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Thank you, Mr. Chairman and thank you to all of the members of the Senate Urban Affairs and Housing Committee who are here today. My name is Patrick Hopkins and I am the Director of Administrative Services for the City of Lancaster. I appreciate the opportunity you have provided to me and the other presenters today to talk about issues that are vitally important to Pennsylvania cities.

Having worked in the State House for several years, I have enough of an understanding of the legislative process to know that there is no such thing as a “quick fix” to the problems that I will talk about today. That being said, the City of Lancaster and many (or more likely **all**) of the Third Class Cities in Pennsylvania have been under significant financial strains for years and are moving ever closer to the fiscal breaking point.

As stewards of the public trust and of public funds, we need to be held responsible for some of the difficulties that we face. There is no doubt that some of the elected and appointed officials of our cities have made decisions in the past that traded short-term gain for long-term fiscal problems. But likewise, we also must call on the Commonwealth and the General Assembly to recognize that many of the fiscal issues we face are not of our own making, but rather are limitations placed on our ability to raise revenue or expensive mandates that continue to push our expenses ever higher.

Given the time constraints we have today, I will limit my testimony to three basic issues that create the most fiscal strain on the City of Lancaster. These are the lack of a sustainable and growing source of

revenue, the excessive financial burden caused by a concentration of tax-exempt properties in the City and the costs of providing pension and health care benefits to City employees and retirees.

As a brief background, Lancaster is a Third Class City with a population of nearly 60,000. Our 2009 General Fund budget is just over \$46,000,000, with more than two-thirds of our budget directed toward providing police and fire services. Like the vast majority of local governments, the City of Lancaster must run a lean operation – balancing the need to provide vital services with the need to maintain the least possible tax burden on our residents.

This balancing act is a difficult one because local government is a very labor intensive enterprise. The services we provide – police and fire protection, water and wastewater treatment, street maintenance and cleaning, parks maintenance - and so many of our other services require **people** to do the work. Our operations are so labor intensive that 81% of our General Fund budget goes toward paying the salaries and benefits of our employees. Operating expenses represent only 13% of our budget and the remaining 6% is for debt service.

Lancaster also has many burdens placed on it by both the Federal and State governments. We are told, for instance, what types of services we must provide, we are told how we must structure our pension plans and we are told what sources of revenues we can and can not tap to fund our operations.

We also have what I'll call “non-legal mandates” that we must fund due to the very nature of being a city. The best example of this is the need for a full-time professional firefighting force. We are sitting only a block away from a nine story residential building which was the site of a 5th floor fire this past weekend. More than a dozen residents were rescued through the great efforts of City police officers and firefighters. What could have been a devastating fire spreading through an older building with no sprinkler system was reduced to a contained fire incident with no major injuries. This would not have

been the outcome without a twenty-four hour, full-time firefighting force. As Mayor Gray said after the fire was extinguished, "Thank God, nobody was seriously injured. ... It shows what we pay taxes for." But this type of on-demand insurance policy does not come cheaply. The 2009 Fire Bureau operating budget is nearly \$10 million or more than 20% of our General Fund budget.

The cost of our Fire Bureau alone is equal to more than 50% of the revenue we raise each year through the City Real Estate Tax. And this brings me to the first fiscal issue I would like to address today: the lack of flexibility provided to cities to raise the revenue we need to finance the services we must provide. Our major sources of revenue are the Real Estate Tax, the Earned Income Tax and the Local Services Tax. These three sources of revenue make up nearly 60% of our annual General Fund revenues.

But these sources of revenue barely grow as the economy grows, but they do shrink when the economy shrinks. And even in the best of times they don't grow nearly as fast as our labor and benefit costs grow. With almost no developable land left within our borders, we cannot depend, as many suburban municipalities do, on the growth of new housing developments and new commercial developments to grow our revenues. For the most part, we are dependent upon the slow-to-produce benefits we can gain from economic development and on raising the Real Estate Tax rate to try to keep up with expenses.

Cities need to be given a source of revenue that will both grow as the economy grows and not put us in a further competitive disadvantage with our suburban neighbors. This is the benefit we see in the Pennsylvania League of Cities and Municipalities supported local option sales tax proposal. Any sales tax increase resulting from this proposal would be adopted on a county-wide basis and the revenues shared between the County and the local municipalities. As home to two of the largest commercial shopping areas in the County, Lancaster City has long been a large producer of sales tax revenues. It

only makes sense that our residents should see some financial benefit from sales that occur within our borders and that there be a sharing of these revenues among all municipalities. It is this mutual benefit among all municipalities that has led this proposal to be supported by the statewide organizations representing cities, townships, boroughs and counties. This is an unprecedented level of support across a wide array of municipal interests that warrants the close attention of the General Assembly.

In this proposal, municipalities would have to use at least 60% of these new revenues to reduce real estate taxes or offset the revenue losses from tax-exempt properties. This brings me to the second great fiscal issue facing cities like Lancaster. The City of Lancaster contains nearly \$2.5 billion in assessed property value based on the most recent County-wide assessment. However, of this \$2.5 billion in assessed value, more than \$530 million is tax-exempt. Not including properties owned by the City, if we were to receive real estate taxes from all of these tax-exempt properties, we would collect an additional \$4.5 million in 2009. That would be the equivalent of a 9% increase in total annual City revenues.

