currently available from DCED and other organizations such as the League of Pennsylvania Cities and Municipalities

For the Executive Branch/DCED

- Make sure legislators, municipal leaders and key stakeholders including members of the press, business community and the general public understand the extent of municipal fiscal distress
- Determine the necessary steps to *avoid* fiscal stress
- Help dispel the myths and assumptions that cause some to believe existing problems do not impact certain communities or regions; emphasize that this is a statewide structural problem
- Share ways to avoid further distress through technical assistance to municipalities and case studies
    - Encourage municipalities to use the Pennsylvania Local Government Training Partnership (a collaborative between DCED and all local government associations), especially in the areas of rightsizing and available funding for these efforts
    - Replace the current Early Intervention Program with a more timely and less threatening process
- Focus limited resources on municipalities with highest level of distress

For the Legislature

- Provide funding for expanded technical assistance centers and training programs at DCED
- Encourage individual communities within each district to use available technical help to its fullest
- Consider appropriated incentives to help communities achieve regional or local functional consolidation

Recommendation #2: To the greatest extent possible, expand and enhance existing revenue generating options

This recommendation goes beyond increasing the types or caps of existing tax options available to municipalities. Fees for service, licensing, and special use revenue generation are some examples of an expanded set of options. Again, revenues from all sources should be directly tied to the ability /need to provide services. New revenue streams should capture growth and economic change.

For Municipalities

- When possible, consider fees for services
- Merge revenue streams from all local sources, including local authorities
- Consider service-based tax revenues for a specific municipal purpose (libraries, street lighting, fire equipment, etc.)

For the Executive Branch/DCED

- Focus special services and direct most attention/resources by state staff to those municipalities that are now in fiscal distress

For the Legislature

Review each of the following and evaluate the based upon the contemporary (or future) economic, demographic, and political environment

- Review existing legislative restrictions in terms of existing demand for local services; consider these specific solutions:
  - Sharing of revenue with existing state or county tax systems (income or sales, for example)
  - Voluntary sharing of a regional tax base by the municipalities
  - Help that assures success of home rule decisions

Recommendation #3: As soon as possible, place a wide menu of necessary revenue generating tools in communities to prevent future fiscal distress

The single most-important outcome of these recommendations is avoiding *future* municipal fiscal distress. Avoiding escalating fiscal health problems will not be possible without a thorough review of existing limitations on municipal governance, the effects of current legislation on tax revenue generation, and identification of possible solutions. Only then will there be a new set of tools that help municipal governments prevent further decline, or to turn the ship for those already experiencing distress.

For Municipalities

- Consider (voluntarily) combining tax revenues by region or across revenue generating entities (municipalities, counties, school districts, authorities, etc.)
- Periodically measure and understand public opinion regarding levels, types and fairness of taxes

For the State Legislature

- At the very least review existing regulations that limit municipalities from raising tax revenues because of:
  - Legislated caps (Act 511)
  - The number and type of taxes available to *all* municipalities
  - An inability to raise revenues regionally or across types of municipalities
- Review the following Acts and update or amend as needed
  - Act 511
  - Act 111
  - Act 205
  - Act 195
- Get rid of ineffective and expensive-to-collect taxes such as per capita and flat occupation tax
- Overhaul the current Act 47 program
  - Address the known problems with the Act 47 program, not the least of which is that its intervention occurs after the fact; the stated goal and program should be *to avoid* the need for Act 47
  - Participation in the Act 47 program is self-initiated by a municipality and is not based on absolute criteria.
    - Place emphasis on early intervention (with a name change)
    - Remove any political stigma from program participation
  - Provide a system where municipalities emerge from Act 47 status in a timely manner; specific goals, timelines and scheduled loss of incentives are needed

Recommendation #4: Provide shared expertise for very complex planning and fiscal issues

For Municipalities

- Help municipal officials find ways to work together toward shared services.
- Have the entire community—businesses, organizations, non-profits—participate in planning and solution finding

For the Executive Branch/DCED

- Increased use of DCED's Consolidated EIT legislation and potential for an additional $100 million plus in lost revenue to be collected

Recommendation #5: Keep and enhance current DCED programs and resources for municipalities

For the Executive Branch/DCED:

- The ability of state agencies to assure early detection and intervention with municipalities beginning to experience fiscal distress would be enhanced by requiring municipalities to meet GAAP standards (similar to those now required for counties). PEL understands that this recommendation is controversial, but it is important to debate the issue and address the quality of audit information.
- Consider a greater role in municipal oversight by DCED
  - Periodic review of audits could be used to encourage participation in existing DCED programs. Results of these audits with review of other financial documents can serve as an early warning system, so that the state can provide technical assistance, training, guidance, and ultimately assist with corrective actions.
  - With oversight comes the responsibility to further expand and enhance technical assistance and training for elected/appointed municipal leaders

Recommendation #6: Conduct further study

For All Government Entities and Constituencies

- Forecasting future distress presents a powerful case for change by quantifying existing fiscal distress in Pennsylvania municipalities, forecasting who might be next, and finding ways to make sure the prediction do not come true. A follow up analysis
- Would build on existing profile of different types of distressed municipalities to identify the root causes of the observed fiscal distress
- Forecast numerous areas of the state that will likely be next in line for some degree of municipal fiscal distress, making it clear why local stakeholders – government officials, business leaders, residents – who believe their local government is healthy – may need to consider change.

Though the state has several programs in place, there is no systematic way to identify characteristics of fiscal distress or to predict future distress. Nor are there trend data to measure health and distress over time or evaluate the effectiveness of interventions. Future research and analysis should address, at least, the following functions and features:

- Regional land use planning
- Regional economic development planning and projects
- Tax base sharing
- Fairness of tax-exempt property
- Standardization of property assessment practices and policies
- Coordination of municipal and school district policy decisions, especially when the two are coterminous

- The effectiveness of the Pennsylvania Separations Act
- The fiscal impacts of Act 111, Act 205, and Act 195 (Arbitration, pensions, and collective bargaining)
- *Analyzing expenditures* is the natural follow up to this analysis of municipal revenues. Part of this analysis is identifying ways to achieve municipal cost reductions that are significant and that can be documented – changes that would not significantly affect day-to-day service levels and would be transparent to most citizens. These include:
    - *Municipal Pension Systems.* Pension obligations are among the biggest fiscal problems faced by hard-pressed municipal governments. Savings through consolidation at the state level would come not only from lower administrative costs due to economies of scale, but also -- to a greater extent -- from 2-3 percent higher returns on investment.
    - *Local Health Care Benefits.* A legislative study suggests that school districts could save $835 million a year by consolidating their purchasing power for health care insurance into one program. If similar savings were applied to municipal governments, another $250 million in reduced costs could result. *Collection of Local Income Taxes.* Informed estimates show that the fragmented, complicated, confusing and inefficient local income tax collection process inflates collection costs by approximately $100 million per year – in addition to what it costs employers to comply with a multitude of withholding requirements.

- Maintain a research database of municipal fiscal health
    - A standardized, statewide database is needed for measuring, then monitoring, the financial health of municipalities. There are several models to bring together into a single source of information: GASB, The International City/County Management Association, and Governmental Finance Officers Association, to name a few.
    - A central database also allows benchmarking against other states, or similar groups of municipalities. It also provides a baseline to study change and determine progress over time.

APPENDIX A

DETAIL OF RESEARCH METHODOLOGY AND SUMMARY OF MUNICIPAL TAX REVENUES IN PENNSYLVANIA

Determining Revenue Effort and Capacity by Local Governments

For this study the Pennsylvania Economy League (PEL) has developed an easy to understand indicator of *relative* municipal fiscal health. The indicator is based upon two factors, Effort and Capacity.

EFFORT (comprised of two sub-factors):

$$\frac{\text{Total Non-Real Estate Resident Tax Revenue}}{\text{Aggregate Household Income}}$$

$$\frac{\text{Total Real Estate Revenue}}{\text{STEB Market Value (Market Based Millage)}}$$

CAPACITY:

$$\frac{\text{5 Percent of the STEB Market Value + Aggregate Household Income}}{\text{Number of Households}}$$

All data needed to compute these formulas were available from existing sources, primarily the U.S. Census Bureau and Pennsylvania State Agencies. Baseline years were set at 1970, 1980, 1990, 2000, and 2003 (the most recent data available). Hence, changes and patterns of municipal fiscal distress are determined from a 33-year database.

Understanding the relative position of each municipality on the effort and capacity indices involves finding their relative position on the normal curve. Conversion to z scores is used for this purpose. A z score indicates how many standard deviations an observation is from the mean of the distribution (in this analysis, the state average). To calculate a z score requires finding the actual financial index for each municipality, then comparing it with the mean and standard deviation of all (2,551) municipal scores available for study. For instance, a z score of 2.00 means that a specific municipality's effort of capacity score is exactly two standard deviations above the state average. Negative z scores identify municipalities below the state average and positive z scores represent values above the state mean.

Municipal values are converted into z scores in the following manner:

$$Z = \frac{X - \bar{X}}{S}$$

where X is the score of the individual municipality and $\bar{X}$ and S are the mean and the standard deviation for the normal distribution of values for all 2,551 municipalities in this study.

Ordering the results of the index based on standard deviation units produces a Bell Curve as depicted in Figure 1. The steepness of the line on the graph shows that, when compared to all municipalities, there is a group that sets itself apart from the rest—at both ends of the curve. The extremes in observed z scores offer an interesting analysis of why municipalities fall into fiscal distress and why others avoid distress.

Interpretation of Research Findings

There are three important points to observe

1. This report defines the fiscal well-being of municipalities in terms of relevant position to one another, *solely within the boundaries of the Commonwealth of Pennsylvania.* In other words, how well each municipality is rated on its effort and capacity to raise basic tax revenues is by comparison with the state average for real estate and non-real estate taxes.
2. The research model is built on tax revenue and each municipality's ability/effort to raise the funds it needs to provide services and meet regulations imposed by the county, state, and federal governments (the number of mandates is growing each year). The analysis does not take into account other important variables such as growing demand for services, social pressures (reputation of the school district, for instance), or non-tax revenues such as fees for service.
3. Direct comparisons with benchmarks outside of Pennsylvania are not attempted. However, comparison with such benchmarks has revealed interesting results that help determine the appropriateness of Pennsylvania averages.

Sources of Tax Revenue for Municipalities

The following table presents the current revenue caps for all allowed methods of raising revenue through taxation. Table 1 is current as of 2003 to be in line with other data in this study. There have been changes since 2003; for instance, the OPT is now the Emergency and Municipal Services Tax (EMST) and can be levied at a rate up to $52 per employee. Notice also that taxes have been added to the list that are specifically designated for services, including libraries, firehouses, fire hydrants, and recreation, to name a few.

Table 1 -State Mandated Tax Limits for Municipalities

	3rd Class City	**Boroughs**	**1st Class Township**	**2nd Class Township**
Real Estate	25 mills	30 Mills	30 Mills	14 Mills
Residence	$5	30 mills	30 mills	14 mills
License	$100	-------	-------	-------
Act 511 Taxes:				
Per Capita	$10	$10	$10	$10
Occupation/Flat	$10	$10	$10	$10
Occupation/Mills	No limit	No limit	No limit	No limit
Occupational Privilege	$10	$10	$10	$10
Earned Income	1 percent	1 percent	1 percent	1 percent
Deed Transfer	1 percent	1 percent	1 percent	1 percent
Mechanical Devices	10 percent	10 percent	10 percent	10 percent
Amusement	10 percent	10 percent	10 percent	10 percent
Business Gross Receipts	1 mill wholesale	1 mill wholesale	1mill wholesale	1mill wholesale
	1 ½ mills retail	1 ½ mill retail	1 ½ mill retail	1 ½ mill retail
	Other-no limit	Other-no limit	Other-no limit	Other-no limit
Special Purpose				
Debt Interest/Sinking Fund	No limit	No limit	No limit	No limit
Recreation	No limit	No limit	No limit	No limit
Pensions and Retirement	--------	½ mill	½ mill	-------
Library	No limit	No limit	No limit	No limit
Shade Trees	1/10 mill	1/10 mill	1/10 mill	-------
Street Lighting	-------	8 mills	-------	5 mills

Special Road Fund	-------	5 mills	-------	-------
Fire Equipment/Firehouses	-------	No limit	3 mills	3 mills
Gas, Water, Electric	-------	8 mills	-------	-------
Firehouse, Lockup, Municipal Building	2 mills	-------	-------	-------
Municipal Building	-------	-------	No limit	½ general rate
Ambulance/Rescue Squads	-------	½ mill	½ mill	½ mill
Permanent Improvement Fund	-------	-------	5 mills	5 mills
Fire and Water District	-------	-------	2 mills	
Bureau of Charity	10 mills	-------	-------	-------
Road Machinery Fund	-------	-------	-------	2 mills
Fire Hydrants-Township	-------	-------	-------	2 mills
Street Lights-Township	-------	-------	-------	5 mills
Police Protection District	-------	-------	-------	No limit
Distressed Pension System	No limit	No limit	No limit	No limit
Financial Recovery Program	No limit	No limit	No limit	No limit

Source: *Taxation Manual*, Center for Local Government Services

In addition to the above, each municipality may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities, where it cannot exceed 1 mill. More detail is available from the Center; for instance, there are examples of taxes that can be raised above these limits when approved by voters in referendum or with court approval. Open space taxes must be approved by voters in referendum.

One way to understand real estate and non-real estate taxes in 2003 is to compare those tax rates with those in 1970. Table 2 compares the index components in real dollars for 1970 and 2003. Notice that the number of households has increased almost 30 percent, while dollar figures have increased much more quickly due to the effects of inflation and increased market values/household incomes. The CPI increased 4.74 between 1970 and 2003.

Table 2 – Statewide Changes in Local Government Tax Revenues in Actual Dollars, 1970 and 2003

	1970 (Actual Dollars)		2003	
	Total	**Total By Number Households**	**Total**	**Total By Number Households**
Households	3,692,191	--	4,761,900	--
Income	$36,323,309,470	$9,838	$251,080,955,955	$52,727
Market Value	$47,720,788,070	$12,925	$477,820,968,400	$100,343
Real Estate Tax	$356,624,189	$97	$1,546,010,620	$325
Non-Real Estate Tax	$350,621,490	$95	$2,320,750,517	$487

Table 3 replicates the information in the previous table but converts 1970 actual dollars into inflation-adjusted dollars. This adjustment allows a more meaningful comparison of values.

Table 3 – Statewide Changes in Local Government Tax Revenues in Inflation-Adjusted Dollars, 1970 and 2003				
	1970 *Inflation-Adjusted* Dollars		2003	
Index Component	**Totals**	**Total By Number of Households**	**Totals**	**Totals By Number of Households**
Households	3,692,191	--	4,761,900	--
Income	$172,172,486,888	$46,608	$251,080,955,955	$52,706
Market Value	$226,196,535,452	$61,231	$477,820,968,400	$100,343
Real Estate Tax	$1,690,398,656	$460	$1,546,010,620	$325
Non-Real Estate Tax	$1,661,945,863	$450	$2,320,750,517	$487

Changes from 1970 to 2003 for each effort/capacity index component are listed in Table 4. Note that the number of households increased at six times the population. STEB adjusted real estate values increased by 64 percent while inflation-adjusted real estate taxes decreased by 29 percent. However, these are statewide averages and regions exist where real estate taxes have increased, or decreased beyond 29 percent. Note that the non-real estate taxes have remained relatively stable over these 33 years.

Table 4 – Summary of Pennsylvania Demographics and Statewide Changes in Local Government Tax Revenues in Inflation-Adjusted Dollars, 1970 and 2003				
Index Component	**1970 (Dollars are Inflation Adjusted)**	**2003**	**Actual Difference**	**Percent Difference**
Population	11,800,766	12,365,455	564,689	5%
Households	3,692,191	4,761,900	1,067,739	29%
Income	$46,632	$52,706	$6,074	13%
Market Value	$61,263	$100,343	$39,080	64%
Real Estate Tax	$458	$325	($133)	(-29%)
Non-Real Estate Tax	$450	$487	$37	8%

APPENDIX B

DETAIL OF DEMOGRAPHIC INFORMATION

As previously explained, the fiscal health of individual municipalities is measured in terms of distance from the state mean and standard deviation. Hence, comparisons are meaningful only within the state. However, comparing Pennsylvania parameters with the national average and the parameters of contiguous states shows that for measures related to number of households and household income the Pennsylvania and national parameters are similar. Note in Table 1 that median household income was one percent above the national average in 1970 and is now a negative one percent lower in 2004. The state's household income approximates the national average suggesting that comparisons between Pennsylvania and the nation as a whole are meaningful. Less meaningful is direct comparison with contiguous states.

