

**TESTIMONY BEFORE THE
SENATE URBAN AFFAIRS & HOUSING COMMITTEE
June 11, 2009**

Good morning Chairman Yaw and members of the Senate Urban Affairs and Housing Committee. My name is Fred Reddig and I am the Executive Director of the Governor's Center for Local Government Services in the Department of Community and Economic Development. The Governor's Center for Local Government Services is the office in state government whose mission is to work with local government officials to build their capacity to effectively and efficiently manage the affairs of their municipality and meet the service needs of their citizenry. In carrying out this mission, the Governor's Center for Local Government Services provides information, training, technical assistance and financial resources to Pennsylvania's 67 counties and 2,562 municipal governments.

The challenges faced by local governments continue to grow. Even before the current worldwide economic crisis, the Pennsylvania Economy League reported that the fiscal condition of a large percentage of our municipal governments was deteriorating. Under current economic conditions, this situation is becoming even worse. Local governments are expected to provide the same level or even increased services each year, whether or not their tax base can support the cost of supplying these services.

Many municipalities face structural deficits that they cannot reasonably be expected to close without draconian reductions in services. The impact of a recessionary environment on municipal revenues typically lags behind other broader indicators. The effects of the recession on realty transfer, earned income, local services and business gross receipts taxes are now impacting FY 09 municipal budgets, adding to municipal fiscal pressures.

These structural deficits are being compounded with the decline in pension fund assets brought about by the recent economic crisis and stock market losses. The impact of these losses has yet to be felt on municipal budgets as municipal obligations to pension funds have yet to factor in the decline in assets. A dramatic increase in unfunded liabilities is looming. One small municipality in southeastern PA recently shared the fact that their annual obligation would increase by 400% based on the decline in market value of their pension fund assets. The City of Pittsburgh's funded ratio as identified in its 2007 actuarial report – the most recent report – was 41%. Based on 2008 year end market values, it is estimated to have dropped to 29%. Clearly some relief is needed for the pending crisis with municipal pension plans to maintain their long-term solvency.

The Governor's Center for Local Government Services responds to thousands of requests annually from local government officials for assistance on fiscal management, administrative, taxation, police, fire, public works,

code enforcement, land use planning and community and economic development issues. We offer over 50 publications to provide guidance to local elected and appointed officials in the performance of their responsibilities. We maintain a statistical database of tax, fiscal and service information on local governments.

Through the Pennsylvania Local Government Training Partnership, a partnership of DCED and the six major local government associations, we offer a wide range of training programs that are intended to build the skill set of local officials to effectively manage their communities. In FY 07-08, we offered 424 training sessions across the state that were attended by 9,247 officials. We also provide individual technical assistance to local officials on a wide range of local government issues including budgeting, accounting, management, police, volunteer fire, code enforcement and land use issues. Our technical assistance efforts have a strong focus on strengthened financial management practices and intergovernmental approaches to service delivery. In FY 07-08, we undertook 21 regional police feasibility studies and provided assistance with 60 active volunteer fire company merger/consolidation task force efforts. Our goal is to provide local officials with the information necessary to make informed decisions on service consolidation issues and to support the implementation of these efforts thru both technical and financial assistance.

The Center also administers several financial assistance programs that provide resources to implement actions that build on our training and technical assistance efforts. Our Shared Municipal Services (SMS) Program provides matching grants to municipalities that undertake cooperative ventures pursuant to the Intergovernmental Cooperation Act. Intergovernmental cooperative projects produce a win/win situation for the partners involved and result in the more efficient delivery of core municipal services. Regional police departments, regional code enforcement agencies, fire company partnerships and collaborative approaches to energy conservation created through the Shared Municipal Services program have proven to be efficient and effective organizations that are having a positive impact across the Commonwealth.

The demand for SMS funding annually exceeds the available funds. Since FY 04-05, SMS demand has been virtually double available funds. The SMS Program has:

- Funded 185 projects over the last three state fiscal years that have resulted in service delivery efficiencies and consolidations positively impacting over 2,000 municipalities;**
- Thirty three projects have supported the consolidation and/or expansion of regional police services;**
- Eight projects have supported the consolidation of fire services;**
- Seven projects have funded joint energy efficiency projects that have supported the Administration's Energy Independence Program;**

- **Thirty seven projects have supported joint public works projects; and**
- **Six have supported the implementation of the Uniform Construction Code and resulted in joint approaches to code enforcement.**
- **One specific Shared Services Program example is the 80% energy cost savings that has occurred in the conversion of traffic lights to LED technology thru a collaborative effort of the 7 Local Development Districts with DGS and DCED.**

Over the past five years, with a little over \$2 million/year, the SMS Program has had a significant impact in implementing cooperative solutions to local issues and has impacted an average of 856 municipalities per year or 33% of all municipalities in the Commonwealth. The Commonwealth's modest investment in municipal collaborative efforts has paid huge dividends over the long term. The continuation of this funding stream is critical in supporting intermunicipal initiatives that result in the more efficient service delivery.

