

Testimony before the PA Senate Urban Affairs Committee

City of Reading, PA

Presented by Eron Lloyd, Special Assistant to the Mayor

June 21st, 2013

Thank you, Chairman Argall and members of the committee for the opportunity to testify on behalf of the City of Reading. Mayor Vaughn Spencer sends his apologies for being unable to attend, as he is presently giving officials from DCED a tour of the city in anticipation of Main Street designation this summer. I would like to communicate our state of affairs as an Act 47 municipality and one of the most economically challenged cities in the Commonwealth, and draw your attention to what we see are becoming real obstacles to self-help and recovery.

Reading has been in Act 47 since May of 2010, just having completed the third of our five-year recovery plan efforts. The quick fixes, refinances, and one-time gains have all been done, and each year's budget becomes increasingly harder to balance between stagnating revenues, rising uncontrollable costs, and deeper and more damaging cuts.

Despite our best efforts, which have been recognized both by DCED and our Act 47 coordinators, Public Financial Management, the city's finances remain in an unstable and unsustainable state. Driven apart by large losses in the pension fund markets, a heavily eroded tax base that cannot sustain even core public services through tradition revenues, and increasingly restrictive legal impediments to leveraging public assets to bridge structural budget gaps, we're exhausting conventional options to stop the bleeding.

To make matters worse, one of the last sources of life support to balance the budget—transfer payments from our water authority—is now at risk because of the new restrictions in the Municipal Authorities Act, as amended by Act 73 of 2012. Those supplemental transfer payments, in the annual amount of \$5 million, helps make the difference in preserving core police, fire, and public works services that would be otherwise unsustainable in the general fund. We also fear the impact of Senate Bills 901-904, as they relate to the authorities' flexibility in financing favorable arrangements with the parent municipalities for the purpose of mutual benefit.

These significant public assets, such as our drinking water system, sewer water system, and parking facilities are well performing and profitable enterprise programs that deliver quality public services at levels comparable to the private sector. Their excess revenues should be able to support the parent municipalities without onerous restrictions put in place to penalize a limited number of irresponsible and overreaching municipalities.

Our administration came into office last year knowing that we could not simply tax, cut, or borrow our way back into fiscal health. While getting out of debt and back in the black is essential, the key to recreating lasting prosperity rests in economic development efforts, which are nearly an afterthought in our budgeting and operating resource allocations. In the case of Reading, we see our authorities as being a fundamental part of that support base to build an economic development structure upon in a way that keeps such assets public and under the coordination of the governing body.

We feel increasingly encroached upon by pressures to simply privatize public services and assets, which is something the Commonwealth itself appears to turn to when facing financial distress. We reject this approach as a sustainable option to lasting recovery, and call on our lawmakers to instead work with us to develop innovative economic development models that can be replicated in struggling cities and existing suburbs. I'll briefly talk about four areas we're focused on that would benefit from your attention.

First, we need help directing development and investment back into the urban cores. The Neighborhood Improvement Zone, which will also be addressed today, has attracted a great deal of attention, and we stand ready to support expansions such as Senators Smucker and Schwank's Community Revitalization and Improvement Zone proposals. Tax incentive programs to help attract capital and develop land are fundamental to our stabilization and growth. We are planning to form a land bank authority to help assemble and control blighted and vacant land, but we need more tools to address speculation on key sites across the city. For that we ask that public finance alternatives such as the land value tax, which is something else we hope to implement, be expanded by allowing it to be applied to all coterminous school districts. The land value tax fixes many of the problems of the property tax, which along with regular reassessments of the real estate tax base and hardship deferrals for cash poor homeowners, provides the ideal revenue tool with no negative economic side effects. Allentown's NIZ and land value tax has helped a great deal

in their redevelopment efforts, and such policies will help reverse decades of tax-policy driven subsidization of suburban sprawl.

Secondly, green infrastructure investments, in the areas of renewable energy, storm water, and public transportation, will secure our communities against future shocks of climate change and rising oil costs while creating good jobs. Programs like Act 47 address weaknesses in general operating areas, but are not helping municipalities plan for what we believe are inevitable financial and economic changes from climate conditions and energy decent. Our lack of preparation for deindustrialization and cyclical recessions will be nothing compared to the challenges ahead in these areas, and I ask you to make building community resilience a high priority.

Bringing more manufacturing back into our urban cores is also an essential goal, especially before our aging industrial infrastructure is beyond repair. Many of the raw materials needed to begin doing this can be captured from the waste stream, recycled into new inputs, and exchanged locally instead of defaulting to exports to China. We are working with Saint Vincent de Paul's of Eugene, Oregon, to do this; Eugene has built up a workforce of over 500 jobs in their community alone this way. Nothing builds economies faster than local production and local purchasing, which recirculates wealth as much as possible by maximizing the economic multiplier.

Building a local economy, however, requires a key ingredient that is often missing: getting critical levels of capital into our local businesses. Our mayor spends time each month visiting companies in Reading and consistently hears the need for more access to capital. Both the federal and state governments have been trying for years to stimulate increased bank lending, but it isn't working fast enough for our recovery needs. One concept that has our attention is leveraging public funds through public "partnership banks," similar to the state-owned Bank of North Dakota. At any one time even distressed cities like Reading has tens of millions of dollar in their fund balance, which could be directed into community banks to induce greater lending locally, instead of chasing investments outside of the community or even abroad.

These ideas are just a select few of the many we are exploring to help Reading pull itself back on its feet. We will continue to complete the recovery plan initiatives, and take advantage of existing programs such Main Street, but our efforts cannot stop there. Reading

will not allow itself to break down, nor do we want to simply break even. We want to break through the obstacles to progress, and that's where your help comes in.

We need the Commonwealth to reform the relationship between Act 47 and the Act 111 pension crisis, and reconsider the implications of policies such as Act 73 and SB 901-904. We need tax incentives and tax reform programs that favor urban infill over suburban sprawl. We need next-generation infrastructure to make cities more resilient in the face of future economic and environmental challenges. And finally, we need a new toolkit for economic development, one that focuses on local and green businesses on our Main Streets over the heavily subsidized corporations on Wall Street. The solutions are out there, and are being proven across the country. We call on the Commonwealth to help us clear a path to prosperity in the new economy that gets cities off of life support and back on track with life.

Thank you.