Table 1 - Median Household Income
US, Pennsylvania, and Contiguous States, 1970 to 2003

1970 Median Income								
	US	**PA**	**NY**	**NJ**	**MD**	**DE**	**WV**	**OH**
	$8,486	$8,548	$9,268	$10,371	$10,101	$9,309	$6,487	9,279
$ Diff		$62	$782	$1,885	$1,615	$823	($1,999)	$793
%Diff		1%	9%	22%	19%	10%	(24%)	9%
2000 Median Income								
	$41,994	$40,106	$43,393	$55,146	$52,868	$47,381	$29,696	$40,956
$ Diff		($1,888)	$1,339	$13,152	$10,874	$5,387	($12,298)	($1,038)
%Diff		(4%)	3%	31%	26%	13%	(29%)	(2%)
2004 Median Income								
	$44,334	$43,714	$45,343	$57,338	$57,019	$49,545	$33,993	$43,371
$ Diff		($620)	$1,009	$13,004	$12,685	$5,211	($10,341)	($963)
%Diff		(1%)	2%	29%	29%	12%	(23%)	(2%)

Source: US Bureau of the Census

Again, notice that municipalities in the southwest part of the state are bordered by more financially distressed neighbors both in and bordering Pennsylvania. Municipalities near the New Jersey, Maryland, and Delaware borders have substantially higher non-real estate tax revenue potential when out-of-state workers live in those municipalities.

Table 2 shows that taxing capacity based upon real estate values is more challenging for Pennsylvania than for most border states and for the nation. Further, the Pennsylvania median is moving further from the national median and the market values in contiguous states except for West Virginia.

Table 2 - Owner Occupied Housing Unit Median Values
US. Pennsylvania, and Contiguous States, 1970 to 2003

1970 Median Value – Owner Occupied Housing								
	US	**PA**	**NY**	**NJ**	**MD**	**DE**	**WV**	**OH**
	$17,000	$13,600	$22,500	$23,400	$18,700	$17,000	$11,300	$17,600
$ Diff		($3,400)	$5,500	$6,400	$1,700	$0	($5,700)	$600
%Diff		(20%)	32%	38%	10%	-	(34%)	4%
2003 Median Value – Owner Occupied Housing								
	$139,759	$106,966	$196,085	$240,145	$180,942	$155,527	$78,201	$116,375
$ Diff		($32,793)	$56,326	$100,386	$41,183	$15,768	($61,558)	($23,384)
%Diff		(23%)	40%	72%	29%	11%	(44%)	(17%)

Source: US Bureau of the Census

As shown in Table 3, housing values are much higher in New York, New Jersey, Maryland, and Delaware. Differences are increasing at the highest rate between Pennsylvania and New Jersey or Maryland.

NOTE: The above information was taken from The American Community Survey data and is based on responses from a sample of households across the nation. The estimates and rankings may vary from the actual values because of sampling or nonsampling variations. The statistical statements have undergone testing, and comparisons are significant at the 90-percent confidence level. Additional information and data profiles for the nation, states, counties and places may be accessed at <http://www.census.gov/acs> or <http://factfinder.census.gov>.

The home value is the respondent's estimate of how much the property (house and lot, mobile home and lot or apartment) would sell for if it were for sale. Estimates of median home value are based on all owner-occupied units. This is different from the property value data that is regularly published by the ACS. Standard ACS data products provide median value data only for "specified owner-occupied units," which excludes mobile homes, houses with a business or medical office, houses on 10 or more acres and housing units in multiunit buildings.

A comparison between Table 3 and Table 4 reveals how municipality tax levies have changed during the last 33 years. In 1970 (table that follows), non-real estate taxes equaled 0.97 percent of annual household income. That percent decreased slightly by 2003 when municipal non-real estate taxes equaled 0.92 percent of annual household income.

Table 3 - Municipal Averages for Effort and Capacity Variables, 2003 Data

Parameter	Number Households	Household Income	Market Value	Real Estate Tax Revenue	Non-Real Estate Tax Revenue
Mean	1,867	$98,424,522	$187,000,000	$606,041	$909,742
Median	726	$32,599,300	$57,686,800	$152,540	$117,301
Sum	4,761,900	$251,080,955,955	$477,820,968,400	$1,546,010,620	$2,320,750,517

However, real estate tax revenue has dropped precipitously when compared with the rise in market value. In 1970 households paid an average 0.75 percent annually of real estate market value in real estate taxes. By 2003 that figure had dropped to 0.32 percent of market value (both averages are statewide).

Table 4 – Municipal Averages for Effort and Capacity Variables, 1970 Data

Parameter	Number Households	Household Income	Market Value	Real Estate Tax Revenue	Non-Real Estate Tax Revenue
Mean	1,447	$14,238,850	$18,706,698	$139,798	$137,444
Median	455	$3,914,400	$4,874,000	$12,247	$11,563
Sum	3,692,191	$36,323,309,470	$477,720,788,070	$356,624,189	$350,621,490

Also notice when comparing Table 3 with Table 4 that market values across the Commonwealth between 1970 and 2003 increased by 902 percent ($47.7 billion to $477.8 billion), while real estate tax *revenue* increased by 321 percent ($357 million to $1.5 billion). During the same period of time household income statewide increased by 591 percent ($36.3 billion to $251.1 billion), while non-real estate revenues increased 557 percent ($350.6 million to $2.3 billion).

Households are used as the basic unit of analysis in this study because real estate taxes are levied by household. In comparison, income taxes are levied against each individual's income. Table 5 presents the total number and average number of households by type of municipality. Notice that there are more households in 2003 in second class townships than any other type of community. Without Philadelphia, the number of households in cities and in boroughs is relatively similar.

Municipalities also differ by fiscal demographics (Table 5). Even including Philadelphia with other cities, townships of the second class have a higher, and by far higher, total household income than any other group. Further, total market value of real estate for townships of the second class equals the total amount for boroughs, cities and first class townships. Total real estate tax revenue is similar for boroughs and townships. Non-real estate taxes are the main source of tax revenue for the townships of the second class, a marked diversion from the other groups.

Table 5 – Fiscal Data by Type of Municipality, 2003

	Total Household Income	Total Market Value	Total Real Estate Tax Revenue	Total Non-Real Estate Tax Revenue
Boroughs	$48,377,489,300	$77,461,649,200	$296,436,402	$218,837,918
Cities	$49,206,448,700	$70,573,195,700	$709,740,470	$1,493,871,353
Cities without Philadelphia	$24,694,657,200	$35,189,262,300	$346,327,105	$172,013,389
First Class Townships	$39,216,901,500	$76,730,560,500	$243,915,561	$133,330,917
Second Class Townships	$114,157,084,500	$253,037,039,500	$295,814,190	$474,639,046

Table 6 reinforces the differences in tax approaches by type of municipality. Cities and boroughs remain primarily dependent upon real estate taxes, while townships of the second class are primarily dependent upon taxes levied on household income.

Table 6 – Real Estate and Non-Real Estate Tax Totals by Type of Municipality, 2003

	Total Tax	Total Real Estate Tax Revenue	Percent Total	Total Non-Real Estate Tax Revenue	Percent Total
Cities*	$518,340,494	$346,327,105	67	$172,013,389	33
Philadelphia	$1,685,271,329	$363,413,365	22	$1,321,857,964	78
Boroughs	$515,274,320	$296,436,401	58	$218,837,918	42
1st Class Townships	$377,246,478	$249,915,561	65	133,330,917	35
2nd Class	$770,628,516	$295,918,187	38	$474,710,329	62

*Not including Philadelphia

APPENDIX C

DETAIL OF MUNICIPALITY INFORMATION

Review of Municipalities in Pennsylvania

Included in this study are 2,551 municipalities with complete data from 1970 to 2003 of a possible 2,565 municipalities currently in Pennsylvania. Counties and school districts are not included.

Table 1 – Number of Municipalities by Category Included in This Study	
Number of Cities	56 of 56
Boroughs	949 of 961
1st Class Townships	91 of 91
2nd Class Townships	1,455 of 1,456
Total Municipalities	2,551 of 2,564

Note: There is one town in Pennsylvania, bringing the total to 2,565.

Table 2 – Number of Households by Category of Municipality

Municipal Category	Minimum Number	Maximum Number	Average Number	Median	Total Number
City	309	590,071	22,101	5,436	1,237,720
Borough	10	13,362	1,101	571	1,044,913
Township 1st	151	32,551	6,369	5,057	579,544
Township 2nd	13	22,627	1,306	726	1,899,723

Correction Coefficients (Statewide) for Type of Municipality with

Number of Households	-0.07	
Total Income:	-0.05	
STEB Value	-0.02	
Real Estate Revenue	-0.08	
Non-Real Estate Revenue	-0.05	(N = 2,551)

Note from Table 2 that there is often more variance within categories of municipalities than between categories.

The most useful measure of municipal size and characteristics is number of households. This better describes the tax base and provides a comparable standard across tax base analyses. Also, number of households correlates highly with our study variables; correlation coefficients (statewide) for number of households and tax base variables are extremely high.

Correlation Coefficients (Statewide) for Number of Households with

Income	0.99	
STEB Value	0.96	
Real Estate Revenue	0.99	
Non-Real Estate Revenue	0.96	(N = 2,551)

Table 3 shows the relative differences between types of municipalities and components of the major tax indices used in this report. A meaningful comparison can be made among boroughs and townships, but the variance among cities and the exceptionally high non-real estate taxes levied by Philadelphia make the city revenue indices meaningless. Hence, the City of Philadelphia is not included in the city analysis in Table 3.

Table 3 – Major Tax Indices by Number of Households, 2003				
Type of Revenue	**Cities***	**Boroughs**	**Township 1st**	**Township 2nd**
Income	$38,130	$46,298	$67,669	$60,112
STEB (Capacity)	$54,334	$74,132	$132,398	$133,242
Real Estate Revenue	$535	$283	$421	$156
Non-Real Estate Revenue	$266	$209	$230	$250
Total Revenue	$801	$492	$651	$406

*Does not include the City of Philadelphia.

The eleven economic regions used in this study, with some variation, were developed by IBM consulting for Team Pennsylvania. After analysis, the fiscal conditions of municipalities followed these economic regions.

Table 4 – Geographic Regions for the Structuring Communities Study		
Regions	**Number Counties**	**Counties**
Southwest	10	Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington, Westmoreland
Northwest	7	Clarion, Crawford, Erie, Forest, Mercer, Venango, Warren
Northcentral	6	Cameron, Clearfield, Elk, Jefferson, McKean, Potter
Northern Tier	5	Bradford, Sullivan, Susquehanna, Tioga, Sullivan
Central	10	Centre, Clinton, Columbia, Juniata, Lycoming, Mifflin, Montour, Northumberland, Snyder, Union
Northeast	7	Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill, Wayne
Lehigh Valley	2	Lehigh, Northampton
Southeast	5	Bucks, Chester, Delaware, Montgomery, Philadelphia
Berks/Lancaster	2	Berks, Lancaster
Southcentral	7	Adams, Cumberland, Dauphin, Franklin, Lebanon, Perry, York
Southern Alleghenies	6	Blair, Bedford, Cambria, Fulton, Huntingdon, Somerset

There are 66 municipalities in distress beyond 3 negative standard deviations and they can be found in every region of the Commonwealth except one—the Lehigh Valley. Table 5 presents these most-distressed municipalities by Region.

Table 5 – Number of Highest Distressed Municipalities by Region (More Than Three Standard Deviations Below the State Average)			
Region	**Number**	**Region**	**Number**
Southwest	27	Berks/Lancaster	2
Southeast	6	Northcentral	7
Northern Tier	2	Southcentral	2
Northeast	6	Central	3
Northwest	9	Southern Alleghenies	2

All but two municipalities in this most distressed group are cities and boroughs; the remaining two are rural Townships of the second class. A partial list is presented in Table 6.

Table 6 – Type of Municipality in the Most-Distressed Category		
Category	**Number**	**Examples**
City	29	Philadelphia, Chester, Johnstown, Wilkes-Barre, Duquesne, Pittsburgh, York, Scranton, Reading, Harrisburg, Washington, Erie and Bradford
Borough	35	Kittanning, Brownsville, Wilkensburg, Greenville, Ashland, Charleroi, Homestead, Braddock
Second Class Township	2	Penn (Clearfield County) and Washington (Clarion County)

The shared demographic characteristics of financially distressed municipalities often mirror the opposite shared characteristics of financially healthy ones. Consider the following (Table 7) when comparing the most distressed 10 percent (about 254 municipalities) with the least distressed 10 percent of Pennsylvania municipalities:

Table 7 – Comparison of Distress Characteristics		
Characteristic	**Most Distressed Municipalities**	**Least Distressed Municipalities**
Above Average Household Income	4 of 254	245 of 254
Above Average Number with BA	26/254	207 of 254
Above Average Number in Poverty	202 of 254	9 of 254
Above Average in Over 65-Year-Olds	192 of 254	75 of 254
Above Average for Population Density	225 of 254	96 of 254

To follow up on these differences between fiscally healthy and distressed communities, four counties with very different demographics (see Table 8) were tested to see which tax levy correlates most highly with number of households. The outcome: household income. For these four counties (Allegheny, Montgomery, Schuylkill, and York), fully 96 percent of total amount of household income is related directly to number of households.

However, the STEB market value does not match as closely. For Allegheny County, 96 percent of real estate revenue can be explained by number of households, the exact same as household income. For Montgomery County, only 74 percent of the STEB is related to number of households, and the same number holds for York County. In Schuylkill County, only 61 percent of the STEB is explained by number of households. Non-real estate taxes and real estate taxes are equally related to number of households in Allegheny, Schuylkill, and York Counties (about 90 percent). But in Montgomery County only 13 percent of non-real estate taxes are related to number of households.

Again using these four counties as an example of differences among regions in Pennsylvania, tax efforts built upon non-real estate levies are positively related to number of households in Allegheny and York Counties, but at very different rates—fourteen percent and one percent, respectively. That means as the number of households increases Allegheny County receives only some relief while York County sees no benefit in non-real estate levies. As the number of households increases in Montgomery and Schuylkill Counties the non-real estate effort decreases. Further, as the number of households increases in Allegheny County the percent of real estate tax effort increases by one percent. For Montgomery County effort is increased by 5 percent, an increase of 15 percent is seen for Schuylkill County and 29 percent for York County. Hence, it is 30 times more likely that York County under its present real estate tax levies will gain tax revenue than will Allegheny County when the number of households increases.

Table 8 – Number of Households Correlated with Study Variables				
Study Variable	**Allegheny County**	**Montgomery County**	**Schuylkill County**	**York County**
Income	0.98	0.99	0.97	0.95
STEB	0.97	0.86	0.78	0.87
Real Estate Revenue	0.98	0.90	0.90	0.77
Non-Real Estate Revenue	0.99	0.36	0.96	0.91
Effort 1	0.37	-0.22	-0.07	0.09
Effort 2	0.11	0.22	0.38	0.54
Capacity	-0.06	0.37	-0.07	0.07

Table 9 compares the changes in z scores from 1970 to 2003 by type of municipality. Note how a line drawn through the median values would start at (1-2) standard deviations for the cities and rise to about 0.05 standard deviations for townships of the second class.

Table 9 – 1970 and 2003 Z Scores by Type of Municipality								
StdDev Units	**Cities**		**Boroughs**		**1st Class Townships**		**2nd Class Townships**	
	1970	**2003**	**1970**	**2003**	**1970**	**2003**	**1970**	**2003**
4+	0	0	10	10	1	2	10	21
3-3.99	0	0	3	3	5	4	15	25
2-2.99	0	0	9	10	11	5	37	37
1-1.99	0	0	46	29	22	14	122	160
0-0.99	2	4	228	151	42	32	527	707
(0-0.99)	24	16	510	456	6	23	692	492
(1-1.99)	29	23	136	248	4	11	48	12
(2-2.99)	1	9	5	31	0	0	3	1
(3-3.99)	0	1	0	5	0	0	1	0
(4+)	0	3	2	6	0	0	0	0

Table 10 adds detail for Pennsylvania's cities. Notice that those cities (50) that had declining scores had a median decline of –1.34 (right-most column). However, for the four cities that improved their standing (though remain distressed), the median increase was only +0.47.

Table 10 - Changes In z Scores for Cities, 1970 to 2003									
Change 1970-2003	Total in Category	Number Improved	Number Declined	1970 Median		2003 Median		Median of Change Scores	
				Up	Down	Up	Down	Up	Down
Negative to Negative	54	4	50	-1.37	-1.01	-0.91	-2.55	+0.47	-1.34
Positive to Negative	2	0	2	--	0.59	--	-0.51	--	-1.10
Positive to Positive	0	0	0	--	--	--	--	--	--
Negative to Positive	0	0	0	--	--	--	--	--	--

Boroughs followed the same patterns of change since 1970, as did cities (Table 11). Those boroughs that remained distressed but improved their change score had a median move of only +0.29; those that fell into more distress did so by half a standard deviation. Boroughs that stayed above the state average in 1970 and 2003 split almost evenly on their progress: 68 improved their relative position and 67 lost ground. While 135 boroughs went from above the state average in 1970 to below in 2003, only 65 went from negative to positive.

