SUSTAINABLE GOVERNMENT: FINANCIAL DISTRESS IN PENNSYLVANIA

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)

GOVERNOR'S CENTER FOR LOCAL GOVERNMENT SERVICES
History of Distress In Pennsylvania

- In 1985, the Local Government Commission created a task force to examine municipal financial distress resulting from structural changes in local economies or managerial/administrative deficiencies
- The Municipal Financial Recovery Act of 1987 was passed as a result.
What causes municipalities to become financially distressed??

- **Loss of Jobs** - Sudden and severe industry closing - one industry towns with local economy based around industry & management problems - Aliquippa, Braddock, Clairton, Duquesne, Farrell, Franklin
- **Long term economic decline** - Population loss, large pension/debt obligations – Pittsburgh, Chester, Johnstown, New Castle, Shamokin
- **Lack of rightsizing/management issues** - Population decline, continued operation at levels during population peak, significant legacy costs debt and/or pension liabilities, management/misappropriation issues – Scranton, Chester, Pittsburgh, Reading, Harrisburg, New Castle, Colwyn
Municipalities Financial Recovery Act Goals

- Foster fiscal integrity of municipalities
- Provide for health, safety & welfare of residents
- Pay due principal and interest on debt
- Meet creditor obligations when due
- Provide technical assistance, including proper accounting, budgeting & taxing practices
Early Intervention Program

- **Program Goals**
  - Provide guidance for municipalities interested in an improved fiscal position
  - Promote management best practices to promote the financial stability of municipalities and ultimately avert fiscal distress
- Provides grants up to $200,000 for half of the total project costs to develop and implement multi-year financial management programs and strategies
- Open to all municipalities, regardless of financial status
Entrance Into Act 47

- **Request for Act 47** — Typically received from municipal officials, but can also be requested by 10% of voters or triggered by DCED Early Warning System.

- **Consultative/Investigative Report** — DCED prepares this report from information gathered in meetings with municipal officials and governing bodies. This report gives information on the historical financial condition of the municipality and trends/projections for their financial future.
Entrance Into Act 47

- **Entrance Hearing** — A public hearing is held in the municipality where a formal request is made and testimony is heard from municipal representatives and DCED employees.

- **Hearing Officer’s Report** — The hearing officer will prepare a report including findings of fact from the hearing and a recommendation for or against a distress determination, which is then forwarded to DCED Secretary.

- **Distress Determination** — DCED Secretary will make their determination and issue an administrative order granting or denying the request for Act 47 determination.
Next Steps

- **Coordinator Appointment** — DCED will issue an RFP for a qualified coordinator to administer the recovery process. The coordinator is an outside firm that contracts with DCED and develops the recovery plan.

- **Recovery Plan Development** — The coordinator will begin meeting with DCED, municipal officials, the governing body, and any other key stakeholders to prepare a list of preliminary findings. These findings will be presented at a public meeting, and will be used to develop the recovery plan that the municipality will follow for the next five years.

- **Recovery Plan Adoption** — The municipality will adopt the recovery as ordinance at a public meeting.
Process:

- Not a "takeover" by state or a "bailout"
- Coordinator appointed
- Interactive process
- Recovery plan adopted by municipality
- Coordinator is resource - Doesn’t run municipality
- Designed to build capacity/address imbalances between expenditures and revenues
- Identify and build upon municipality’s assets
Extraordinary Authorities:

- Taxing Powers – Earned Income Tax (EIT)/Local Services Tax (LST)/Real Estate Tax, Payroll Preparation Tax

- DCED Program Priority

- Section 282. Priority. “An eligible municipality shall receive priority in all economic and community development programs funded by the Commonwealth.”
Act 47 Grant/Loan Program

- Financially distressed municipality may apply for a grant or loan after the adoption of the recovery plan
- A hearing on the grant or loan will be held in the municipality
- If sufficient evidence is presented by the municipality, the coordinator, and DCED, then the grant or loan will be approved and distributed to the municipality
Recovery Plan

- **Plan develops a path to achieving structural balance**
  - Early years are a bridge to financial stability in exit years
  - Create vision for future
  - Institute sound financial management practices
  - Effect service delivery efficiencies
  - Develop/implement sound planning tools
  - Positive outcomes often dependent on successful economic/community development strategies - takes time

- **Broad participation and support is critical**
  - Cooperation between administration, legislative body, coordinator
  - Employees/Collective bargaining units
  - Business community - Community leaders

- **Realization of benefits requires strong leadership, management and political courage**
Key Elements for Recovery & Sustainable Future

- Leadership
- Vision
- Management Capacity
- Partnerships
- Commitment to make hard decisions
- Action

Commonwealth's commitment:
Establish a cooperative approach that provides for a healthy and sustainable future for its local governments.
Long Term Sustainability

Economic development is about attracting people, talent, and ideas (entrepreneurs)

- Capitalize on real assets and markets
- Local history and welcoming environment can help create jobs
- Image is directly related to economic success – great places attract people and investments
Act 199 Amendments (2014)

- Codified Early Intervention Program
- Provided additional revenue options
  - Resident EIT increase = or > than non-resident
  - Local Services Tax – Up to $156/year
    - Exemption level $15,600
  - Payroll Preparation Tax
    - Revenue neutral in initial year
- Requires Court approval
Act 199 Amendments (2014)

- Coordinator Duties
  - Requires initial public meeting within 45 days
  - Requires review and comment period on budget
- Established specific time periods for Act 47
  - Initial 5 year period
  - Assessment – 3 year exit plan or Rescind/Receivership
  /Disincorporation (applies only to municipalities without a collective bargaining agreement)
Examples of Act 47 Success - Pittsburgh

- Pittsburgh entered Act 47 in 2003 due to significant debt issues, recurring net loss from operations, and rising payroll/benefits costs
- The City made adjustments to accounting, budgeting, fund balance, borrowing, capital improvement planning, and purchasing
- The City was able to produce an operating surplus in ten of its last fourteen years in Act 47
- Pittsburgh exited Act 47 in February 2018
Examples of Act 47 Success - Pittsburgh

- **Coordinator** – Pittsburgh used a traditional Act 47 Coordinator (Eckert Seamans and Public Financial Management (PFM)) as well as an Intergovernmental Cooperation Authority (ICA).
- **ICA** – Special administrative body created to oversee finances. It was created in 2004 to ensure that city budgets are balanced and comply with the City’s recovery plan.
Examples of Act 47 Success - Altoona

- Altoona entered Act 47 in 2012. They were able to exit in 2017, and were the fastest city to exit Act 47 program.
- Act 47 helped the City to improve and streamline government operations, as well as to transform the downtown into an attractive business district.
- Strong management from the City’s administration as well as an aggressive recovery plan enabled successful exit from Act.
- A new revenue source was created by forming an agreement with the water authority to return ownership to the city and lease operation back to the authority in return for payment.
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