



CENTRAL OFFICE:
17 North Front Street, Harrisburg, PA 17101-1624
PH. 717-232-7554 FAX 717-232-2162

NORTH OFFICE:
P.O. Box 60769, Harrisburg, PA 17106-0769
PH. 717-526-1010 FAX 717-526-1020

THE FISCAL CONDITION OF PENNSYLVANIA'S COUNTIES
THE HOUSE DEMOCRATIC POLICY COMMITTEE

Lancaster, PA

Presented by
Douglas E. Hill
Executive Director

April 8, 2009

Good morning. I am Douglas E. Hill, Executive Director of the County Commissioners Association of Pennsylvania. CCAP is a non-profit, non-partisan association providing legislative, educational, insurance, research, technology, and similar services for all of the Commonwealth's 67 counties.

We appreciate the opportunity to present our perspective on the fiscal condition of our counties.

While we have some nominal statistical information, most of what I am presenting today is anecdotal, primarily because the nature of our economy and the issues it presents to us are fluid and volatile. This is in fact perhaps the most significant feature of our current fiscal condition: It lacks the stability of a normal economy, and its significant deviation from, or more accurately exaggeration of, the trend lines of growth and decline means that we have no reliable basis from which to do projections of either near term or long term fiscal needs and service demands.

First, some raw data. County budgets for 2009, excluding Philadelphia, total in the range of just under \$10 billion. Philadelphia's proposed 2009-2010 budget is just under \$4 billion. The average budget increase was just under 3%, although the range is somewhat broad, with cuts as much as 15% and increases as high as 24%. Note that outliers typically are the result of transfer of some service to another sector, addition of some new service, or a significant service expansion (e.g. a new prison) coming on-line.

The average property tax millage is about 13.5 mills, made up of about 12 mills general purposes, and the remainder for special purposes and debt. Our survey of county budgets shows an average decrease of 1 mill, but this primarily reflects counties that reduced millage following a reassessment, so is not a true indicator of taxation trends. Instead, it is more reflective to note that 21 counties, about a third, increased millage for the year, four reported decreases (two of those due to reassessment), and the remainder stayed at prior year rates.

What is remarkable about these numbers is that they are unremarkable. Almost all of these figures are in ranges comparable to prior years' surveys and DCED statistical reports. And so we turn to anecdotal information to supply a different perspective to our apparent stability.

First, county revenue sources have been relatively steady. Counties rely in relatively equal proportions on state and federal funding, and on the real property tax. State and federal funding was stable for the last fiscal year, although for many line items underfunded compared to historic rates and budgeted need. On the other half of the income ledger, the property tax is the counties' almost-exclusive local tax source and, while we have long sought options and alternatives, we have to concede that in these conditions the property tax does not suffer the same variability as income or sales taxes. To be sure, we are seeing higher rates of delinquencies on property taxes, arising primarily when a business closes or a home owner is laid off, but the declines in property tax revenues typically lag far behind, and are far less pronounced, than sales or income trends.

Second, many counties spent down reserve funds. The County Code specifically allows us to budget for our own version of rainy day accounts and, where available and where necessary, counties have drawn these down to balance the budget. Note however that while they have

served the intended purpose, our belief is that in almost every case reserves are spent down to levels that they will not be sufficient to fill budget gaps next year.

Third, there are some counties that have unmet obligations, particularly in pension funding. This is historically atypical. The actuarial and funding methodologies counties have used have customarily resulted in fully-funded or over-funded plans, so there had been a cushion to weather market downturns. However, we were only just recovering from the 1999 drop, and that, coupled with funds' market losses last year ranging from 25% to 60%, resulted in higher actuarial funding requirements for this year than many counties were able to afford. Most found ways to meet this obligation, recognizing that failure to do so means higher future costs and more immediate problems for credit ratings, but some counties had no choice but to underfund.

Fourth, counties cut spending – where they could. While budgets can and should be balanced by first looking at the cost of services, we are now in the midst of the service-demand spike that we so often, and so paradoxically, face during a downturn. Although current statistics are difficult to come by, anyone who has worked in human services or corrections can attest that unemployment leads to financial and self-worth pressures manifesting themselves in ways that touch the breadth of county-provided services – drug and alcohol, domestic relations, child abuse, courts, corrections, probation. And as unemployment rates rise, so do these service demands.

We are proud of county responsiveness to these needs, including the more positive services we provide or in which we participate, like workforce development and community college training. But maintaining high service levels for programs so critically in need at this time often means cuts in other less essential, or at least non-mandated, service areas. Philadelphia Mayor Nutter proposed, among other things, closing the county libraries and swimming pools; while few of our counties have cut programs in a way that received that level of attention, they have all taken steps to curtail costs. Pay freezes or below-inflation raises, layoffs, decreased investment in areas such as economic development and tourism promotion, and deferred maintenance of infrastructure have all been part of counties' short term budget-cutting strategies.

Transitioning to counties' current condition, we are finding that our greatest difficulty is with the Commonwealth, and in all areas of state funding. While we have been largely spared the cuts the Governor has imposed from department to department, we are seeing longer and longer delays in the payment schedule for the services we provide on the Commonwealth's behalf. This is most pronounced in quarterly human services payments, which now typically lag 45 to 90 days behind usual schedules.