Table 11 - Changes In Z Scores for Boroughs, 1970 to 2003									
Change 1970-2003	Total in Category	Number Improved	Number Declined	1970 Median		2003 Median		Median of Change Scores	
				Up	Down	Up	Down	Up	Down
Negative to Negative	595	181	414	-0.96	-0.50	-0.51	-1.08	+0.29	-0.50
Positive to Negative	154	0	154	--	0.32	---	0.39	--	-0.88
Positive to Positive	135	68	67	0.49	0.80	0.98	0.32	0.35	-0.46
Negative to Positive	65	65	0	-0.40	--	0.22	--	0.75	--

First class townships also experienced an average decline in fiscal health since 1970, with 25 falling from above average then to below average in 2003. Nine townships remained below average in 1970 and 2003. Of the 56 that remained in above the state average, 41 declined in relative position.

Table 12 - Changes In Z Scores for First Class Townships, 1970 to 2003									
Change 1970-2003	Total in Category	Number Improved	Number Declined	1970 Median		2003 Median		Median of Change Scores	
				Up	Down	Up	Down	Up	Down
Negative to Negative	9	5	4	-1.11	-0.58	-0.67	-1.27	0.40	-0.82
Positive to Negative	25	0	25	--	0.42	--	-0.61	--	-1.23
Positive to Positive	56	15	41	1.64	1.24	1.66	0.71	0.15	-0.50
Negative to Positive	1	1	0	-0.10	--	0.21	--	0.31	--

Of all the communities in Pennsylvania the second class townships, as a group, enjoy the healthiest tax revenues. However, even in this group (Table 13) 506 healthy townships declined by moving closer to the state average (a decrease in *relative* fiscal health), and another 123 municipalities below the state average moved further below the state average. In general, when townships of the second class improve their relative standing they do so by a significant positive change. Negative changes are smaller.

Table 13 - Changes In z scores for Second Class Townships, 1970 to 2003									
Change 1970-2003	Total in Category	Number Improved	Number Declined	1970 Median		2003 Median		Median of Change Scores	
				Up	Down	Up	Down	Up	Down
Negative to Negative	401	278	123	-0.24	-0.64	-0.49	-0.24	-0.18	0.33
Positive to Negative	108	0	108	--	0.27	--	-0.19	--	-0.59
Positive to Positive	600	202	398	0.44	0.81	1.03	0.44	0.47	-0.28
Negative to Positive	346	346	0	-0.33	--	0.28	--	0.70	--

Table 14 presents the statewide summary of the most distressed municipalities in 2003 by z score range and by type of municipality.

Table 14 – Distressed Municipalities by Demographics, 2003 (Includes Only Municipalities with Z Scores Less Than –2.00)						
z score	Total Households	Number Municipalities	Number Cities	Number Boroughs	Number 1st Class	Number 2nd Class
-4.00+	622,997	10	4	6	0	0
-3.00 to –3.99	100,312	13	8	5	0	0
-2.00 to –2.99	385,571	54	21	32	0	1
Table Total	1,603,413	364	49	291	11	13
State Total	4,761,900	2,551	56	949	91	1,455
Percent Total	34%	14%	88%	31%	13%	1%

Counties also share regional characteristics as shown in Table 15. Instances where the tax index for the entire county changed by at least a quarter standard deviation unit are listed in the following table. Moving an entire county a quarter standard deviation is a significant change. Counties are listed with their economic region.

Table 15 – 1970 – 2003 Changes in z scores by County		
	County	Economic Region
Change Scores above 0.25 standard deviations above the mean	Berks Bucks Centre Chester Clarion Clearfield Columbia Fayette Franklin Huntingdon Jefferson Juniata Lackawanna Montour Northumberland Perry Potter Snyder Sullivan Union Wayne Wyoming	Berks/Lancaster Southeast Central Southeast Northwest Northcentral Central Southwest Southcentral Southern Allegheniesbr Northcentral Central Northeast Central Central Southcentral Northcentral Central Northern Tier Central Northeast Northern Tier
Change Scores below 0.25 standard deviations above the mean	Allegheny Beaver Cambria Cameron Delaware Philadelphia	Southwest Southwest Southern Allegheniesbr Northcentral Southeast Southeast

The Act 47 program is discussed at some length in this research paper. Table 16 presents a listing of those municipalities currently in the program, and lists the five municipalities that have left the program. Two municipalities have been in the program since its inception 20 years ago, with three more almost matching that record.

That the most fiscally stressed municipalities are opting for this program, though few in number, is validated by the fact that 13 of 17 municipalities (76 percent) have a z score less than negative 2.00.

The importance of the program is also reinforced by the high number—227,616—of households that make up these 17 communities.

Table 16 - Rankings of Act 47 Municipalities

Municipality with Distress Determination	Year of Determination	2003 Z Score	2003 Households
City of Farrell, Mercer County	1987	-2.73	2,504
City of Aliquippa, Beaver County	1987	-2.60	5,124
City of Clairton, Allegheny County	1988	-3.26	3,710
Borough of Braddock, Allegheny County	1988	-2.97	1,161
Borough of Franklin, Cambria County	1988	-1.64	204
Borough of Rankin, Allegheny County	1989	-6.39	1,002
City of Duquesne, Allegheny County	1991	-3.99	3,179
City of Scranton, Lackawanna County	1992	-3.41	31,303
City of Johnstown, Cambria County	1992	-4.33	11,134
Borough of Millbourne, Delaware County	1993	-3.92	366
Borough of Homestead, Allegheny County	1993	-2.65	1,607
City of Chester, Delaware County	1995	-5.85	12,814
Borough of Greenville, Mercer County	2002	-2.64	2,464
Borough of West Hazleton, Luzerne County	2003	-0.83	1,634
City of Pittsburgh, Allegheny County	2003	-2.96	143,739
Township of Plymouth, Luzerne County	2004	-0.36	821
City of Nanticoke, Luzerne County	2006	-0.86	4,850
Determination Rescissions	Year	2003 Z Score	
Borough of Shenandoah, Schuylkill County	1993	-2.34	
Borough of Ambridge, Beaver County	1993	-3.14	
Borough of Wilkinsburg Allegheny County	1998	-2.48	
Borough of East Pittsburgh, Allegheny County	1999	-2.44	
Borough of North Braddock, Allegheny County	2003	-2.18	

APPENDIX D

Public Opinion: Focus Group Results on Local and State Government and Potential Functional Consolidation Among Municipalities

This section summarizes the major themes that emerged from a series of six focus groups conducted throughout the state by Franklin and Marshall's Center for Opinion Research on behalf of The Pennsylvania Economy League. PEL sought to understand public opinion on two primary questions. First, to what degree does the public believe that service delivered by the most local of governments is always best? Second, under what conditions and in which areas will citizens give up or modify their current diffused local access and control in favor of consolidated services that increase efficiencies and effectiveness?

The focus groups were structured to establish context for understanding citizens' reactions to the functional consolidation of some municipal services. First, the facilitators encouraged participants to discuss what they know about their local governments, their attachments to their local governments, their thoughts and feelings about state government, and their support for state government providing some of the services their local governments currently provide.

After the broad discussion about local and state government was complete, specific proposals regarding the consolidation of municipal tax collection and the consolidation of health care and pension benefits for municipal employees were then introduced and discussed. In each section that follows, there is an overview of the major themes that emerged from the discussion, as well as representative comments from the group members. It's important to note that the themes expressed during the focus groups *did not differ* by geography. That is, groups in Allentown, Philadelphia, Pittsburgh, or Williamsport identified similar themes.

The focus group findings fall into these broad categories:

- Representation and responsiveness: citizens' attachment to local government
- Limited knowledge of services and functions: local government is detached from citizens daily lives
- Bigger not necessarily bigger: local government more responsive and reflective of community needs than state
- Consolidation of services, under certain circumstances, would be acceptable to members of the public

Representation and responsiveness

Generally, focus group participants had positive associations with local government. Citizens' attachments to their local governments emerge from their notions of governmental representation and responsiveness. Citizens equate local governments with the local elected officials that run them. The local government is visible, and local government officials are part of the local community.

Citizens often expressed that local officials are "people like us" who are always available. Local governments are a reflection of the people who live there. The sentiment seems to be, "the more local people are involved, the better it is." Importantly, local officials cannot get re-elected if people are angry about their policies or performance. Many supporters of local government are concerned about losing their representation and funds.

"I think what a lot of people that like the local governments are concerned with is that they won't have the same representation, they won't have the same access to funds that they do now. I think maybe they feel that there's better representation having their neighbor sitting on the borough council or someone that they personally know, rather than a congressman that represents 100,000 people. I think they feel it's a more personal government. Not that it isn't duplication."

Representative Comments

> *If you want anything done you have to go to somebody whose job relies on your votes.*
>
> *So the only way to get anything done is to go to somebody who gets their job from voting because they're the only ones who are scared.*
>
> *The only thing I ever get to do when I want to voice an opinion or make a complaint or even make a suggestion is to go to the town meetings. And I can do that.*
>
> *Well I guess if enough people are complaining or asking for something, I guess it would make a difference. I mean, I think things happen, nice things. Some things didn't happen but I got to put my two cents in.*
>
> *Without local government, it's anarchy.*
>
> *Without local government the community couldn't continue.*
>
> *I don't know if the state would be the right choice for that, because the people in power now that make the decisions are the people that live in this community, so if you have people that aren't from this community or in it, making the decisions, it's not going to be what the people of that community want.*
>
> *Well, government was set up by our founding fathers for that reason. The whole reason like the taxation, the representation, the basic foundry of government is that you need people on the local level because that's where you live.*
>
> *I think their services are more than adequate and they're very timely, and I don't think you can ask for much more. I mean, taxes are expensive here, but they do at least take care of you.*
>
> *Because I don't see anything they do as being great and I don't see anything they do as being really bad. It's just they do what they have to do.*
>
> *I think there are very talented people that are part of our supervisors…I think they're useful, they are willing to address problems that are called to their attention. I think they're progressive. I think they're forward-looking, they don't wait until something happens. I think they take an active role in that area.*
>
> *They're people like us, they could be any one of us here in the room. And I think that's the way that they function. They've always been available when I needed to talk with them about anything, and I'm just impressed with them.*

As you indicated, we have a local commissioner, which is a good approach. Each locality in Haverford Township has a commissioner for a ward. You have an issue, you can call them for most things, and they help you, they advise you. You can call into the township for permits and different things like that…I had a garage built last year, and it was a fairly easy process to get the permit, as far as drawing the diagram and…they were not a pain with coming to the site and getting in the way.

They're there, hands-on, for local. In Conshohocken, they're always there. I've called many times, and someone always gets back to you.

Whenever I've had a question, issue, or concern, as I've said, having the local representative commissioner to go to, or the accessibility of the township manager…you can pick up the phone and they'll talk to you, they will advise you.

I think what a lot of people that like the local governments are concerned with is that they won't have the same representation, they won't have the same access to funds that they do now. I think maybe they feel that there's better representation having their neighbor sitting on the borough council or someone that they personally know, rather than a congressman that represents 100,000 people. I think they feel it's a more personal government. Not that it isn't duplication.

I think the government is almost a reflection of the people that live there in a way. I mean you figure, whoever votes, votes them in. They are residents of the area, the boroughs. So the more the local people are involved with it, I think probably the better it's going to be. The less they're involved, the more whoever gets in is going to do whatever they want.

But with the local government, they're right there, so what decisions they make are directly affecting them too.

Well, somebody touched on it here, but another thing with the local government is they know you're in that community. They're not going to get re-elected if they [anger you].

For me, they provide a status quo for the area. These are the rules, and the general guidelines, that people who live in this community live by. Not Nazi Germany, it's not restrictive, it's not…but you know, this is kind of what people around you like, this is what we'd like from you. It's an agreement you have, you know, with the people in your community. The other guy said he had a garage built; I built a shed last year. Last week, I'm pouring a new concrete path in the front and the building inspector comes by and sees that I'm doing it, and says, "did you pull a permit?" and I said, "no, I'm just replacing what was here, it was pretty beat up." He could have told me to stop…we gotta get our money's worth out of you and go and get your permit and so forth, so we can get our fifty dollars…but he didn't. He understood that, you know, I'm just trying to make a general improvement here, which technically qualifies for a permit, and he didn't force me to do so. That makes me feel better. I don't feel like I'm being milked for, not only my taxes and my local township and everything else, but those fees and so forth.

Probably with local government, the only thing that really bothers me is I see the same officials my entire life. That's the government, these 10 people, until they retire. Then they elect an older middle age guy until he retires.

In each group, participants were asked to complete a worksheet that listed 20 different adjective pairs as a way of describing their feelings toward their local governments. Most adjectives used to describe local government are positive. The results reflect much of what was heard in the groups—there are generally positive impressions of local government, although these impressions are not strongly expressed in either support or opposition.

Table 1. Image of Local Government

Listed below are some words that could be used to describe the local government where you live. Each line presents a pair of opposite adjectives. Please circle the number that is closest to the word that you think best describes how you feel about your local government.

Good	1	2	3	4	5	6	7	Bad
Friendly	1	2	3	4	5	6	7	Unfriendly
Timely	1	2	3	4	5	6	7	Untimely
Successful	1	2	3	4	5	6	7	Unsuccessful
Useful	1	2	3	4	5	6	7	Useless
Progressive	1	2	3	4	5	6	7	Regressive
Positive	1	2	3	4	5	6	7	Negative
Strong	1	2	3	4	5	6	7	Weak
Prohibitive	1	2	3	4	5	6	7	Permissive
Large	1	2	3	4	5	6	7	Small
Active	1	2	3	4	5	6	7	Passive
Fast	1	2	3	4	5	6	7	Slow
Complex	1	2	3	4	5	6	7	Simple
Stable	1	2	3	4	5	6	7	Changeable
New	1	2	3	4	5	6	7	Old
Near	1	2	3	4	5	6	7	Far
Sophisticated	1	2	3	4	5	6	7	Naïve
Cheap	1	2	3	4	5	6	7	Expensive
Organized	1	2	3	4	5	6	7	Unorganized
Obstructive	1	2	3	4	5	6	7	Helpful

Most of the items had mean scores that hovered near four, the mid-point of the seven-point scale that was used. Only four of the 20 items were scored below three, "good," "useful," "active," and "near." None of the items were scored above five. Only four items had a score above four: "small," "old," "expensive," and "helpful." Table 1 presents the local government image means scores generated from the worksheet.

Limited knowledge of local government

Despite strong sentiment, citizens do not know a great deal about their local governments; nor do they spend much time at all thinking about their local governments. The protective services that local governments provide are most important to citizens. They can identify some other services they offer and understand they pay taxes to support those services, but many are not even sure what local governments do or how they can learn more about what they are doing.

"*I think that I'm totally uneducated when it comes to [local government]. I really don't know what their job is and what they are supposed to be doing for us, I don't know."*

Representative Comments

> *Like the township, you would assume like road plows, fixing streets, trying to do stuff like that, but we don't even know where it would start and stop, like who would take care of the road, cause it's a highway. So would that be the state government or local government? I wouldn't really know who, or where, anything starts and stops.*
>
> *Emergency. I think emergency services, especially when they have really good response times because when you need them you want them to be there. And most of them, from what I've seen, they are.*
>
> *I would agree with that because quite frankly we don't know what government is doing for us as individuals. They are doing maybe wonderful work or maybe not so wonderful work. But everything seems to be working so we take things for granted.*
>
> *They don't educate enough. In order to find out what services you're entitled to, you really have to make a concerted effort. Other than a calendar with the recycle and trash pickup updates, that's about it.*
>
> *What's the difference between the county and the township and who has priority? Who has…I don't know, I have no clue.*
>
> *I think that I'm totally uneducated when it comes to [local government]. I really don't know what their job is and what they are supposed to be doing for us, I don't know.*
>
> *Local government affects you more on an everyday basis. Like when you have a pothole and it needs to get filled, your local government takes care of it.*
>
> *I think their services are more than adequate and they're very timely, and I don't think you can ask for much more. I mean, taxes are expensive out here, but they do at least take care of you.*
>
> *Because I don't see anything that they do as being great and I don't see anything that they do as being really bad. It's just they do what they have to do.*

None of the discussions revealed much concern about municipal fiscal distress. The perception was that municipal distress happens in the larger cities, but does not tend to be viewed as vitally important to smaller, local communities. Residents of some of the larger cities such as Allentown and Pittsburgh, tended to understand that their areas had some fiscal difficulties, but those living in the suburbs especially tended to attribute municipal distress to other places.

"The larger the city, I guess, the greater the problem."

Representative Comments

> *Allentown's the third largest city in the state of Pennsylvania. I think that's where you have your problems.*
>
> *The larger the city, I guess, the greater the problem.*
>
> *Well, I think Bethlehem is maybe, but I'm sure Easton is.*

Bigger not necessarily better

Local governments represent community norms and standards in a way that the state government cannot. Each municipality reflects and nurtures the particular character of the local area in a way the state could not, citizens frequently said. Local government knows what is happening locally, is always nearby, and doesn't make decisions that are simply "by the book" as perhaps more distant officials might.

