



As one ICA forms, another waits to dissolve

Summary: Act 124 of 2018 creates an Intergovernmental Cooperation Authority (ICA) for the City of Harrisburg and allows the city to keep two higher tax rates in place for a limited period of time. While this legislation came together rather quickly, a separate bill to dissolve Pittsburgh's ICA languished.

This fall it appeared that the City of Harrisburg was set to spend three more years under the supervision of an Act 47 coordinator until it exited distressed status in 2021.

Instead the city will leave Act 47 and come under the supervision of an ICA patterned on the ones in Philadelphia and Pittsburgh. Once a cooperation agreement is signed between Harrisburg and the ICA, its financial distress declaration will be rescinded. However, the city's ability to levy tax rates only afforded to municipalities under Act 47 will remain in place until the termination date of the ICA, which would be at the end of 2023 assuming the parties act on the agreement in the coming year.

This change came about from legislation introduced at the beginning of October and signed into law a few weeks later as Act 124. Though the act authorizes an ICA for cities of the third class, of which there are 53, only Harrisburg meets the act's highly specific definition of "city" as one with a population between 48,000 and 55,000 that has been released from receivership and has or had an Act 47 coordinator.

The ICA will be steered by five members appointed by the governor and legislative leaders. They will be tasked with improving the financial condition of the city. The appointees are to have a background in finance or management and either be city residents or have a business or be employed in the city. An appropriation of \$100,000 from the general fund will cover this year's operations, which is \$56,000 more than the state was spending on the Act 47 coordinator, according to a fiscal note on the legislation. There will be no dual (sometimes dueling) financial overseers as was the case with Pittsburgh.

The ICA will possess general as well as specific powers (32 in all) to examine consolidations, staffing levels, shared services, pensions and collective bargaining agreements. It can hire an executive director, contract with consultants, maintain a website and must file annual reports and audits with state officials. Hopefully fulfilling the annual ICA reporting requirement will not slip through the cracks as happened in Pittsburgh. Then, too, it must approve a five-year financial plan each year that accounts for the city's revenues and expenditures, including how to phase-out the special taxes.

Normally, Harrisburg would be able to levy a 0.5 percent earned income tax on city residents and a \$52 local services tax on everyone working in the city. But under Act 47 the city was able to seek court approval to levy an additional 1.0 percent on the earned income tax and triple the local services tax to \$156. These taxes are expected to raise \$12 million in 2018, close to 20 percent of Harrisburg's total revenue. The enabling legislation does prohibit Harrisburg from levying an earned income tax on non-residents. Unless the city adopts home rule the tax levies will revert to the normal rates upon the ICA termination date.

Given the very short life span for the authority, the city will need to be thinking ahead a few years as to whether a new plan might arise that allows the taxes and the ICA to remain in place for a longer period of time. Harrisburg could become dependent on the higher tax rates and legislators could be sympathetic and extend the ICA and accompanying extraordinary taxing privileges.

It could happen. Authorities sometimes stay in place after outliving their purpose. Consider the ICA for Pittsburgh. It is still in existence despite the fact that it has no money nor does it expect any further allocation from the state. It has asked to be dissolved and legislation to do that was introduced in the General Assembly.

The state last appropriated funds for the ICA in the 2016-17 fiscal year. To get by this year the ICA requested and received \$37,000 from the city. With no money appropriated in the current state budget, it seems there was a genuine interest by the General Assembly to dissolve the ICA.

In November 2017 recovery coordinators recommended that Pittsburgh be released from Act 47. Since the ICA's term of existence allowed for dissolution upon Act 47 rescission or June 30, 2019, whichever came later, the board passed a resolution requesting the General Assembly to amend the language to allow it to dissolve along with Act 47.

When Pittsburgh's distressed status was officially lifted in February, legislation allowing for immediate ICA termination was introduced. Instead of quick action the legislation remained in the Senate from February until it was passed in June. It then went to a House committee where it was not acted upon by the end of the legislative session. That was surprising for what seemed like a straightforward proposal.

Yet Pittsburgh's ICA remains in place with not much to do and no money do it. The board did not even meet when the city's 2019 budget was submitted to them. Due to language in the ICA statute, the budget was deemed approved after 30 days from when it was submitted. Will this go on until June 30? It will be interesting to see if board members stay in place or choose to resign from what is an inactive authority. They would be justified in taking that action at this point.

Eric Montarti, Research Director

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