Cash flow becomes even more problematic for services such as children and youth, where payments are on a strictly reimbursement basis and can be delayed even more when verifications are needed on difficult cases. And it is challenging even in what should otherwise be routine matters like adjusting the nursing home reimbursement rate.

For many of our human services, we employ outside contractors who are wrestling their own set of fiscal issues and we increasingly find ourselves faced with demands by them for prompt

payment, while concurrently facing delays in the very state reimbursements from which their payments are made.

We have found some relief in the American Recovery and Reinvestment Act, the stimulus bill. Its mix of funding to the commonwealth, entitlement funding to many of our counties, and availability of discretionary funding, has filled in some gaps. In part the funding to the Commonwealth has lessened the program area cuts we anticipated would be needed to balance out the 2008-2009 fiscal year, and the Governor's 2009-2010 proposed budget uses some of these federal monies in a way that frees other general fund dollars to be used to maintain level funding for our most critical line items. As with all levels of government, we await more detail on allowable uses, application criteria, and timelines, but the Congressional intent to confine the stimulus largely to existing program areas will help us move the funds quickly as they become available.

Looking ahead, the ability of counties to weather the coming months will be based in large part on legislative action on the 2009-2010 budget. As noted, our most important line items – primarily human services – are for the most part level funded in the Governor's proposal. In a normal budget process we would be looking for at least a cost of living increase in these lines, and higher appropriations in some lines where the Commonwealth obligation has fallen farther behind need. This not being a normal year, we are confining our budget efforts to maintaining the level funding the Governor has proposed, and are asking for restoration funding in only a handful of lines, which we have communicated to you separately. We take to heart, however, and will vigorously press for, the Governor's call for restoration of all of these lines to full funding levels once the economy has returned. Failure to do so will shift the funding obligation away from the Commonwealth and place the burden on the shoulders of the property tax payers.

In the short and medium term, there are a number of things the General Assembly can do to help us weather the storm and prepare for the recovery. Our 2009 County Priorities statement outlines approaches to tax policy, budgeting, service delivery, and infrastructure maintenance that will improve our fiscal stability and help us meet the critical needs of our citizens. This year, we augmented our priorities statement with a statement on mandate relief, in which we describe a number of structural changes that can be made to reduce our costs and improve our efficiency. Both of these documents, available to the general public on our web site, www.pacounties.org, have been given to you previously, and we and our membership have spoken to most of you about them as well.

While this testimony will not recite our priorities or mandate statement, I will highlight just one of our chief priorities because of its importance in this context and in the context of your budget deliberations. Our tax fairness priority calls for optional local taxes to help us reduce our reliance on the real property tax, and for restoration of the assessability of oil and gas for property tax purposes.

As noted early in this testimony, our reliance on the real property tax has, due to its nature, caused our revenue base to be relatively stable during this economic downturn. When asking for local alternatives to the real property tax, we are seeking options to levy either earned or personal income taxes, or a sales tax. While they may be more volatile in response to economic

conditions, they are more equitable – more based on an individual’s ability to pay – than the real property tax. This elemental fairness is no more important than in a severe economic downturn; an individual is laid off sees no decrease in their property tax bill, but they do pay less in sales and income taxes.

For a comparable reason, we are seeking restoration of assessability of oil and gas for property tax purposes. It is a matter of fundamental fairness and equity. These mineral interests were assessable going back at least to the early 1900s, and the assessability was lost only in 2002 when the courts ruled that we lacked sufficient statutory authority. Restoration of assessability would restore equity among comparable interests – coal, limestone, gravel, and other minerals are currently assessable as real property. Moreover, it is fair and equitable to all of the remaining property tax payers – property tax is paid by all segments of the community, and to the extent any class of property is exempt, their share must be borne by the remainder of taxpayers. Restoration of assessability would mean real property tax relief in communities and counties hosting oil and gas operations.

I will not recite the remainder of our priorities or our mandate relief suggestions. Instead, to close, the most concise summary might be to ask you to respect the relationship between state and county government. State government regularly, and with increasing frequency, turns to county government to provide the services our mutual constituency demands. We in turn do not shrink from these responsibilities, and more often embrace them in common purpose.

But you have to remember that as your service delivery partners, we are at the end of the road; we have ultimate responsibility. When hard fiscal times put pressure on state and local budgets, you have the option of simply cutting our funding. We in turn have no means to pass off the problem; we are the ones obligated to make the hard choices and take the difficult votes. Sometimes, the choice is to raise taxes or cut the service. More frequently, the choices are not there to be made – if you underfund children and youth services, we cannot let an abused child go unserved, if you underfund the courts and the corrections systems we cannot release offenders, if you fail to meet your statutory obligation to reimburse district attorney salaries we cannot withhold the DA’s pay, if you cut line items eight percent across the board we cannot hold eight percent fewer elections, store eight percent fewer civil records, answer eight percent fewer 911 calls.

This economic crisis presents an opportunity to reaffirm or, if necessary, restore, our partnership in service delivery. To the extent you can meet your fiscal obligations to us we ask you to do so. To the extent you cannot, consider carefully before adding to our responsibilities, work with us to find ways to lighten our burden, and give us the tools to craft local solutions.

Thank you for your consideration of these comments. I will be pleased to take your questions.