

**Testimony for the Joint Hearings on
Act 47 (Municipalities Financial Recovery Act)
Thursday, December 8th, 2011**

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Distinguished Chairs and members of the joint committee on behalf of Pennsylvania's business community, I thank you for convening these sessions to examine Act 47 and in turn learn more about the struggles of Pennsylvania municipalities, particularly cities.

I am here today representing our organization the Harrisburg Regional Chamber & Economic Development Corporation as well as a coalition of Chambers that we call "Chambers for Sustainable Communities" that include Metro Chambers in Reading, Lancaster, York, Lehigh Valley, Wilkes Barre and Pittsburgh. All of our Cities have financial challenges, some are in Act 47, some are close – the point is the problems are similar.

As a former County Commissioner from Clarion County, a small county in Northwestern Pennsylvania, I am familiar with public sector budgets and the challenges municipalities face each year. I observed the challenges from the borough of Clarion in comparison to its neighboring townships with no police departments or libraries. Much of the difference has to do with the services and level of services provided.

I also served as a former Deputy Secretary for Community Affairs and Development at DCA and DCED, I worked closely with Fred Reddig and Governor's Center with Act 47 communities and have gained a fair understanding of Act 47 and municipal challenges and problems. The Commonwealth is fortunate to have Fred Reddig.

From a macro perspective - Act 47 is not the problem; the problem is the fundamental structure of local government in Pennsylvania and the various established codes that Pennsylvania municipalities must operate under. Equating Act 47 to a medical care; Act 47 provides triage service to the patient and creates a treatment plan that attempts to stabilize the patient. Rarely will Act 47 cure the patient.

The problems with Pennsylvania municipalities didn't start during the recent recession; they started in post World War II Pennsylvania as a now mobile society moved from cities to suburbs, subdivisions and strip malls. Cities rarely adapted to population losses by downsizing services and maintained legacy levels of operations and services – as we know, government is very slow to change the way it does business. Staffing levels and corresponding pension obligations continued to grow as suburban communities relied on smaller public works departments, professional managers, and volunteer fire companies. Suburbs benefitted from new infrastructure supported by new development. In many cases suburban communities didn't even have a police force and related costs.

Some 60 years later we are beginning to see problems in the first ring of suburban development and other municipalities as infrastructure ages and growth slows. On a positive note due to gas prices and the success of New York, Philadelphia, Baltimore and other cities over the past few decades are seeing renewed interest by young professionals and empty nesters in City living.



It's time to have some serious discussions about changes in municipal government in Pennsylvania

One of the things we tried to accomplish during the Ridge Administration at DCED was to enhance the economic development component of Act 47 to help build the tax base. Over the past 15 years we have seen commercial growth in cities across the commonwealth with investment in community facilities like stadiums and conference centers that have helped to spur commercial growth in city centers.

Programs like Enterprise Zones, Keystone Opportunity Zones and LERTA were designed to grow commercial tax bases in urban centers, but these programs along with significant investment has not reversed the fiscal stress on cities and other municipalities which has been compounded by a bad global economy. In some cases, municipal leaders will not support these programs as we have found in Harrisburg.

I believe in some municipal government circles have lost touch with the fact that municipalities in Pennsylvania are creatures of state government, created by state authorization and governed by codes created by the legislature and enforced by state government. In other cases, state statute limits necessary changes in municipal governance. In the last session of the General Assembly there were some good discussions about the structure of municipal government in Pennsylvania and impediments

to voluntary mergers and consolidations of municipalities. I would like to see those discussions continue. There is an expression that the whole is only as strong as the sum of the parts and some of Pennsylvania's parts – municipalities – aren't very strong.

I have some general recommendations for consideration for Act 47 and related urban renewal strategies that I would like to share today.