There is some sentiment that local governments are wasteful and may indeed be expensive to a degree, but further discussion suggested that the waste and expense is smaller in scale than at the state level. All levels of government are wasteful, according to citizens, but the waste increases in scale as the level of government becomes more removed from the local level.

Representative Comments

> *Roads and snow plows. They actually do a pretty decent job.*
>
> *I think it's just the nature of government and you'll have that anywhere. You know, the expense, the overlap, I mean that's just how government is. As far as governments go, I think we have a good local, county and state government. You can't be perfect because by its nature, government is not.*
>
> *I just know that in my area in Delaware County, everybody makes jokes about all the county workers. It's a big joke about if you get into the county, they don't really work, they just do the minimal.*
>
> *I'm pleased with what we have. When you call them, they try to answer your need, whatever it is and they have commissioners for each group within the township so that if you call the commissioner and explain your situation, they could probably do something for you.*
>
> *They have missed my trash a couple times, and my recycling, and I have literally called them that afternoon and they have said…can you put it back till next week? And I've said, no way…because I'm a real stickler that way, when I pay my taxes, earned income taxes, I want it done, period, no excuses. They've come right out and picked it up.*
>
> *I have two stories with the same person who lived to the left of me. This gentleman was very, very difficult and hard to get along with. He had gotten three puppies and he didn't have a fence. So every day I come home and their dogs had [gone to the bathroom] in my yard…this went on for weeks at a time, and then, this may sound strange, but I had a pair of leather slip-on sneakers on my patio. One day I come home and one is gone. Well you know where's my other sneaker? And so I had to go down there and I confronted the man and I said I'm missing my sneaker, and he starts screaming at me and everything…and here my sneaker was over down by a tree and I just said there's my sneaker, got it and brought it back, and the guy said, get out of here…. And I ended up calling the township. I told them these animals are not on leashes, they're going all over my yard…but they cited him somehow and gave him a bunch of whatever. But he also had two mattresses, like a mattress and box spring on the side of his house for months, and it just takes away from the property. I called them and they came out and they had a talk with him, and they gave him one warning, and then it was gone. That was really incredible.*

> *I think small is better than big. I hate to keep picking on Philadelphia, but I read the newspaper, what do they have 5-6,000 police officers down there and it is out of control. I think in our area we have 50 or 60 policeman and it seems to be very manageable. I think the quality of the applicants are better under this system, rather then going to a huge, large, state police.*
>
> *Well, I guess I don't know exactly what goes on down there but they are useful when you need something, you can count on them.*
>
> *They always need more. Some of them just seem to be doing a better job. But I think there's an underlying [feeling that] the more money you give them the more money they'll spend, and that doesn't make it better. Right now they're putting all new sidewalks in. Nobody walks on the sidewalks.*
>
> *All I know about the state is they have as many representatives as they have in Washington, D.C. I know they got a lot of people up there. Way more than they need.*

Citizens acknowledged that change in local government has been difficult, incremental and slow, despite numerous efforts. The most common reason that makes change difficult is a strong belief that citizens like things they way they are and don't want to change local government. However, the offered "proof" is usually anecdotal and locality-specific.

Based on the comments of the focus group participants, it appears that citizens cannot envision how the world would work without their local governments. In fact, the groups' discussions suggested that local government is the primary form of government; for example, the state functions to support local governments, not vice versa.

State government: distant, unresponsive

Thoughts about state government also reflect citizens' feelings about the nature of representation. Decisions made in Harrisburg are too far removed from the locality. Proximity is what makes local government better and state government is too distant. If a bad decision is made in Harrisburg, to whom does a citizen complain? State government officials do not provide the same thought and care about local areas in the way that local officials do. State government is also impersonal. It "couldn't care less about you."

"We said before, when you were asking about local government, that these people are all visible to us and I think that there's probably a sense on a lot of people's part that the farther government gets away from the people, the less responsive they are going to be."

Representative Comments

> *Who would you complain to? They would just be too far removed from everything. It's nice that we have Whitehall police and the Whitehall township is right there. I know exactly where to go. They control my water and sewage and everything. You go to the state…It takes twice as long to do anything.*
>
> *Because local government should be self sustaining. They make their own rules. The rules that the state would make would be a little too encompassing I think. They may not cover everything the locals would want to cover.*

It's just certain things when it comes out of the local it's something you can relate to a little bit more, you can put a name, you can put a face to it, but it's like the higher up you get the less likely you are to see them, the less likely you are…for them to even have time for you.

With the locals, what they do affects them too, not just because they live there. It's not like the state, they don't live in Pittsburgh, what do they care?

We said before, when you were asking about local government, that these people are all visible to us and I think that there's probably a sense on a lot of people's part that the farther government gets away from the people, the less responsive they are going to be.

I will call the township building. And lots of times you call the state, you just get a voicemail.

We have some semblance of control by being able to go voice opinions, but you try to do it on a state level, you're history.

Oh, the state's just too far removed from me…There's nobody to go to, to complain or whatever. It would just be too big.

No way, [the state] they're too impersonal.

I think a big part of the problem is what needs to be enforced tends to get confused, because the farther up you go, the more layers of confusion you end up getting, because everything gets more complicated.

Not more honest. They're just too big and not really accountable to anybody. That's how I look at the state government.

When I think of state government, I think of Harrisburg. I mean Pennsylvania is one of the longest states in the US. I've driven across it many times, and Harrisburg is a long way away. We're kind of detached. Even if it's not so, at least my overall idea of it, thinking of it - Pennsylvania government- state government is Harrisburg.

The state is spread out too much, so if you have to rely on just the state to cover the entire state, you wouldn't get anything done. We need these little "outpouchings" of government to cover each little area.

Because most of the people in local government live in that community. So if it was being run by the state totally, and you needed something, you'd have to try to find someone from Harrisburg to come in and help you.

But [the state's] interests would not be the same as someone living in the area.

Well, like Mary said they're trying to get a football field in there. That's a little tiny area they want a football field in. The people out in Harrisburg aren't going to care about her little football field…You have a better chance with the locals than the state.

Because it's out of control. You need the small government. The local government, I should say, is hands-on. The state, you're not going to be able to talk to anybody.

It won't be personal. You'll still be paying the big bucks, but you won't be getting…you won't see it.

Did you ever walk through the offices in the state capital building? All those brass frames? About 14 people polishing brass all day long…and marble. I spent 18 weeks down there watching them and that was unbelievable, the money they spent.

You can see a construction crew, they rip something out, and then you'll see ten guys right on the shoulder like this, you'll see about two guys working…it's torn up for six months, and no one will even work on it.

It's hard to even associate what state government really is, because it's not something you feel like you deal with on a daily basis. A lot of times when I think of state government, I think more that they are more concerned about Philadelphia, than they are about Pittsburgh.

The state's role is to serve as a re-distributor of funds, according to citizens. The state serves as a middleman, a bridge or a buffer between the federal and local governments. The state identifies inequities and tries to remedy them. Citizens express concern that the state, in its role as a re-distributor, re-distributes money into "black holes" where problems are never resolved.

"*I think one of the most important functions of the state government is that they channel federal funds to the local government, which is totally essential. So they may not provide the services themselves, but they provide a conduit for the financing."*

Representative Comments

I think they need to be a vested interest. Locally you have people who live locally with a vested interest in the community, they live and work there, they have real estate…where, from a state perspective, it almost seems like a stop-over on your way to federal.

I think state government acts as your bridge to federal government, because you can't have just the federal government, you need something in between and that's the state government's purpose.

That's another jumping off point. You go from the local to state and then the state up to the federal.

Collecting from everybody and distributing it where the need arises, particularly in roads.

Yeah, you keep pouring more money in [Philadelphia], that just doesn't cut it.

But it's also a little unfair to ask somebody who lives in Lancaster to pay for your services in Allentown.

You don't see Rendell trying to clean up Harrisburg do you? I mean do you, what's he done for Harrisburg, he's worried about Philadelphia. That's where he comes from, that's where his roots are, and that's who he's taking care of, he's taking care of that voter block out there, those 500,000 Democrats who are in his back pocket.

Doesn't the state ultimately have to bail out anybody? They will come bail out Bethlehem or Easton, and we as Pennsylvania taxpayers or residents are going to help bail out any city, township, or borough that falls into the hopper.

I think one of the most important functions of the state government is that they channel federal funds to the local government, which is totally essential. So they may not provide the services themselves, but they provide a conduit for the financing.

I feel like state government gets lost between national government and local government. I'm young, but I think you have your most direct connection with your local government, and then everything you hear about is national government, and state government is just kind of there. They obviously serve a purpose, but you don't hear as much about it on a daily basis. Like your local newspaper covers what is happening in your township, what's the new construction project at the school, or are they going to put a traffic light in. And then everyday you read about the national government, the filibusters, this and that. And your state government, you don't hear about it that much, except when they want to expand a road or major highway.

I know people in Harrisburg, especially people in the government that think Philadelphia is just sort of like a sewer, so why put money into it? The schools are a waste, so why give them more money? And let's give it to people who appreciate it. I mean that's how they feel about it. Especially the counties upstate that have a lot of voting power in Harrisburg. They could care less about the inner city.

It appears like you need that layer of state government to buffer between the federal and the local, but maybe it's too fat and that just needs to be skinnied down, because we're saying it's so big and political and…but you need the local for the hands-on, otherwise it'd be chaos. I don't know how the state could pick up that, unless the local is absorbed by the state somehow.

And even now I think a lot of the funds are going to the east with the state government that we have right now. So what would happen if they were the only representation?

Even at this table it's the smaller areas that their little areas are being taken care of and the bigger city is not being taken care of so that would be frightening to do that on a larger scale. I mean you'd have no representation.

I think they wanted to buy the money up…for certain areas that need the money the most, they would give it to other areas that I feel wouldn't much need the money. They wouldn't spread it out evenly or fairly I think

Basically, the state government re-appropriates funds that were given to us from the federal government.

And a lot of the revenue when you look at it state wide, was going to build up Philadelphia a lot more than it was Pittsburgh and others.

Some support for functional consolidation

Following the broad discussion of local and state government, the focus group discussions moved to specific ideas for reforming local government, including functional consolidation such as tax base sharing, health care and pension administration, and shared police services. There were concerns about certain local governments getting their fair share, but there was general support for the idea of consolidating functions to improve services and save money.

"It's something the state could do, but I don't think the local areas would get their fair share."

Representative Comments

You might have a problem with the redistribution. How would the redistribution be done?

Everything just seems to get watered down and the funds coming back are going to be less.

It's something the state could do, but I don't think the local areas would get their fair share.

It would be impossible because there are so many small individual counties…that determine their own tax rate because of what they feel is fair for their own residents. You need that hands-on kind of tax assessment.

Does it take away from the amount of money in your township?

If the state can collect it, but it doesn't affect how much stays in Havertown, or Darby, or wherever…sure, why not?

Think of the turn around - it has to go up to the state and back.

Would people in local districts lose their jobs?

Well who's going to take care of it in Harrisburg? There's going to be as many people and as many offices down there to sort this money out.

I'd be interested in how it's going to be dispersed back to the city. Because aren't you going to still have people who's job it is to then receive that money from the state if not from the people. Then I don't see where the job savings is. I'd be interested in anything that's going to help the city, but I don't see where the job savings would be.

I don't see where the efficiency can be a finite number. You have a guy walking around your borough and driving around and living in there he can see that the street needs it, the guy in Harrisburg can't see your street in downtown Pittsburgh. So he's relying on somebody relaying the news to him and the guy that has the biggest mouth is going to get his stuff no matter where he lives.

Sure, but I don't see that the local people would go for that. I know that in the local township I'm in, we would not want to give up our taxes to another and say, "Can you give it back to us?"

I think the timing, how long will it take to get it?

If it's more organized then I wouldn't see a problem with it. I'd fear what she said. What if our taxes are taken out and are misappropriated, say it all goes to the residents of Philadelphia, as compared to us.

So in other words, you're giving the upper part of the state more jobs and you're taking away from an area that's already hurt.

And from the philosophic point that you've been mainly addressing, probably removing taxes from the local level causes people some suspicion. It causes them to wonder is it going to go on to white elephants like the airport, or like these new stadiums. Is that where it's going to go, or is it going to go to replacing our sewer and taking care of infrastructure problems that really need to be addressed?

They keep their taxes in there and work with their money. What's going to happen to them now? Now he has to wait. They might not get the repairs that they need now if the money goes somewhere else. That's exactly right. Would you give your paycheck to a stranger and go to him to ask for an allowance? I want to buy food, I want to fix my porch. Whereas in a local township we budget everything.

Under that system you may get a percentage, rather than getting everything that you need.

"You just want to make sure I'm still saving money at my level instead of them saving money here and it is not reaching back down to us."

Representative Comments

And healthcare can't be drastic cuts for the teachers, if they're going where they can't support their families.

There has to be negatives to these things, or they would have done it by now. It just can't simply be alright everyone's in this group, now let's save 800 million dollars. There has to be reasons why it hasn't happened.

I think that if they were all going to go under one health plan, I would say as long as they're not going to lose their dental or vision. As long as they get the same services, I don't see anything wrong with it.

At that point in time we've already put all their benefits together, as long as it again, if it doesn't affect their earnings, you know, that's their retirement savings, along with everything else, if it doesn't affect what they get in the end, it doesn't reduce it, then it doesn't matter to me if their pension plan, their healthcare plan all comes from the same place.

Once you go with one 3 years down the road, who's to say that you're not going to change?

It depends on who's saving. Is it going to be the companies saving and we're still going to be saving and we're still going to be paying, or is it going to be us saving?

You just want to make sure I'm still saving money at my level instead of them saving money here and it is not reaching back down to us.

Technical Addendum

Additional Tables

Table 1 - Declining Fiscal Health of Pennsylvania's Cities, 1970 to 2003 Change, by County			
City	1970 Z Score	2003 Z Score	Change Z Score
Clarion	-0.77	-3.26	-2.49
Duquesne	-0.98	-3.99	-3.01
McKeesport	-0.86	-3.06	-2.20
Pittsburgh	-1.99	-2.96	-0.97
Parker	-1.39	-0.96	0.43
Aliquippa	-0.72	-2.60	-1.88
Beaver Falls	-1.07	-3.67	-2.60
Reading	-1.38	-2.93	-1.55
Altoona	-1.29	-1.95	-0.66
Butler	-1.00	-1.54	-0.54
Johnstown	-1.93	-4.33	-2.40
Coatesville	-0.29	-2.08	-1.79
DuBois	-0.72	-1.42	-0.70
Lock Haven	-0.41	-1.97	-1.56
Meadville	-0.93	-1.95	-1.02
Titusville	-1.38	-2.94	-1.56
Harrisburg	-1.52	-2.64	-1.12
Chester	-1.66	-5.85	-4.19
St. Marys (consolidation)	-0.87	-0.36	0.51
Corry	-1.16	-2.00	-0.84
Erie	-1.26	-2.64	-1.38
Connellsville	-1.76	-2.18	-0.42
Uniontown	-1.25	-2.37	-1.12
Carbondale	-1.35	-0.96	0.39
Scranton	-1.41	-3.41	-2.00
Lancaster	-1.18	-2.22	-1.04
New Castle	-1.81	-2.96	-1.15
Lebanon	-0.71	-1.52	-0.81
Allentown	-0.57	-1.80	-1.23
Hazleton	-0.89	-1.24	-0.35
Nanticoke	-1.51	-0.86	0.65
Pittston	-0.95	-1.91	-0.96
Wilkes-Barre	-1.82	-3.35	-1.53
Williamsport	-1.29	-1.81	-0.52
Bradford	-1.17	-2.63	-1.46
Farrell	-0.71	-2.73	-2.02
Sharon	-0.86	-3.23	-2.37
Bethlehem (major part)	-0.81	-1.26	-0.45
Easton	-1.49	-1.70	-0.21
Shamokin	-1.71	-2.76	-1.05
Sunbury	-0.92	-1.68	-0.76

Philadelphia	-2.68	-8.60	-5.92
Pottsville	-1.02	-1.21	-0.19
Franklin	-1.11	-2.74	-1.63
Oil City	-0.87	-2.95	-2.08
Warren	-0.50	-2.68	-2.18
Monongahela	-1.20	-2.64	-1.44
Washington	-1.77	-2.39	-0.62
Arnold	-0.77	-4.99	-4.22
Greensburg	-0.34	-1.94	-1.60
Jeannette	-0.52	-1.75	-1.23
Monessen	-0.92	-2.50	-1.58
New Kensington	-0.76	-2.05	-1.29
York	-1.80	-3.09	-1.29
Hermitage	0.83	-0.66	-1.49
Lower Burrell	0.35	-0.37	-0.72

