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Hourglass Quarterly

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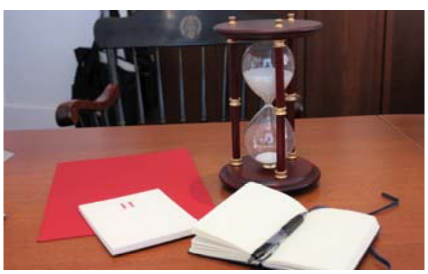
CITY NEEDS FLEXIBILITY

Hourglass Column

For many households, the scene is a familiar one: A family huddles around the dining table, working to find ways to pay the bills and balance the budget.

Now imagine you are sitting at that table and someone limits your sources of income while simultaneously imposing requirements on how you spend your money. These income options and expenditure requirements might line up with your family's needs and skill sets, or they may not. Wouldn't you prefer to be the one making these financial decisions for your family?

Unfortunately, this is exactly the situation the City of Lancaster has found itself in.



As a third-class city (that is, a Pennsylvania city with a population under 250,000), Lancaster is restricted in the ways it can raise money. Pennsylvania law allows Lancaster to set its local property tax millage rate, but not much else. The state sets the rate of the earned income tax (a 0.6% tax on wages of city residents only); the local services tax (a $47 tax on those who work in the city regardless of where they live); and the real estate transfer tax (a 0.5% sales tax on real estate purchases). So in effect, when the city needs additional revenue to cover its costs, it is largely limited to looking at raising property taxes.

Lancaster city has experienced successful revitalization efforts and has practiced strong fiscal management across successive mayoral administrations. At the same time, due to the constraints placed on them by the state, and in order to meet the city's financial obligations, city leaders have had to make difficult decisions to reduce certain services and raise property taxes. This is not a sustainable path forward. Increasing property taxes will not only discourage investment in the city, but it will dramatically affect those who are impoverished or on fixed incomes.

At the same time, the city has made great strides in reducing the expense side of the balance sheet. Because the city's largest cost across all departments is personnel, it has significantly reduced personnel. In 2007, the city had 424 full-time employees. In 2019,

that number had dropped to 387, a decrease of almost 9%.

Since 2012, the city also has self-funded its employee health insurance plan, saving millions. It also has taken steps to reduce its long-term post-retirement pension and medical liabilities.

The Third Class City Code also mandates certain services the city needs to provide, such as a paid police department and fire department. Other municipalities in Lancaster County are not bound by the same requirement. More than 60% of the city's budget is taken up by public safety costs (police and fire protection).

Because of the novel coronavirus and the subsequent economic downturn, financial hardships are likely to get worse. Lancaster city is not an outlier in this regard. The Pennsylvania Economy League recently released the results of a survey of municipalities across the state. The survey found that a substantial number of municipalities anticipate significant budget issues in the future if they are not already experiencing challenges. Of the 430 respondents, 23 municipalities indicated that they are likely to request entry into the Act 47 Program, which is essentially municipal bankruptcy. While it is too early to discern the full impact of COVID-19 on municipalities in Pennsylvania, the pandemic's effects already are showing.

With so many municipalities facing financial hardships, we question why a city has to be in dire fiscal trouble before it is granted fiscal flexibility. Wouldn't it make sense to empower cities like Lancaster to make their own financial decisions? Those running the City of Lancaster know better than the state how to manage its own budget. A family would find it hard to operate with such restrictions on their finances. The remedy for these financial issues depends on legislative action in Harrisburg.

Our request to state lawmakers is simple: Empower the City of Lancaster and other municipalities across the state with the financial tools they need to effectively manage their own financial health.

Summarized from column written by Hourglass that appeared in LNP on November 15, 2020.