- More fundamentally speaking what our Chamber's Coalition have discovered after two years of study and discussion are that there are some fundamental changes to laws governing cities and other municipalities need to be explored. Specifically pensions, collective bargaining, economic development and after other issues are addressed revenue enhancement options.
- The Chambers in our coalition have the utmost respect for men and women in uniform who protect and provide public safety for our municipalities. I have met with the FOP and I know this is a sensitive issue, but there needs to be discussions in the General Assembly involving municipalities, organizations representing uniformed public safety employees. The issues are both current collective bargaining legislation and pensions.
- Pennsylvania has 25% of the municipal pension programs statewide; we should move to a consolidated pension programs and explore defined contribution plans for future employees.
- Act 111 is viewed as a "third rail" issue in state government – but I believe reasonable people – union, municipal management and some of you – can have reasonable discussions and develop some reasonable solutions. We have seen these discussions be fruitful in the private sector and the evolution of labor/management relations. We believe it is time for the public sector to follow suit.
- We also believe there should be some discussions, ideas developed and programs created to encourage urban revitalization. Tools that offer opportunities to those older municipalities that want to be progressive and want to change. The original concept to the Keystone Opportunity Zone program was urban redevelopment that involved tax abatement at both the state and local levels.
- Create a program similar to the LERTA program (Local Economic Revitalization Tax Assistance) for publicly owned or other non-taxable properties coming back into taxable use. Our Pennsylvania cities are filled with these types of buildings. The transition from a school, a post-office or even a public utility building to a commercial or residential property is expensive and the ability to offer tax abatement to these properties would aid in the redevelopment process.
- I am also an advocate for additional financial support for the development of redevelopment strategies in the main corridors of our cities. I am a believer in economic development strategies that help grow municipal tax bases. This is beyond a Main Street retail strategy and

this involves mixed use office, retail and housing – public transportation hubs and walk able communities.

- The other problem we have seen in many Act 47 communities, notably Chester and Harrisburg, is the failure of the school systems which limits City living to young, single professionals, people without children and empty nesters. This is a related issue to the problems with Cities nationwide.
- We believe there should discussions about changes in property tax assessment and tax base options. Cities generally use Act 511 taxes more than other municipalities. It is confusing for residents and businesses alike.
- Another somewhat radical concept is tax base sharing. I don't know what that may look like but if we look to Pennsylvania Counties that essentially share the real estate tax base of municipalities county wide it does provide balance. None of Pennsylvania's 67 counties are financially distressed, while serving 24/7 public safety responsibilities from 911 Centers and County Jails.
- What tax base sharing could look like is open for discussion, but I believe it is something that should at least be discussed by benchmarking our MSAs against other MSAs in other states.

During my time at DCED, I was heavily involved in Act 47 in Chester and Scranton – and now Harrisburg arrives at Act 47.

As our City makes international headlines, it is important to note that Harrisburg is one of 103 municipalities in the Harrisburg MSA (Cumberland, Dauphin & Perry Counties). The other 102 run pretty well and the region as a whole tops many national best places to live and work lists. Harrisburg's population is about 49,000 people – the MSA is about 550,000 – just under 9% of our MSA population.

You might ask why the disparity? Looking at the downtown, Harrisburg looks healthy. The population more than doubles during the work day and the \$52 a year municipal services tax generates nearly as much as the earned income on residents does. (\$2.2M vs \$3M). That tells you about the demographics of the City. There was a belief that the city can run on fees from the incinerator, parking garages and net revenues from the water and waste water systems. The flaw in the plan became apparent in the incinerator. At some point in time these systems need to be upgraded. It was a noble experiment that failed.

Since 2008, I have witnessed a near total breakdown in the governance of the City of Harrisburg. This is similar to the condition we found in the City of Chester in 1995 with the addition of local politics we found in Scranton stood in the way of plan implementation in 1998 when sanctions were implemented.

A former longtime institution in the Senate once told me that “the success of any issue in government depends on what non-related issue it becomes related to.” We find a lot of non-related issues in Act 47 communities.

Act 47 assumes that elected officials at the local level will take responsible action for their municipality. The Act brings talent and resources to bear on municipal problems in a professional, apolitical manor. The Act as originally constructed does not account on local politics; hence the recent changes to Act 47 that I believe were necessary.

Sometimes it is necessary for the state to step in and take a more pro-active role. The challenge will be the State's exit strategy and the subsequent ability of "broken municipalities" to govern themselves in the future.