Table 2 – 1970 to 2003 Changes in Z Scores in Standard Deviation Units for Cities

City	1970 Z Score	2003 Z Score	Change Z Score	Change Direction	<1SD	1to2SD	2to3SD	3to4SD	Over 4
Aliquippa	-0.72	-2.60	-1.88	Negative		X			
Allentown	-0.57	-1.80	-1.23	Negative		X			
Altoona	-1.29	-1.95	-0.66	Negative	X				
Arnold	-0.77	-4.99	-4.22	Negative					X
Beaver Falls	-1.07	-3.67	-2.60	Negative			X		
Bethlehem (major part)	-0.81	-1.26	-0.45	Negative	X				
Bradford	-1.17	-2.63	-1.46	Negative		X			
Butler	-1.00	-1.54	-0.54	Negative	X				
Carbondale	-1.35	-0.96	0.39	Positive	X				
Chester	-1.66	-5.85	-4.19	Negative					X
Clairton	-0.77	-3.26	-2.49	Negative			X		
Coatesville	-0.29	-2.08	-1.79	Negative		X			
Connellsville	-1.76	-2.18	-0.42	Negative	X				
Corry	-1.16	-2.00	-0.84	Negative	X				
DuBois	-0.72	-1.42	-0.70	Negative	X				
Duquesne	-0.98	-3.99	-3.01	Negative				X	
Easton	-1.49	-1.70	-0.21	Negative	X				
Erie	-1.26	-2.64	-1.38	Negative		X			
Farrell	-0.71	-2.73	-2.02	Negative			X		
Franklin	-1.11	-2.74	-1.63	Negative		X			
Greensburg	-0.34	-1.94	-1.60	Negative		X			
Harrisburg	-1.52	-2.64	-1.12	Negative		X			
Hazleton	-0.89	-1.24	-0.35	Negative	X				
Hermitage	0.83	-0.66	-1.49	Negative		X			

Jeannette	-0.52	-1.75	-1.23	Negative		X			
Johnstown	-1.93	-4.33	-2.40	Negative			X		
Lancaster	-1.18	-2.22	-1.04	Negative		X			
Lebanon	-0.71	-1.52	-0.81	Negative	X				
Lock Haven	-0.41	-1.97	-1.56	Negative		X			
Lower Burrell	0.35	-0.37	-0.72	Negative	X				
McKeesport	-0.86	-3.06	-2.20	Negative			X		
Meadville	-0.93	-1.95	-1.02	Negative		X			
Monessen	-0.92	-2.50	-1.58	Negative		X			
Monongahela	-1.20	-2.64	-1.44	Negative		X			
Nanticoke	-1.51	-0.86	0.65	Positive	X				
New Castle	-1.81	-2.96	-1.15	Negative		X			
New Kensington	-0.76	-2.05	-1.29	Negative		X			
Oil City	-0.87	-2.95	-2.08	Negative			X		
Parker	-1.39	-0.96	0.43	Positive	X				
Philadelphia	-2.68	-8.60	-5.92	Negative					X
Pittsburgh	-1.99	-2.96	-0.97	Negative	X				
Pittston	-0.95	-1.91	-0.96	Negative	X				
Pottsville	-1.02	-1.21	-0.19	Negative	X				
Reading	-1.38	-2.93	-1.55	Negative		X			
Scranton	-1.41	-3.41	-2.00	Negative			X		
Shamokin	-1.71	-2.76	-1.05	Negative		X			
Sharon	-0.86	-3.23	-2.37	Negative			X		
St. Marys (consolidation)	-0.87	-0.36	0.51	Positive	X				
Sunbury	-0.92	-1.68	-0.76	Negative	X				
Titusville	-1.38	-2.94	-1.56	Negative		X			
Uniontown	-1.25	-2.37	-1.12	Negative		X			
Warren	-0.50	-2.68	-2.18	Negative			X		
Washington	-1.77	-2.39	-0.62	Negative	X				
Wilkes-Barre	-1.82	-3.35	-1.53	Negative		X			
Williamsport	-1.29	-1.81	-0.52	Negative	X				
York	-1.80	-3.09	-1.29	Negative		X			

Borough Clusters

When fiscal distress is seen in a particular region it tends to include clusters of boroughs, not stand alone communities. However, the reverse was observed for boroughs where significant progress was seen from 1970. Boroughs that went from a negative z score to a positive z score (above average for the state) generally experienced small changes in position and did not cluster in any region of the state. Those boroughs that improved in relative status more than one standard deviation unit are identified in the following table.

Table 3 - List of Boroughs Below the State Average in 1970 and Above the State Average in 2003, by County

County	Borough	County	Borough
Allegheny	Haysville	Mercer	Clark
Beaver	Georgetown Homewood	Montour	Washingtonville
Butler	Fairview West Liberty	Schuylkill	Deer Lake
Cumberland	Newburg	Somerset	New Centerville
Huntingdon	Marklesburg	Sullivan	Eagles Mere
Jefferson	Timblin	Union	Hartleton
Lawrence	Enon Valley	Washington	Long Branch Honker
Luzerne	Hogestown Warrior Run Yatesville	York	Crossroads

The following tables list those counties with concentrations of boroughs and how they fared, as a group, from 1970 to 2003. When the change in fiscal health from 1970 to 2003 is defined as “Sub cluster Improving”, that particular county has a mixed direction in the cluster of boroughs that remain below the state average. That is, about half of the boroughs are improving and about half are not; but all remain below average in 2003.

Table 4 - Fiscal Health of Borough Clusters Below the State Average in 1970 And Remained Below the State Average in 2003, by County

County	Number of Boroughs in Cluster	Change in Fiscal Health from 1970 to 2003
Allegheny	46	Significant Negative Change
Armstrong	14	Significant Negative Change
Beaver	19	Significant Negative Change
Blair	6	Significant Negative Change
Bradford	9	Significant Negative Change
Butler	12	No Change
Cambria	26	Significant Negative Change
Carbon	12	Improving Scores
Centre	8	Sub cluster of Improving Scores
Clarion	11	Improving Scores
Clearfield	17	Sub cluster of Improving Scores
Crawford	9	Sub cluster of Improving Scores
Dauphin	7	Negative Change
Delaware	4	Significant Negative Change
Erie	10	Improving Scores
Fayette	16	Sub cluster of Improving Scores
Franklin	6	Improving Scores
Greene	6	Sub cluster of Improving Scores

Huntingdon	15	Negative Change
Indiana	11	Sub cluster of Improving Scores
Jefferson	10	Significant Negative Change
Lackawanna	10	Improving Scores
Luzerne	23	Improving Scores
Mercer	12	Sub cluster of Improving Scores
Northampton	13	Negative Change
Northumberland	8	Sub cluster of Improving Scores
Schuylkill	25	Negative Change
Somerset	18	Sub cluster of Improving Scores
Susquehanna	12	Sub cluster of Improving Scores
Tioga	8	Sub cluster of Improving Scores
Venango	8	Negative Change
Washington	26	Negative Change
Westmoreland	25	Sub cluster of Improving Scores
York	8	Negative Change

Table 5 - Borough Clusters Above the State Average in 1970, Dropping to Below the State Average in 2003, by County

County	Number of Boroughs in Cluster	Change in Fiscal Health from 1970 to 2003
Adams	4	Significant Negative Change
Allegheny	12	Significant Negative Change
Beaver	6	Significant Negative Change
Berks	7	Significant Negative Change
Bradford	3	Moderate Negative Change
Cambria	4	Significant Negative Change
Chester	3	Significant Negative Change
Cumberland	3	Moderate Negative Change
Dauphin	7	Significant Negative Change
Delaware	15	Significant Negative Change
Erie	4	Significant Negative Change
Lancaster	7	Moderate Negative Change
Lawrence	3	Significant Negative Change
Lehigh	5	Significant Negative Change
Lycoming	3	Moderate Negative Change
Montgomery	10	Moderate Negative Change
Northampton	6	Moderate Negative Change
Perry	3	Significant Negative Change
Snyder	3	Moderate Negative Change
Somerset	3	Significant Negative Change
Westmoreland	6	Significant Negative Change
York	9	Moderate Negative Change

The following counties have clusters of boroughs that were above the state average for fiscal health in 1970 and remain above the state average in 2003. However, these clusters, while remaining above average, are showing significant decline.

Table 6 - Borough Clusters Above State Average in 1970 and Remain Above Average in 2003, by County		
County	Number of Boroughs in Cluster	Number of Boroughs Declining in Fiscal Health
Allegheny	20	11
Cumberland	5	5
Delaware	8	6
Lancaster	8	7
York	12	6

Table 7 - Regional Changes in Fiscal Health by Region and County, 1970 to 2003				
Region	Counties	1970 Median	2003 Median	Median Change
Southwest	Allegheny	0.19	-0.61	-0.88
	Armstrong	-0.58	-0.46	0.00
	Beaver	0.02	-0.77	-0.91
	Butler	0.01	0.05	0.16
	Fayette	-0.74	-0.42	0.34
	Greene	-0.81	-0.57	0.15
	Indiana	-0.29	-0.45	-0.15
	Lawrence	0.05	-0.04	-0.16
	Washington	-0.33	-0.47	-0.05
	Westmoreland	-0.23	-0.44	-0.23
Southern Alleghenies	Bedford	-0.35	-0.17	0.10
	Blair	-0.06	-0.25	-0.24
	Cambria	-0.61	-0.78	-0.29
	Fulton	-0.21	0.05	0.07
	Huntingdon	-0.58	-0.12	0.31
	Somerset	-0.47	-0.34	0.06
Southcentral	Adams	0.36	0.20	-0.04
	Cumberland	0.61	0.43	-0.13
	Dauphin	0.17	0.12	-0.13
	Franklin	-0.14	0.43	0.48
	Lebanon	0.29	0.50	0.09
	Perry	-0.09	0.20	0.38
	York	0.29	0.46	0.07
Berks/Lancaster	Berks	0.31	0.63	0.25
	Lancaster	0.54	0.69	-0.08
Southeast	Bucks	0.96	1.55	0.42
	Chester	1.02	1.97	0.55
	Delaware	0.33	0.13	-0.37
	Montgomery	1.13	1.36	0.12
	Philadelphia	-2.68	-8.60	-5.92
Lehigh Valley	Lehigh	0.56	0.75	0.17
	Northampton	0.18	-0.20	-0.22
Northeast	Carbon	-0.46	-0.39	0.23

	Lackawanna	-0.28	0.26	0.44
	Luzerne	-0.38	-0.06	0.23
	Monroe	0.45	0.66	-0.04
	Pike	0.25	1.06	-0.08
	Schuylkill	-0.68	0.33	0.23
	Wayne	-0.16	0.73	0.73
Central	Centre	-0.31	0.02	0.33
	Clinton	-0.25	0.01	0.14
	Columbia	-0.30	-0.04	0.35
	Juniata	-0.29	-0.45	-0.15
	Lycoming	-0.05	0.14	-0.04
	Mifflin	-0.16	-0.31	-0.23
	Montour	-0.43	0.35	0.50
	Northumberland	-0.42	-0.01	0.31
	Snyder	-0.18	-0.06	0.26
	Union	-0.08	0.16	0.26
Northern Tier	Bradford	-0.15	-0.24	-0.10
	Tioga	-0.61	-0.34	0.18
	Sullivan	-0.14	0.04	0.70
	Susquehanna	-0.31	-0.15	0.16
	Wyoming	-0.50	0.06	0.46
Northcentral	Cameron	-0.07	-0.36	-0.48
	Clearfield	-0.75	-0.45	0.35
	Elk	-0.50	-0.35	0.12
	Jefferson	-0.80	-0.28	0.25
	McKean	-0.57	-0.36	-0.09
	Potter	-0.50	0.04	0.42
Northwest	Clarion	-0.54	-0.29	0.34
	Crawford	-0.21	-0.01	-0.03
	Erie	-0.03	-0.02	-0.20
	Forest	-0.25	-0.35	-0.17
	Mercer	-0.17	-0.05	-0.05
	Venango	-0.45	-0.21	0.11
	Warren	-0.10	-0.21	-0.19

Table 8 – Population Changes by County, 1990 to 2000 and 2000 to 2005

County	2003 z score	1990 Population	2000 Population	2005 (est) Population	90-00 Difference	00-05 Difference
Adams County	0.20	78,274	91,292	99,749	16.63	9.26
Allegheny County	-0.61	1,336,449	1,281,666	1,235,841	-4.10	-3.58
Armstrong County	-0.46	73,478	72,392	70,586	-1.48	-2.49
Beaver County	-0.91	186,093	181,412	177,377	-2.52	-2.22
Bedford County	-0.17	47,919	49,984	50,091	4.31	0.21
Berks County	0.63	336,523	373,638	396,314	11.03	6.07
Blair County	-0.24	130,542	129,144	126,795	-1.07	-1.82
Bradford County	-0.24	60,967	62,761	62,537	2.94	-0.36
Bucks County	1.55	541,174	597,632	621,342	10.43	3.97
Butler County	0.16	152,013	174,083	182,087	14.52	4.60
Cambria County	-0.61	163,062	152,598	148,073	-6.42	-2.97

Cameron County	-0.36	5,913	5,974	5,639	1.03	-5.61
Carbon County	-0.39	56,803	58,802	61,959	3.52	5.37
Centre County	0.02	124,812	135,758	140,561	8.77	3.54
Chester County	1.97	376,389	433,501	474,027	15.17	9.35
Clarion County	-0.29	41,699	41,765	40,589	0.16	-2.82
Clearfield County	-0.45	78,097	83,382	82,783	6.77	-0.72
Clinton County	0.01	37,182	37,914	37,439	1.97	-1.25
Columbia County	-0.04	63,202	64,148	64,939	1.50	1.23
Crawford County	-0.01	86,166	90,366	89,442	4.87	-1.02
Cumberland County	-0.01	195,257	213,674	223,089	9.43	4.41
Dauphin County	0.12	237,813	251,798	253,995	5.88	0.87
Delaware County	0.13	547,658	551,974	555,648	0.59	0.67
Elk County	-0.35	34,878	35,112	33,577	0.67	-4.37
Erie County	-0.02	275,575	280,843	280,446	1.91	-0.14
Fayette County	-0.42	145,351	148,644	146,142	2.27	-1.68
Forest County	-0.35	4,802	4,946	5,739	3.00	16.03
Franklin County	0.43	121,082	129,313	137,409	6.80	6.26
Fulton County	0.05	13,837	14,261	14,673	3.06	2.89
Greene County	-0.57	39,550	40,672	39,808	2.84	-2.12
Huntingdon County	-0.12	44,164	45,586	45,947	3.22	0.79
Indiana County	-0.45	89,994	89,605	88,703	-0.43	-1.01
Jefferson County	-0.28	46,083	45,932	45,759	-0.33	-0.38
Juniata County	-0.45	20,625	22,821	23,507	10.65	3.01
Lackawanna County	0.26	219,097	213,295	209,525	-2.65	-1.77
Lancaster County	0.69	422,822	470,658	490,562	11.31	4.23
Lawrence County	-0.04	96,246	94,643	92,809	-1.67	-1.94
Lebanon County	0.50	113,744	120,327	125,578	5.79	4.36
Lehigh County	0.75	291,130	312,090	330,433	7.20	5.88
Luzerne County	-0.06	328,149	319,250	312,861	-2.71	-2.00
Lycoming County	0.14	118,710	120,044	118,395	1.12	-1.37
McKean County	-0.36	47,131	45,936	44,370	-2.54	-3.41
Mercer County	-0.05	121,003	120,293	119,598	-0.59	-0.58
Mifflin County	-0.31	46,197	46,486	46,235	0.63	-0.54
Monroe County	0.66	95,681	138,687	163,234	44.95	17.70
Montgomery County	1.36	678,193	748,987	775,883	10.60	3.59
Montour County	0.35	17,735	18,239	18,032	2.82	-1.13
Northampton County	-0.20	247,110	267,069	287,767	8.08	7.75
Northumberland County	-0.01	96,771	94,556	92,610	-2.29	-2.06
Perry County	0.20	41,172	43,602	44,728	5.90	2.58
Philadelphia County	-8.60	1,585,577	1,517,550	1,463,281	-4.29	-3.58
Pike County	1.06	28,032	46,302	56,337	65.18	21.67
Potter County	0.04	16,717	18,080	17,834	8.15	-1.36
Schuylkill County	0.33	152,585	150,336	147,447	-1.47	-1.92
Snyder County	-0.06	36,680	37,546	38,207	2.36	1.76
Somerset County	-0.34	78,218	80,023	78,907	2.31	-1.39
Sullivan County	0.04	6,104	6,556	6,391	7.40	-2.52
Susquehanna County	-0.15	40,380	42,238	42,124	4.60	-0.27

Tioga County	-0.34	41,126	41,373	41,649	0.60	0.67
Union County	0.16	36,176	41,624	43,131	15.06	3.62
Venango County	-0.21	59,381	57,565	55,928	-3.06	-2.84
Warren County	-0.21	45,050	43,863	42,033	-2.63	-4.17
Washington County	-0.47	204,584	202,897	206,406	-0.82	1.73
Wayne County	0.73	39,944	47,722	50,113	19.47	5.01
Westmoreland County	-0.44	370,321	369,993	367,635	-0.09	-0.64
Wyoming County	0.06	28,076	28,080	28,160	0.01	0.28
York County	0.46	339,574	381,751	408,801	12.42	7.09

The effects of population change upon tax levies by municipalities are summarized in Table 9. The correlation between the 2003 z scores and the 1990 to 2000 population change by county was +0.34. The correlation between the 2003 z scores and the change in 2000 to 2005 population was +0.35. The square of either correlation coefficient is about 0.12, or 12 percent of the 2003 z score (fiscal health) can be accounted for by population growth alone.