In part due to the fact that 23% of our properties are tax-exempt, Lancaster City has, by far, the highest real estate tax rate of any municipality in Lancaster County. While many of us who love living and working in Lancaster believe the benefits of city living outweigh the higher taxes we pay, there is no doubt that our higher tax rates can act as a disincentive for families to buy homes and for businesses to locate in the City.

One of the great benefits of city living is the vast array of cultural activities, religious institutions, social service organizations and government institutions that are easily accessible to us. Each one of these institutions is a regional asset, providing benefits to many people who live far beyond the borders of the City. We are fortunate to have them in our city and to have the vitality they bring. The City, as the county seat, the geographic center and the public transportation hub of Lancaster County is the

logical place to locate such services. But the burden of lost taxes from these properties is not shared regionally, it is borne only by City taxpayers.

Whether it is through the local option sales tax proposal or any other number of proposals that have been made over the years, the General Assembly must help municipalities burdened by a high percentage of tax-exempt properties.

The final issue I will address today is the skyrocketing cost of providing pension and health care benefits to our active and retired employees. Health care and pension costs alone account for more than 25% of all General Fund expenses and these costs have risen at a far faster pace than we can sustain.

First, pensions: The Third Class City Code requires that we maintain a defined benefit pension plan for our police officers and firefighters. So the same type of pension plan that businesses across the county have been moving away from for well over a decade is the very type of pension plan that we are mandated to maintain. The City's combined expense for police and fire pension plans in 2009 is \$3.6 million or 8% of our budget.

As you are all painfully aware, the huge losses we have seen in the stock market are soon to make our current pension funding difficulties pale by comparison. 2008 was a terrible year - a year in which our investment returns were negative 18%. Our pension plan actuary has estimated that with no changes to our mandated funding requirements, the recent investment losses will result in the City being required to increase its pension contributions by \$2,000,000 a year beginning in 2011. This is more than a 50% increase over our current annual obligation. Needless to say, this massive increase would be crippling to the City and our taxpayers.

There have been various proposals floated over the years to deal with the funding problems seen in municipal pension plans and no doubt there will be more coming as a result of the current crisis. I do not have a solution, but I can certainly see where one part of the problem lies. Pennsylvania is home to only 4% of the nation's population and yet we are home to nearly 25% of all of the public pension plans in the nation. There are obvious shortcomings with statewide pension systems, but our current municipal pension system is quickly nearing the breaking point and has to be addressed through some other means than simply kicking the problem down the road.

Finally, health care costs. In the last ten years, the City's health insurance premium for family coverage has risen from just over \$4,000/year to the 2009 rate of over \$18,000/year – a nearly 350% increase during that period. As a percentage of the City's total expenses, health insurance costs have increased from 10% of our budget to more than 18% of our budget during this same period. We are on a clearly unsustainable path when it comes to these expenses.

We have worked to increase the contributions toward health care made by our employees, implemented wellness programs to try to reduce our claims and introduced competition in the bidding process for our health insurance coverage, but even with these efforts the upward climb of our health insurance expenses is barely affected.

Our latest effort has been to begin discussions with other cities in our area of the state to establish some sort of health insurance purchasing consortium so that we can become a stronger player in the insurance market. We are very early in this discussion, but know that when it comes to negotiating better insurance rates there is strength in numbers. It is this strength in numbers that allows the Commonwealth to get highly competitive rates for the coverage of its employees.

Frankly, while I think the cities we are working with can accomplish some savings through this effort, it is the Commonwealth that should be doing this. If there is power in numbers, why not create one program to pool the health insurance coverage for all municipal and school district employees? That would create true power in numbers when it comes to negotiating competitive rates. I realize this is much easier said than done, but the choice we're faced with is between creating a sustainable system in which cities can purchase reasonably affordable insurance for their employees or the current system which is clearly unsustainable and will ultimately drive some cities into fiscal distress.

I realize that I've painted a bleak picture for the future of cities in Pennsylvania. The unfortunate reality is that the long-term fiscal health of our cities is in great doubt. But at the same time, people are rediscovering cities like Lancaster and realizing that city living has great benefits. Even in these difficult economic times, we continue to see residents investing in their homes, home sales continue to be strong and business activity has been maintained on a relatively even keel. Lancaster is a great place to live, to work and to play and we see examples of that every day. And Lancaster doesn't stand alone. There are other strong, vibrant cities across Pennsylvania that are the business, cultural and social hubs of their regions.

It would be a terrible shame to allow cities to continue to wither under the weight of these crushing financial burdens when solutions exist to solve the problems I've outlined today. They aren't easy solutions – they never are. We'll have to come to grips with the fact that the fractured nature of our municipal structure doesn't work in the modern age. We'll have to face the reality that city governments cannot continue to be the provider of lifetime health and medical benefits. And we'll have to get our rural and suburban neighbors to understand that while it makes sense for cities to be the host to countless social service, cultural, government and religious institutions, cities can't be expected to bear this burden on their own.

Cities are known for their resiliency. They are constantly remaking themselves and attracting new people to them. But they can only do so much on their own when the framework in which they have been created is broken. We will do our part to control those things we can control, but we call on the Commonwealth to do its part as well and to give cities a fighting chance at long-term survival.

Mr. Chairman, I appreciate the opportunity to speak to the Committee today. I would be glad to answer any questions you or members of the Committee might have for me.