The Center has worked with the PA Economy League to analyze the fiscal health of municipalities using the data that is contained in the Center's municipal statistics database. As a result of the analysis of fiscal data over a 30-year period, the League identified five stages of fiscal health:

- **Prosperity with low taxes;**
- **Increasing demand for services and gradually rising tax rates/fees;**
- **Taxes increase; reductions in non-core services;**
- **Tax revenues decrease; reductions in core services; and**
- **Loss of tax base, population and increasing fiscal stress.**

Understanding this pattern and its causes allows for early identification and intervention, with the goal of stopping the cycle and avoiding fiscal distress. The report found that many municipalities who felt that they were fiscal healthy were at a stage where symptoms of distress were occurring. The report identified 956 or 38% of municipalities that were at either stage four or five while only 426 municipalities, or 17%, were at a fiscally strong stage one status. The findings of this report helped to shape DCED’s approach in dealing with fiscally troubled municipalities.

In FY 04-05, DCED initiated the Early Intervention Program (EIP). The EIP was established to assist local governments in addressing financial management and fiscal difficulties in a timely and planned manner in order to avert a fiscal crisis that would have an adverse impact on health, safety and welfare of their residents and to be a companion to Economic Stimulus activities.

Prior to the development of this initiative, no state grant program was available to support this type of effort. The EIP was designed to be a pre-emptive step for counties and municipalities who, though not formally declared distressed, were realizing serious fiscal difficulties and sought to “right their financial ship” with a five-year financial plan and a management review provided by the EIP. These plans include short-term and long-term financial and managerial objectives that strengthen the fiscal capacity of

county and municipal governments along with the integration of long-term community and economic development strategies that could strengthen the local government's tax base.

Given the current downturn in the national economy local governments are experiencing declining or stagnant revenues and, though inflationary pressures have eased in the overall economy, it remains an issue for local governments in areas such as fuel, road materials, and healthcare benefits. Indeed local governments are faced with serious challenges in maintaining fiscal stability. These challenges vary greatly in both source and severity.

Some of the more common ones are:

- An inadequate tax base that does not keep pace with service demands;**
- Outdated property assessments;**
- A lack of economic development opportunities that will foster the development of new and/or maintain existing revenue sources;**
- Inadequate administrative capacity; and,**
- Inefficient use or mismanagement of limited resources.**

Although many municipalities acknowledge they face one or more of these challenges, most do not have the expertise, financial and/or human capital, to devise a plan to fully identify and address these challenges, let alone implement changes to correct them. EIP has provided them with the expertise and resources necessary to avert a more serious fiscal crisis.

Since the inception of the Program and with an annual allocation that has ranged from \$740,000 to \$1 million, the Program has provided such

strategies for 12 counties, 23 cities, 11 boroughs and three townships. Of these, in only two, New Castle and Nanticoke, were the problems so severe that the remedies of Act 47 were necessary. Although the EIP has not provided permanent solutions, it has been effective in stabilizing the fiscal condition of participants, strengthened fiscal management practices and provided effective strategies to improve service delivery. The EIP was also selected in 2008 as one of six regional finalists for the Council of State Government's Innovation Award.

Finally, DCED's Act 47 program is intended to be a failsafe mechanism for municipalities to prevent a municipal bankruptcy filing. The Municipalities Financial Recovery Act Program empowers DCED to monitor the fiscal health of municipalities so that they are able to provide for the health, safety and welfare of their residents and to declare certain municipalities distressed when they are unable to do so. Act 47 provides both technical and financial resources to assist municipalities in recovering from conditions which caused them to become financially insolvent.

After a municipality is designated as distressed, a recovery plan coordinator, funded by the program, is designated. The coordinator develops a comprehensive fiscal recovery plan for the municipality, assists the municipality to implement the plan and monitors the recovery process. The recovery plan addresses all operational aspects of the municipality and

includes strategies to revitalize the local economic base and corresponding tax base through development of effective public-public and public-private partnerships and targeted state funds and action. Loans are made under the Program to address critical health and safety concerns in the initial stage of recovery and are repaid as part of the fiscal plan for the municipality. Grants are used to implement key recovery plan recommendations that support service delivery efficiencies and intergovernmental initiatives.

DCED has provided assistance to 24 designated distressed municipalities. Currently, 18 municipalities are designated as distressed. Over the last two fiscal years, only one municipality, Westfall Township, Pike County, has received a distress designation while another, Homestead Borough, Allegheny County, saw its designation rescinded due, in large part, to the revitalization of the former USX facility into the Waterfront development. Still, the Department struggles with long-term solutions for a number of our Act 47 municipalities. The long-term viability of some is severely questioned. Efforts to effect merger or consolidation are extremely difficult under current law as evidenced by the Shenango Valley consolidation initiative. The Farrell Act 47 plan recommended consolidation and there was a willingness of it and four adjacent municipalities to undertake a feasibility study that led to a ballot question. The question succeeded in both Farrell and Sharon, the two municipalities with the most stressed fiscal position, but failed

in the other three municipalities. Tax-base restoration in towns such as Clairton, Aliquippa and Duquesne is dependent on many factors outside the control of these municipalities and, indeed, of the state.

Conclusion

DCED and the Governor's Center are on the front line in providing training, technical and financial resources to municipalities that need assistance. Providing our municipalities with more options to increase their efficiency, encouraging sound financial management practices and supporting multi-municipal cooperation are among the best of ways to provide both residents and businesses with more efficient and high-quality services at a lower cost.

Thank you for the opportunity to offer DCED's views on these pressing issues. I will gladly answer any questions.