Table 9 – Correlation Between Fiscal Health and Recent Population Growth

County	2003	1990	2000	2000 Population	2005 (est)	Percent Change	Percent Change
	z score	Population	Population		Population	90 to 00	00 to 05
Adams County	0.20	78,274	91,292	91,292	99,749	16.63	9.26
Allegheny County	-0.61	1,336,449	1,281,666	1,281,666	1,235,841	-4.10	-3.58
Armstrong County	-0.46	73,478	72,392	72,392	70,586	-1.48	-2.49
Beaver County	-0.91	186,093	181,412	181,412	177,377	-2.52	-2.22
Bedford County	-0.17	47,919	49,984	49,984	50,091	4.31	0.21
Berks County	0.63	336,523	373,638	373,638	396,314	11.03	6.07
Blair County	-0.24	130,542	129,144	129,144	126,795	-1.07	-1.82
Bradford County	-0.24	60,967	62,761	62,761	62,537	2.94	-0.36
Bucks County	1.55	541,174	597,635	597,632	621,342	10.43	3.97
Butler County	0.16	152,013	174,083	174,083	182,087	14.52	4.60
Cambria County	-0.61	163,062	152,598	152,598	148,073	-6.42	-2.97
Cameron County	-0.36	5,913	5,974	5,974	5,639	1.03	-5.61
Carbon County	-0.39	56,803	58,802	58,802	61,959	3.52	5.37
Centre County	0.02	124,812	135,758	135,758	140,561	8.77	3.54
Chester County	1.97	376,389	433,501	433,501	474,027	15.17	9.35
Clarion County	-0.29	41,699	41,765	41,765	40,589	0.16	-2.82
Clearfield County	-0.45	78,097	83,382	83,382	82,783	6.77	-0.72
Clinton County	0.01	37,182	37,914	37,914	37,439	1.97	-1.25
Columbia County	-0.04	63,202	64,151	64,148	64,939	1.50	1.23
Crawford County	-0.01	86,166	90,366	90,366	89,442	4.87	-1.02
Cumberland County	-0.01	195,257	213,674	213,674	223,089	9.43	4.41
Dauphin County	0.12	237,813	251,798	251,798	253,995	5.88	0.87
Delaware County	0.13	547,658	550,864	551,974	555,648	0.59	0.67
Elk County	-0.35	34,878	35,112	35,112	33,577	0.67	-4.37
Erie County	-0.02	275,575	280,843	280,843	280,446	1.91	-0.14
Fayette County	-0.42	145,351	148,644	148,644	146,142	2.27	-1.68
Forest County	-0.35	4,802	4,946	4,946	5,739	3.00	16.03

Franklin County	0.43	121,082	129,313	129,313	137,409	6.80	6.26
Fulton County	0.05	13,837	14,261	14,261	14,673	3.06	2.89
Greene County	-0.57	39,550	40,672	40,672	39,808	2.84	-2.12
Huntingdon County	-0.12	44,164	45,586	45,586	45,947	3.22	0.79
Indiana County	-0.45	89,994	89,605	89,605	88,703	-0.43	-1.01
Jefferson County	-0.28	46,083	45,932	45,932	45,759	-0.33	-0.38
Juniata County	-0.45	20,625	22,821	22,821	23,507	10.65	3.01
Lackawanna County	0.26	219,097	213,295	213,295	209,525	-2.65	-1.77
Lancaster County	0.69	422,822	470,658	470,658	490,562	11.31	4.23
Lawrence County	-0.04	96,246	94,643	94,643	92,809	-1.67	-1.94
Lebanon County	0.50	113,744	120,327	120,327	125,578	5.79	4.36
Lehigh County	0.75	291,130	312,090	312,090	330,433	7.20	5.88
Luzerne County	-0.06	328,149	319,250	319,250	312,861	-2.71	-2.00
Lycoming County	0.14	118,710	120,044	120,044	118,395	1.12	-1.37
McKean County	-0.36	47,131	45,936	45,936	44,370	-2.54	-3.41
Mercer County	-0.05	121,003	120,293	120,293	119,598	-0.59	-0.58
Mifflin County	-0.31	46,197	46,486	46,486	46,235	0.63	-0.54
Monroe County	0.66	95,681	138,687	138,687	163,234	44.95	17.70
Montgomery County	1.36	678,193	750,097	748,987	775,883	10.60	3.59
Montour County	0.35	17,735	18,236	18,239	18,032	2.82	-1.13
Northampton County	-0.20	247,110	267,066	267,069	287,767	8.08	7.75
Northumberland County	-0.01	96,771	94,556	94,556	92,610	-2.29	-2.06
Perry County	0.20	41,172	43,602	43,602	44,728	5.90	2.58
Philadelphia County	-8.60	1,585,577	1,517,550	1,517,550	1,463,281	-4.29	-3.58
Pike County	1.06	28,032	46,302	46,302	56,337	65.18	21.67
Potter County	0.04	16,717	18,080	18,080	17,834	8.15	-1.36
Schuylkill County	0.33	152,585	150,336	150,336	147,447	-1.47	-1.92
Snyder County	-0.06	36,680	37,546	37,546	38,207	2.36	1.76
Somerset County	-0.34	78,218	80,023	80,023	78,907	2.31	-1.39
Sullivan County	0.04	6,104	6,556	6,556	6,391	7.40	-2.52
Susquehanna County	-0.15	40,380	42,238	42,238	42,124	4.60	-0.27
Tioga County	-0.34	41,126	41,373	41,373	41,649	0.60	0.67
Union County	0.16	36,176	41,624	41,624	43,131	15.06	3.62
Venango County	-0.21	59,381	57,565	57,565	55,928	-3.06	-2.84
Warren County	-0.21	45,050	43,863	43,863	42,033	-2.63	-4.17
Washington County	-0.47	204,584	202,897	202,897	206,406	-0.82	1.73
Wayne County	0.73	39,944	47,722	47,722	50,113	19.47	5.01
Westmoreland County	-0.44	370,321	369,993	369,993	367,635	-0.09	-0.64
Wyoming County	0.06	28,076	28,080	28,080	28,160	0.01	0.28
York County	0.46	339,574	381,751	381,751	408,801	12.42	7.09

Map Methodology

The spatial data is taken from PennDOT's 2004 linework. It provides a consistent set of geographic political boundaries and is more than adequate for the scales used for the various maps in this study. The attribute data attached to the linework contained a number of errors that were corrected. Since the FIPS code of a municipality is the key field that links spatial and Study data it was the first attribute that was brought up to date and checked for accuracy. We used the U.S. Census Bureau's list of municipalities with their corresponding FIPS codes to 'truth' the PennDOT attribute values.

The resulting custom MCD data set contains 2,661 polygons which represent 2,567 unique MCD's. The 94 'extra' polygons cover municipalities that straddle county lines and those that have discontinuous areas. We did not join multiple polygons into a single record but did account for multiples when reporting aggregated values for fiscal health measures.

The PEL data table of z scores and related values contains 2,558 records, seven of which are marked as having incomplete or no data. In addition, there are nine MCD's with FIPS codes but no corresponding record in the PEL data sheet.

The PEL data was linked to the PennDOT polygons in a one-to-many join and a field was added to indicate whether the polygon is a multiple, has no record in PEL, has incomplete or missing PEL data or represents the 'main' MCD with fiscal health data. The software we use to manipulate the data and make the maps allows us to exclude polygons based on one or more attribute values of our choosing.

Summary of polygon data records	
Total unique MCD's with PEL data	2551
Multiples for MCD's	94
No PEL record	9
Incomplete PEL data	7
Total polygons	2661

The attribute being mapped is called a z score, which is a measure of relative fiscal distress. From our first discussions in July 2005 we decided that mapping the value as it stands and telling our audience that the more negative the value the better off they were would confuse the message we were trying to convey. Thus we changed the sign of the value and called it 'fiscal health.' It is this positive view of the data that is being mapped in this study. We are displaying the change in (negative) z scores over the period 1970 to 2003 and report it as change in relative fiscal health.

The change in Z values produced a data set that is tightly grouped and closely fits a normal distribution. We observed that even including repeating values for MCD's with multiple polygons had almost no effect on the nature of the distribution. With or without multiple data points the maximum and minimum values were constant and the standard deviation and mean changed by 1 percent when compared with all polygons but not at all when compared to excluding incomplete data, no data or multiples separately.

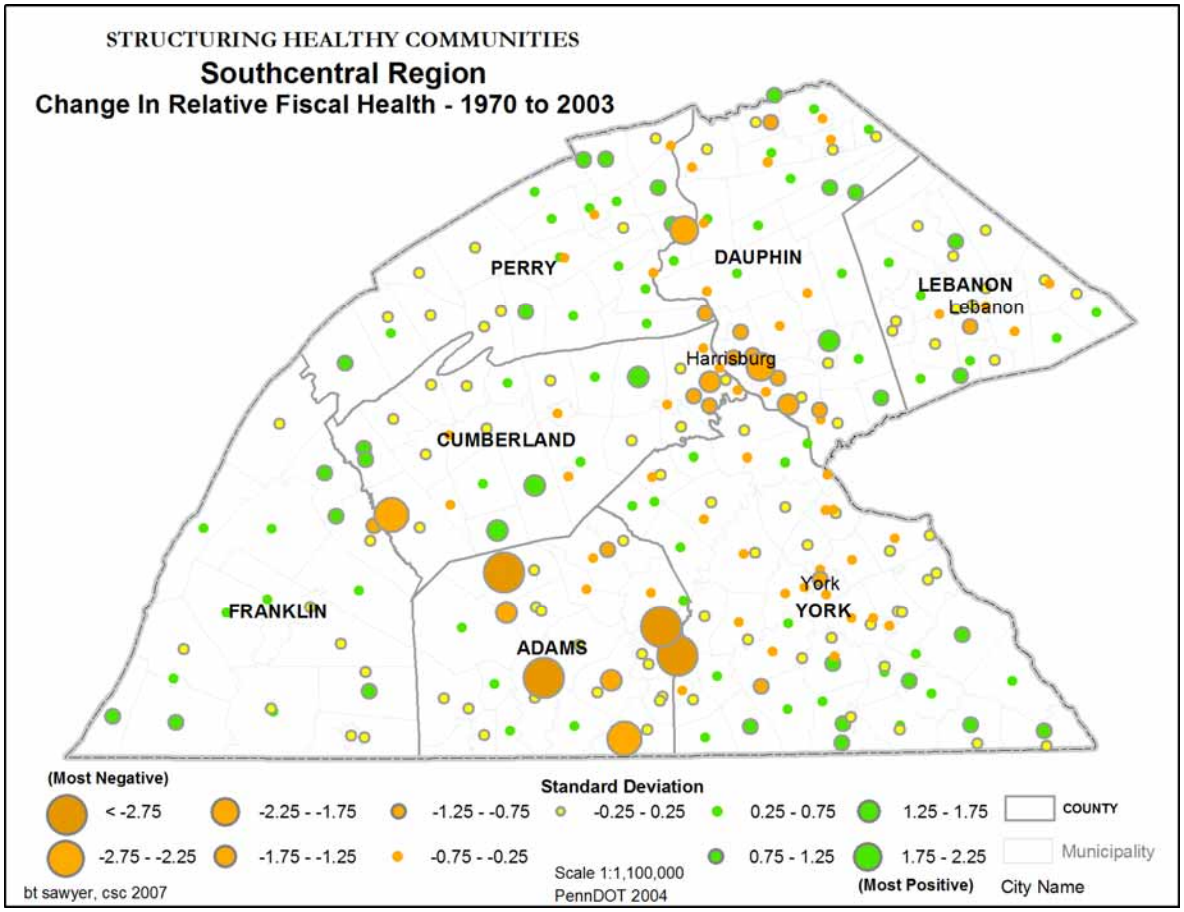
Since the data fell in a normal distribution we decided that it would be accurate and easier for the audience to see relationships if we used a standard deviation scale. It provides a way to accurately smooth the underlying values into an easy to understand scale.