If Harrisburg, Scranton or even Chester were a business, it would no longer exist and the principals of the firm would likely be in jail for malfeasance of their responsibilities, public disclosures and other similar charges. In cities, they are cheered on by "citizen groups" in the community that paint them as heroes taking on the evil state government.

We would strongly suggest some formal, serious discussions around the issues I have noted in more detail in my written testimony.

- Pensions
- Binding Arbitration
- Economic Development
- Easier methods of Municipal merger and consolidation
- *...and after state mandates and restrictions are reformed...*
- Revenue Enhancement Options

The administration, members of the General Assembly and staff, municipal organizations, municipal representatives, representatives of municipal workers – police, fire, public works and others would meet under pre-determined parameters to address these problems and look for long term solutions. I doubt there is one piece of legislation that will address all ills and I doubt that change will come over night to change what has been in place for over 200 years, but we need to get started now because the problems of Cities and other older municipalities have become magnified in a difficult economy and hold back our progress as a state.

I sincerely thank the members of these committees for holding these hearings and look forward to working with you all in addressing the challenges that lie ahead.

Submitted for the record:

Chambers for Sustainable Communities Outline

- Across the board, Pennsylvania cities are failing. Act 47 provides relief from some of the constraints- Boroughs and Townships are on the same unsustainable path.
- Municipalities expend the largest share of resources maintaining fundamental and much needed services (Public Safety & Public Works).

- Cities cannot solve their challenges with the existing authorities, mandates and tools provided to them by the state.
- Long-term structural change is essential for future success; additional revenue will only temporarily delay the current state of decline.
- A prosperous city is absolutely essential for a prosperous county and, in turn, a prosperous state...and, therefore, an appropriate chamber issue.

Areas of Focus:

- Pensions
- Binding Arbitration
- Economic Development
- Easier methods of Municipal merger and consolidation
- *...and after state mandates and restrictions are reformed...*
- Revenue Enhancement Options

Collective Bargaining (Binding Arbitration)

- Consideration of ability to pay
- Redefine “impasse”
- Consider “Last Best” offer arbitration
- Ensure neutrality of arbitrators
- Institute a legitimate appeals process
- Shared cost of the arbitration process

Pensions:

- Authorize municipalities to establish defined contribution plans, make defined benefit plans optional.
- Adopt/ensure appropriate actuarial principles.
- Incentivize/encourage administration and management plans by PA Municipal Retirement System (PMRS).
- Prohibit benefit enhancements unless system is 90% funded.
- Adopt new benefit levels/rules/contributions/rates for all new hires.
- Prohibit including overtime and/or longevity in salary calculations (anti-spiking).

Revenue Enhancements – after other issues are addressed

- Constraints faced by Cities include:
 - Municipalities only have the authority to tax in areas specifically granted by the state – Act 511, a menu of taxes, rates and caps allowing taxing income & property of residents.
 - Cities host a large proportion of non-taxable property that serves the regional community, but it is the city that must provide the services without receiving revenue.
 - Inconsistent County assessment practices.
- Future Options:
 - Legislative changes to adjust existing revenue mix, perhaps with more local options.
 - Address nontaxable property with Payment in Lieu of Taxes (PILOT) or regional contribution.
 - Tax Base Sharing
 - Consistent County assessment practices.

Merger & Consolidation

- Revisit some of the ideas from the State Planning Board

- Provide financial resources to analyze grass roots initiatives toward merger & consolidation
- Provide funding as carrots to encourage merger & consolidation
- Pursue similar initiatives with school districts – examine links of failing schools to failing municipalities

Economic Development

- Cities need a new set of development tools to encourage commercial investment, residential growth and regional strategies
- Create 'Urban Redevelopment Areas'.
- Expand Local Economic Revitalization Tax Assistance (LERTA) programs to non-profit/public properties.
- Create a 'Strategic Communities Partnership' program – regional strategies for redevelopment of corridors.
- Remove impediments to and support shared services (focus on delivery mechanisms, not boundaries).