POLICY BRIEF

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Merging Municipal Functions into Counties is a Bad Idea

A recently introduced bill in Harrisburg would mandate that all municipal functions be merged into their host county. The rationale is an old one—too many municipalities are stifling economic growth and development. Furthermore, bill backers claim there are too many municipalities in financial difficulty with underfunded pension plans and merging them into their county is the only way to save them. But does this idea have any merit?

A recent Institute report provides evidence as to the possible benefits or lack of benefits of the merger idea. (See *Municipal Spending and Taxation in Allegheny County: A Study of Twenty Municipalities,* report number 2010-04, now available on our website at alleghenyinstitute.org.) In the report we have examined in great detail the financial picture of a cross section sample of twenty Allegheny County municipalities with findings that shed light on the advisability of forced municipal mergers into their respective counties.

It is important to note that even without the findings of our recent report, it is incumbent on those who claim too many municipalities are suppressing growth to explain how Pennsylvania communities, including Allegheny County, enjoyed spectacular economic and population growth decades ago when there were already "too many" municipalities. Furthermore, the simplistic thinking behind the merger rhetoric also ignores the long running development of an exceptionally unfriendly business climate in the Commonwealth. Municipalities and counties in Pennsylvania suffer from the growth inhibiting factors of powerful union influence, high taxes on businesses, an extraordinarily punitive tort system and state economic development strategies based on picking winners and wasteful subsidies.

Finally, merger advocates might also want to contemplate the situation in Philadelphia where the municipality and county have been a merged entity for decades. Simply put, the argument that too many municipalities are the cause of slow growth falls on its face when applied to the state's largest county, which has been under state financial oversight for nearly two decades.

In our report we examined the most recent audited financial statements available (2008) from twenty geographically dispersed municipalities across Allegheny County. Our study found that, on average, per capita general fund expenditures were $616. By comparison the City of Pittsburgh spends $1,440 per resident. On public safety spending, which includes police, fire, and other safety functions such as code enforcement, the municipalities in our sample spent an average of $235 per capita. The City of Pittsburgh spent $325 per capita on police and $243 on fire.

A major reason why talk of merging Pittsburgh and Allegheny County has failed to gain traction is the enormous legacy costs, such as general obligation debt and unfunded pension liabilities that residents of other municipalities are adamantly opposed to becoming responsible for. The City's debt burden is over $2,100 per resident while the municipal sample average is $531. How would the forced merger of municipal functions into the county deal with this problem?

Then too, our cross section sample of municipalities does not face a severe pension funding crisis as the City of Pittsburgh is currently trying to deal with. Again, the most recent data available, from 2008, shows the City's pension plans for fire (46 percent funded), police (32 percent) and non-uniformed personnel (50 percent) to be woefully underfunded. The pension plans of the twenty municipal sample covering uniformed personnel are, on average, funded at 102 percent of required level. The lowest funded ratio for any municipality was 71 percent. Non-uniformed plans are on average funded at 105 percent, the lowest ratio in the sample was 61 percent.

If some of Pennsylvania's other cities such as Reading are in a similar situation to Pittsburgh regarding legacy costs, selling the idea of folding municipalities into their host counties will be difficult to say the least.

While the municipalities in the sample spent far less per capita than the City of Pittsburgh, they also collected far less in revenues. The per capita total tax collections are $485 in the sample while Pittsburgh tops $1,100. Property tax revenue, one of the largest components of total tax collections, was nearly $200 per capita for the sample of municipalities, while for the City it is more than double that at $424. Per capita non-tax revenues for the twenty municipality sample were $128 per resident while for Pittsburgh it is $327.

When compared to major cities like Pittsburgh, the overwhelming majority of less populous municipalities spent far less on a per capita basis and also had lower revenues. Pittsburgh, like most major cities, serves as the business, financial, legal, and cultural center of the area and has the means to collect more revenues—greater population, more commuters and visitors and taxable properties. Where larger cities have gone astray is their sustained overspending which has forced Pittsburgh and others like Reading into financial oversight by the state.

There are 18 municipalities/cities currently in the Act 47 financial distress program including Pittsburgh and Reading. Seven have left the program, including four from Allegheny County. The 25 municipalities that either are currently or formerly in the Act 47 program represent less than one percent of the total cities, townships and boroughs in the Commonwealth. For the purposes of the bill proponents, the claim that four in ten

Pennsylvanians live in financially distressed municipalities is misleading. The reason the fraction of the population in distressed communities is so high stems from the perpetual fiscal problems in Philadelphia, Pittsburgh and a few other larger cities, wherein a sizable fraction of the state's population resides. Dealing with the problems faced by these cities requires looking well beyond the simplistic notion of forcing them to turn over their functions and problems to the counties.

Any effort to mandate merging municipalities with their counties will only serve to mask the real problems of too much spending, too much regulation and a general antipathy of elected officials toward a free market economy in favor of government control and placating unions. Instead of trying to solve the problems of profligate spending and enormous legacy costs by shifting the costs to county taxpayers, the Legislature should look to enact genuine, effective reforms to help cities and municipalities rein in the cost of government. To wit: reform Act 111 binding arbitration provisions to redress the imbalance of power favoring unions, outlaw teacher and transit workers strikes, eliminate prevailing wage requirements, remove the power of home rule communities to set mandated wages for non-government employees, enact a Right to Work law and lower state business taxes to help local communities attract and retain businesses without the need to offer subsidies.

Pro-business and free market oriented policies will hasten the state's return to economic dynamism. Embarking on the fool's errand of trying to force municipalities to merge into counties is a colossal waste of time and, in the absence of real shifts in state policy towards business and labor, would accomplish nothing and could well make things worse by consolidating power in fewer hands. There is one truth that should be well understood by now—bigger governments are *not* more efficient. Indeed, the opposite is too often the case.

The natural growth of a city caused by economic gains can lead to a bigger government simply to provide the needed services and therefore must be tolerated as a price of growth. However, creating larger governments artificially by forcing municipalities to merge into the counties is exactly the wrong solution for what ails Pennsylvania.

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