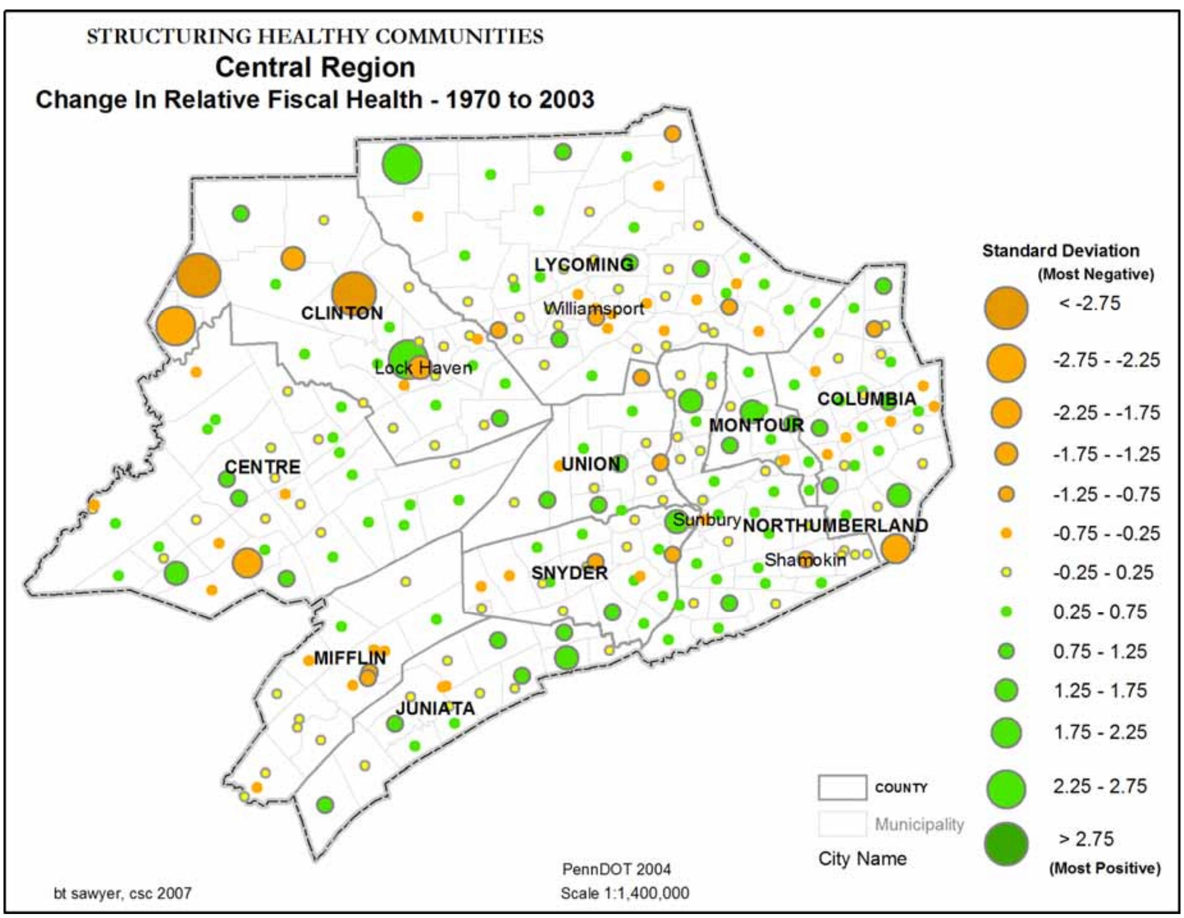
Data display

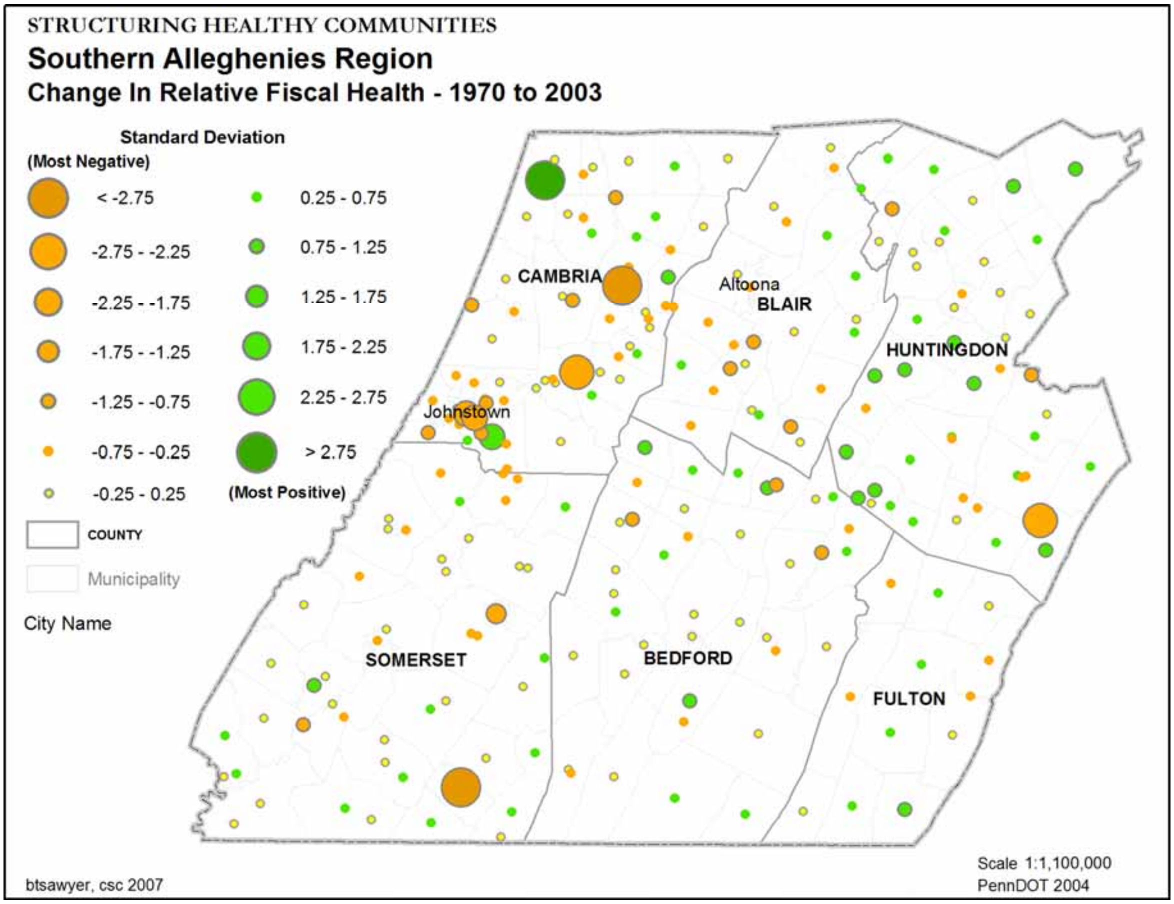
The rule of thumb for using color to map data is that quantity is represented by graduated symbols and percentages are represented by colored areas. This is important to keep in mind especially in Pennsylvania where area and population are wildly variant. In early maps we used so-called choropleth maps (areas of graduated color) to show change in relative fiscal health. This was not strictly accurate but the focus was on single counties and the audience was primarily people familiar with the region. In addition, the audience was led to concentrate on the spatial relationships of the colored MCD's (healthy next to not-so-healthy) rather than the magnitude of the areas involved.

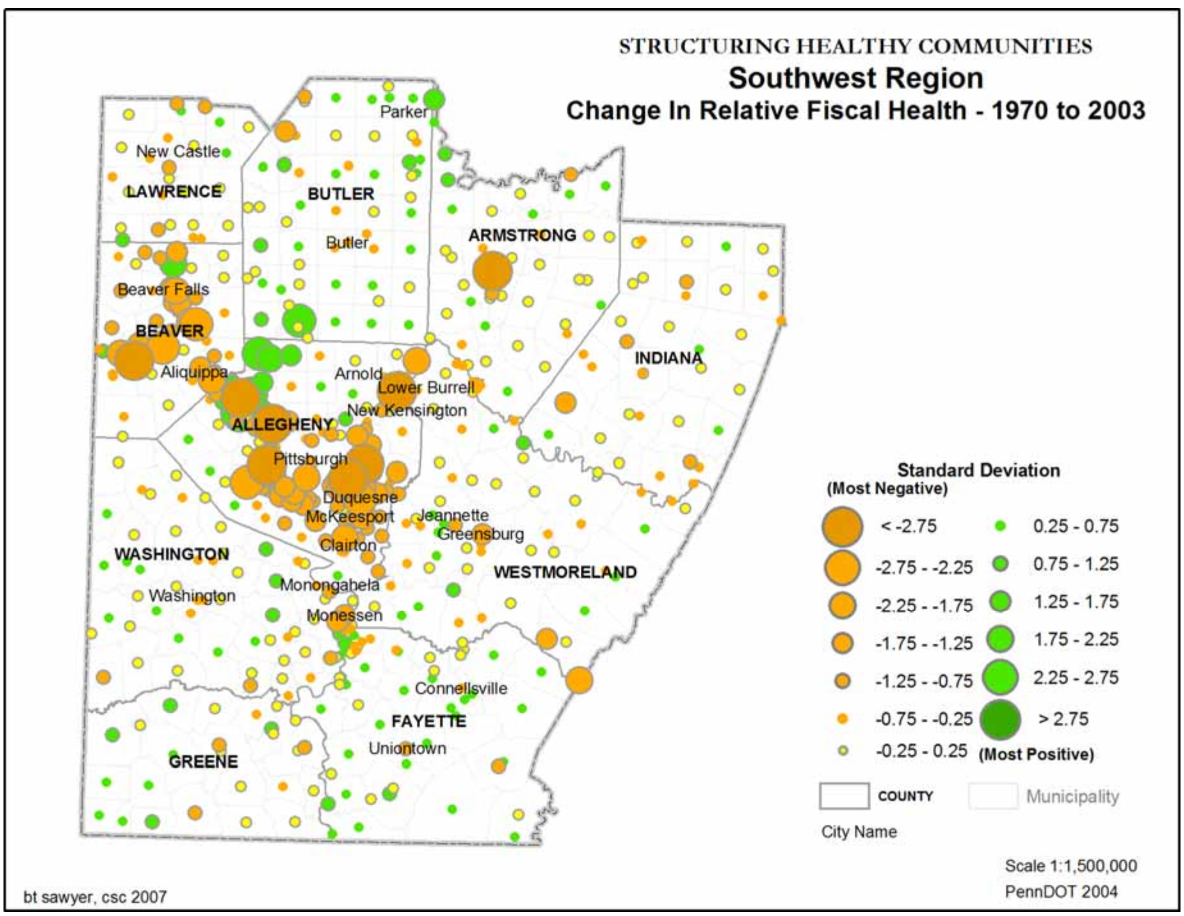
In this study we must use graduated symbols because our audience is larger and can easily misunderstand a symbology that uses whole MCD's as the colored variable.

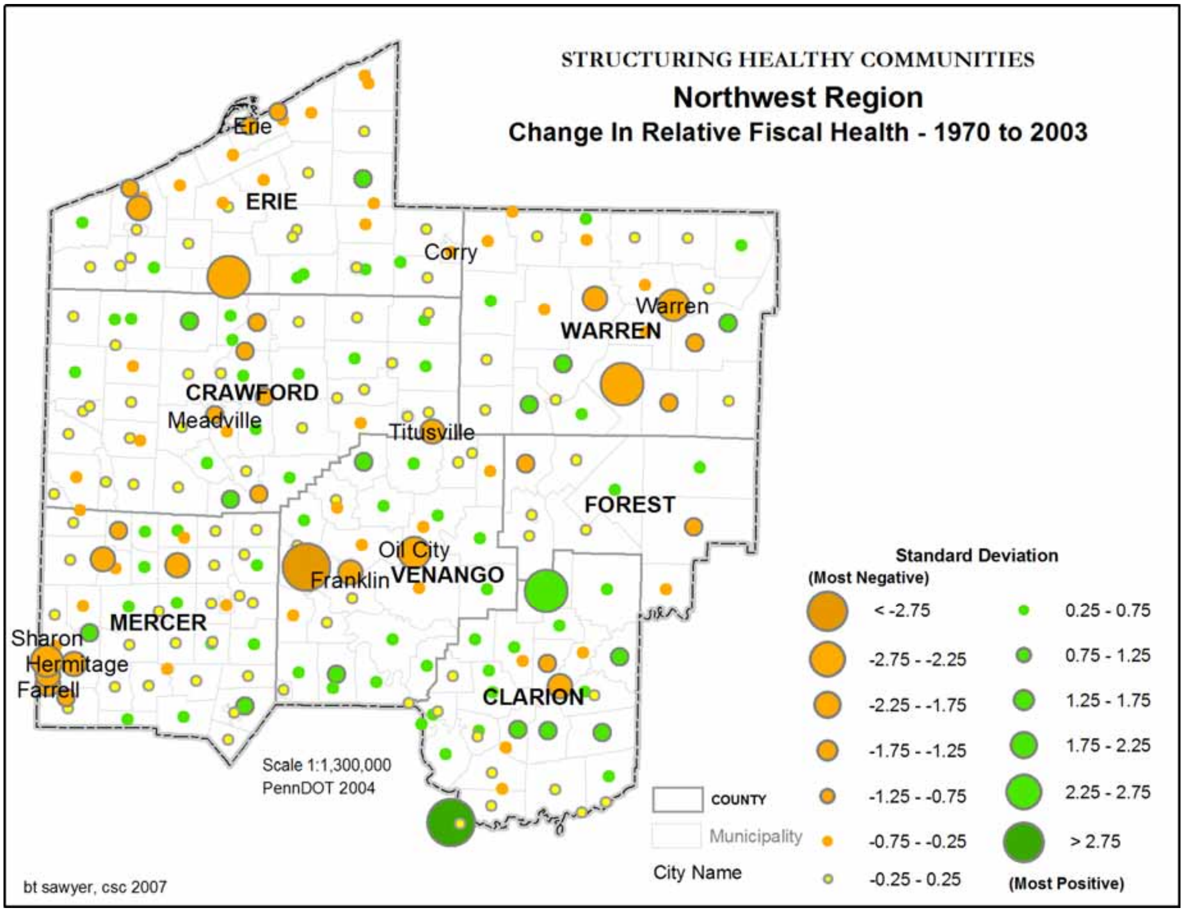
In our maps the size and color of the symbols accurately represent the geographic patterns of fiscal health. They do not represent the magnitude of the effect on citizens. That is, we show that two regions have the same relative fiscal health but we do not say that they are equal in impact on the state's fiscal health. That determination must be made using other measures that, however, will be informed by the geographic patterns we are displaying. We note that each MCD with data is represented by only one symbol. We excluded the 'extra' polygons in order to prevent a misleading pattern by amplifying the effect of MCD's with multiple polygons.

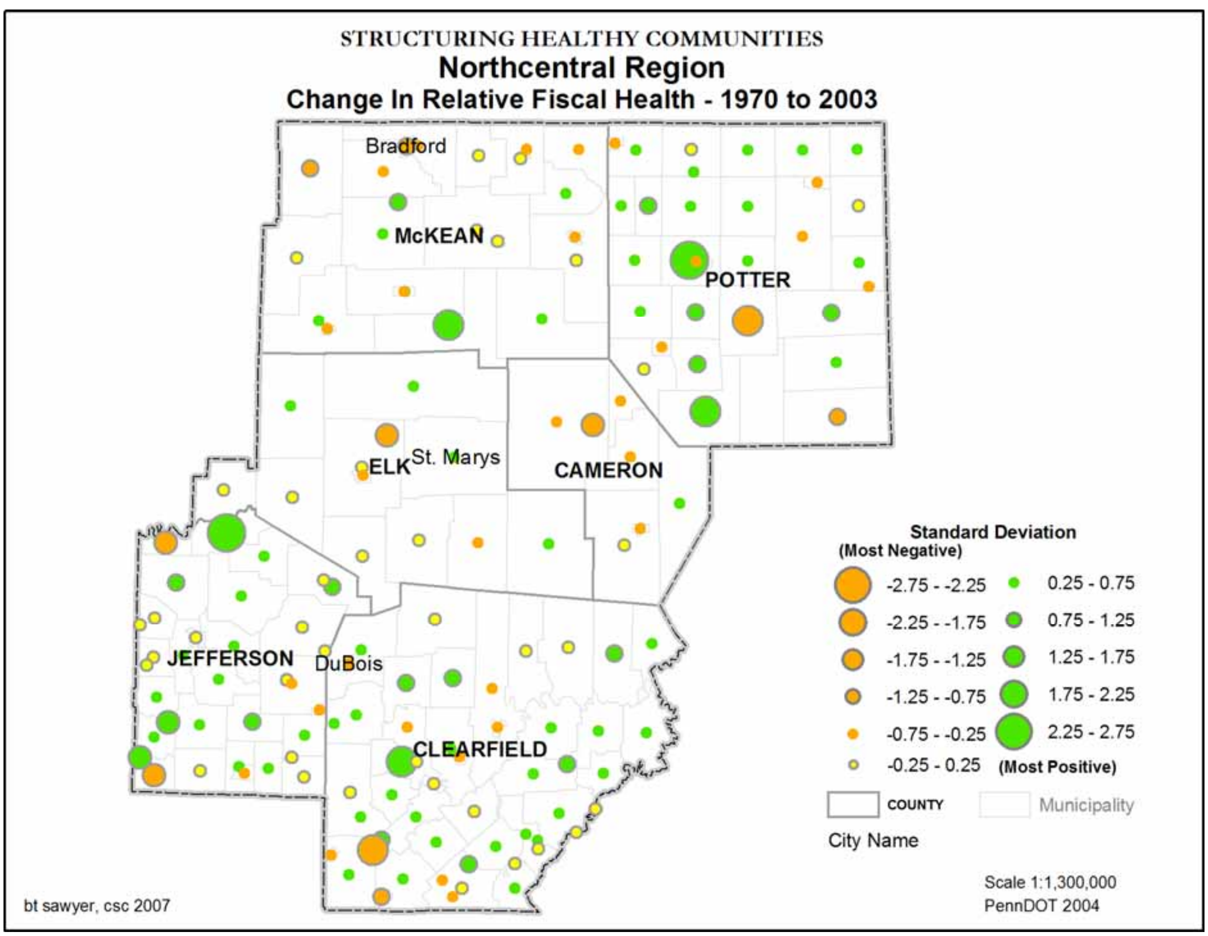

STRUCTURING HEALTHY COMMUNITIES
Southcentral Region
Change In Relative Fiscal Health - 1970 to 2003
PERRY
DAUPHIN
LEBANON
Lebanon
Harrisburg
CUMBERLAND
FRANKLIN
ADAMS
York
YORK
(Most Negative)
Standard Deviation
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
(Most Positive)
COUNTY
Municipality
City Name
Scale 1:1,100,000
PennDOT 2004
bt sawyer, csc 2007

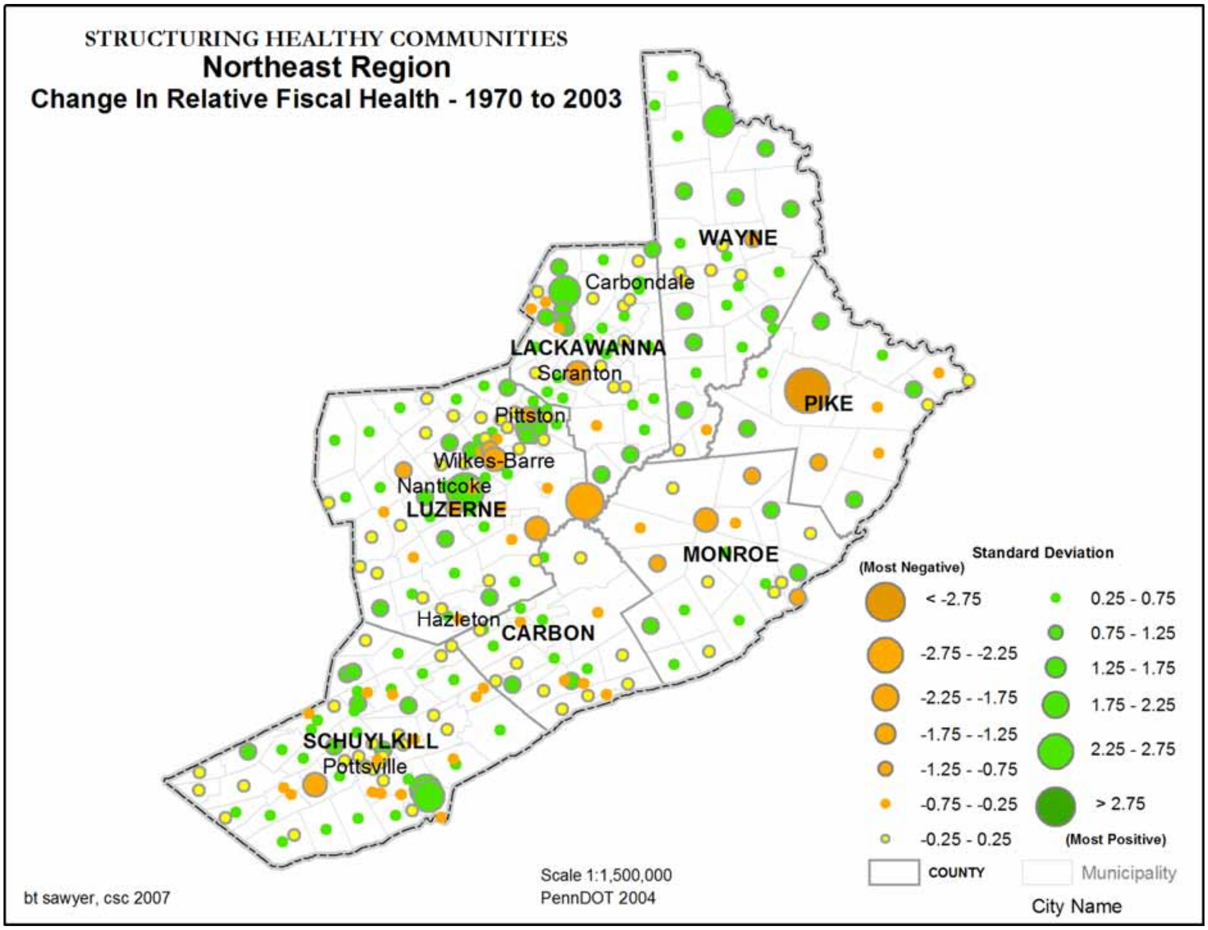

STRUCTURING HEALTHY COMMUNITIES
Central Region
Change In Relative Fiscal Health - 1970 to 2003
LYCOMING
Williamsport
CLINTON
Lock Haven
CENTRE
UNION
MONTOUR
COLUMBIA
Sunbury
NORTHUMBERLAND
Shamokin
SNYDER
MIFFLIN
JUNIATA
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
PennDOT 2004
Scale 1:1,400,000
bt sawyer, csc 2007

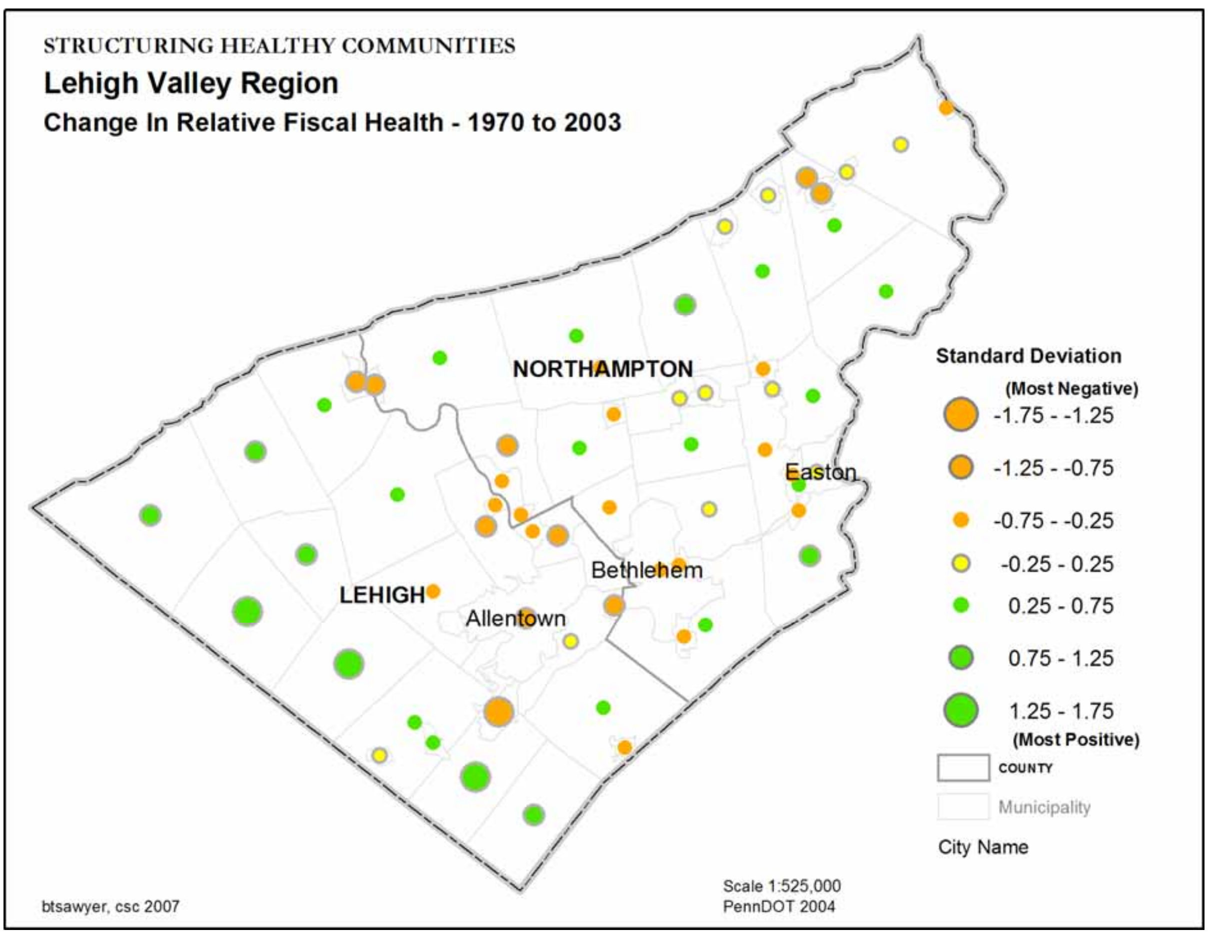

STRUCTURING HEALTHY COMMUNITIES
Southern Alleghenies Region
Change In Relative Fiscal Health - 1970 to 2003
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
CAMBRIA
Altoona
BLAIR
HUNTINGDON
Johnstown
SOMERSET
BEDFORD
FULTON
Scale 1:1,100,000
PennDOT 2004
btsawyer, csc 2007

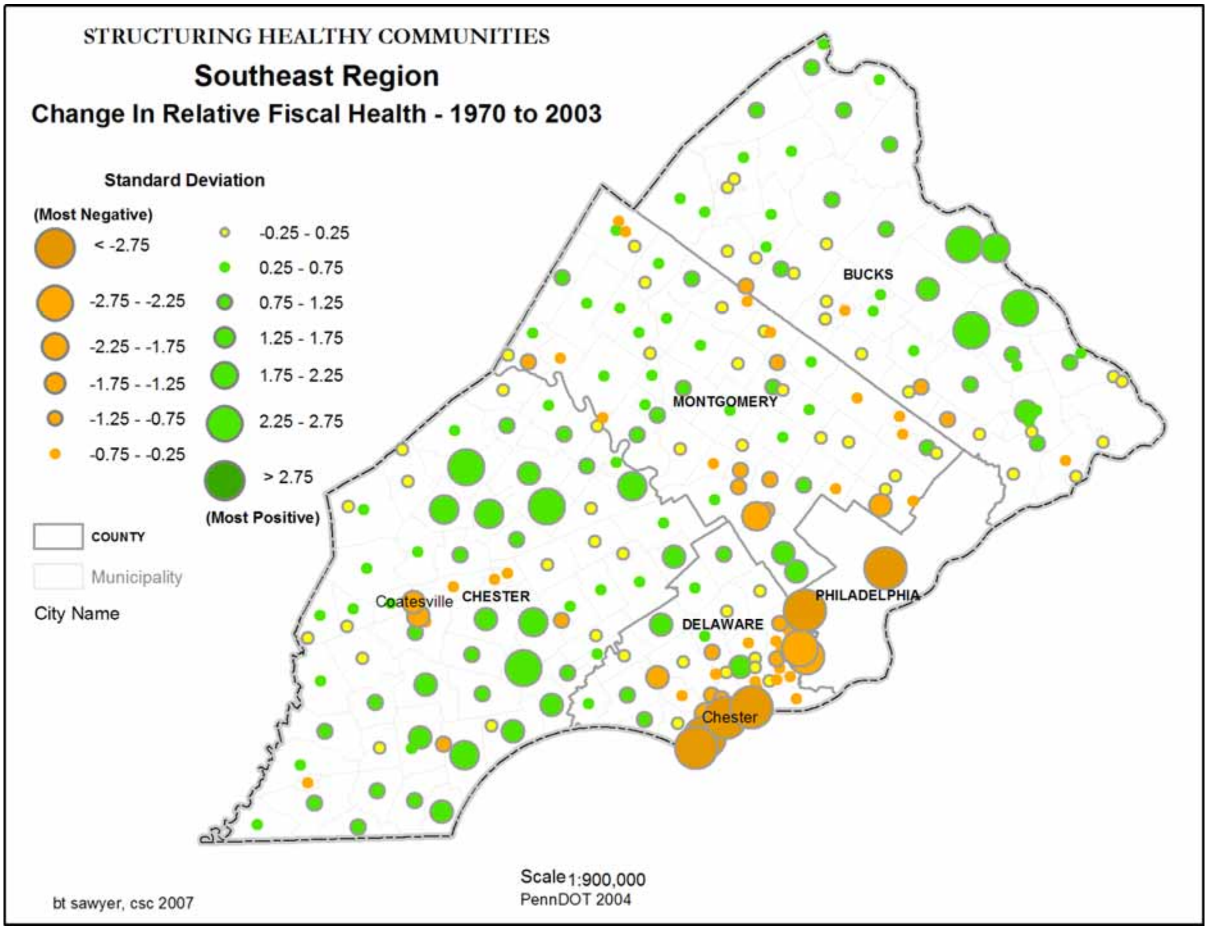

STRUCTURING HEALTHY COMMUNITIES
Southwest Region
Change In Relative Fiscal Health - 1970 to 2003
Parker
New Castle
LAWRENCE
BUTLER
Butler
ARMSTRONG
Beaver Falls
BEAVER
INDIANA
Aliquippa
Arnold
Lower Burrell
New Kensington
ALLEGHENY
Pittsburgh
Duquesne
McKeesport
Jeannette
Greensburg
Clairton
WASHINGTON
WESTMORELAND
Washington
Monongahela
Monessen
Connellsville
FAYETTE
Uniontown
GREENE
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
Scale 1:1,500,000
PennDOT 2004
bt sawyer, csc 2007

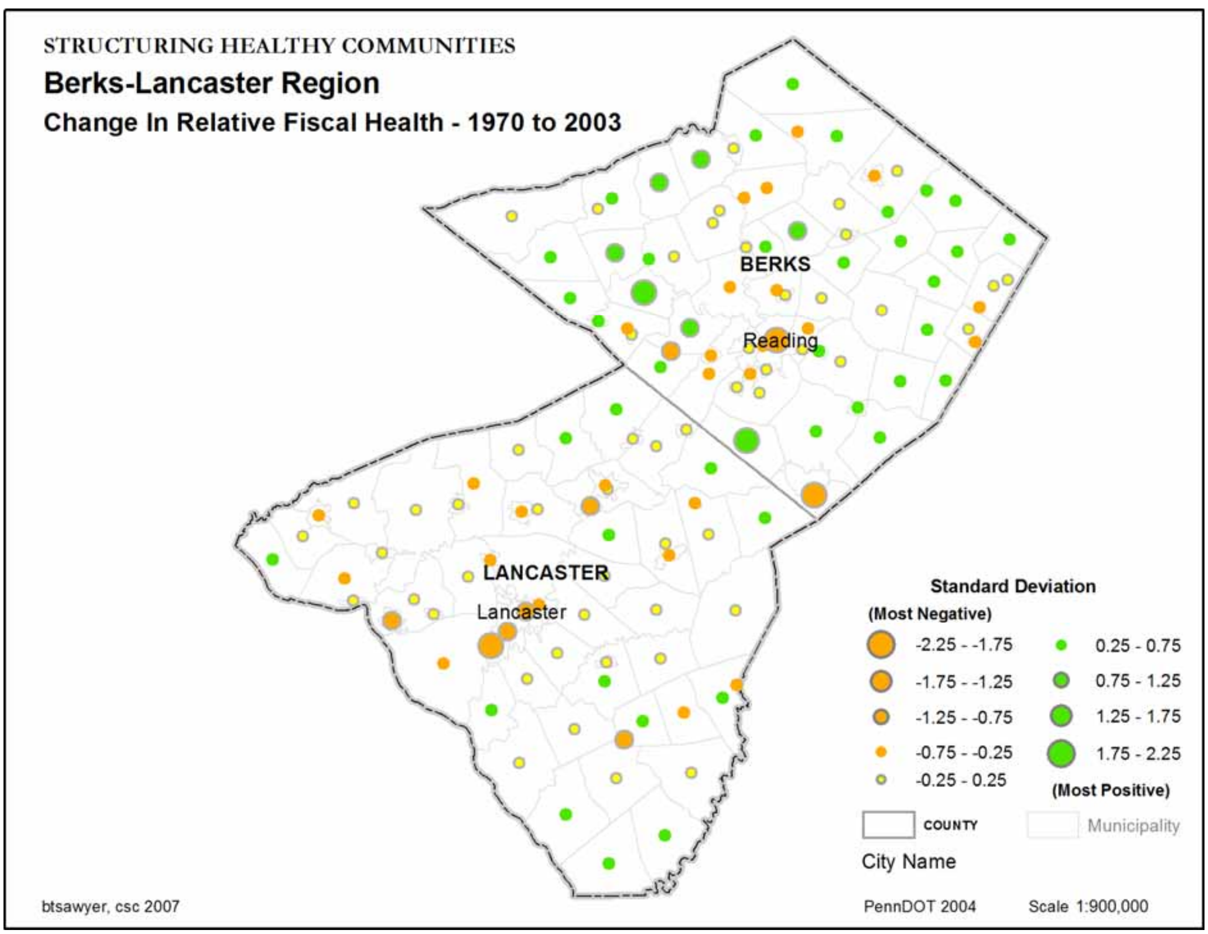

STRUCTURING HEALTHY COMMUNITIES
Northwest Region
Change In Relative Fiscal Health - 1970 to 2003
Erie
ERIE
Corry
Warren
WARREN
CRAWFORD
Meadville
Titusville
FOREST
Oil City
Franklin
VENANGO
MERCER
Sharon
Hermitage
Farrell
CLARION
Scale 1:1,300,000
PennDOT 2004
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
bt sawyer, csc 2007


STRUCTURING HEALTHY COMMUNITIES
Northcentral Region
Change In Relative Fiscal Health - 1970 to 2003
Bradford
McKEAN
POTTER
ELK
St. Marys
CAMERON
JEFFERSON
DuBois
CLEARFIELD
Standard Deviation
(Most Negative)
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
(Most Positive)
COUNTY
Municipality
City Name
Scale 1:1,300,000
PennDOT 2004
bt sawyer, csc 2007


STRUCTURING HEALTHY COMMUNITIES
Northeast Region
Change In Relative Fiscal Health - 1970 to 2003
WAYNE
Carbondale
LACKAWANNA
Scranton
PIKE
Pittston
Wilkes-Barre
Nanticoke
LUZERNE
MONROE
Hazleton
CARBON
SCHUYLKILL
Pottsville
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
Scale 1:1,500,000
PennDOT 2004
bt sawyer, csc 2007


STRUCTURING HEALTHY COMMUNITIES
Lehigh Valley Region
Change In Relative Fiscal Health - 1970 to 2003
NORTHAMPTON
Easton
Bethlehem
LEHIGH
Allentown
Standard Deviation
(Most Negative)
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
(Most Positive)
COUNTY
Municipality
City Name
Scale 1:525,000
PennDOT 2004
btsawyer, csc 2007


STRUCTURING HEALTHY COMMUNITIES
Southeast Region
Change In Relative Fiscal Health - 1970 to 2003
Standard Deviation
(Most Negative)
< -2.75
-2.75 - -2.25
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
2.25 - 2.75
> 2.75
(Most Positive)
COUNTY
Municipality
City Name
BUCKS
MONTGOMERY
CHESTER
Coatesville
DELAWARE
PHILADELPHIA
Chester
Scale 1:900,000
PennDOT 2004
bt sawyer, csc 2007


STRUCTURING HEALTHY COMMUNITIES
Berks-Lancaster Region
Change In Relative Fiscal Health - 1970 to 2003
BERKS
Reading
LANCASTER
Lancaster
Standard Deviation
(Most Negative)
-2.25 - -1.75
-1.75 - -1.25
-1.25 - -0.75
-0.75 - -0.25
-0.25 - 0.25
0.25 - 0.75
0.75 - 1.25
1.25 - 1.75
1.75 - 2.25
(Most Positive)
COUNTY
Municipality
City Name
btsawyer, csc 2007
PennDOT 2004
Scale 1:900,000