

# THE McCord Report

*A quarterly look at Pennsylvania's economic vital signs*



Pennsylvania is home to many fantastic communities – urban, suburban and rural. Unfortunately, too many of our municipalities are struggling from the loss of industry, a shrinking tax base, and an inability to provide basic services. Communities that face the greatest challenges have been declared “financially distressed” under Act 47, a 1987 law designed to help local officials relieve financial hardships. It is important that we restore these communities to financial health and prevent others from entering Act 47 because these cities are regional hubs of economic activity.

In this edition of *The McCord Report*, we aim to shed light on the issue of “financially distressed” municipalities, including the reasons communities find themselves in Act 47 and the burdens on their residents. We also revisit the issue of liquor privatization as we look at the experience of Washington State, which privatized liquor sales in 2012.

As always, we welcome your feedback and suggestions for future issues. Please do email us at [McCordReport@patreasury.gov](mailto:McCordReport@patreasury.gov).

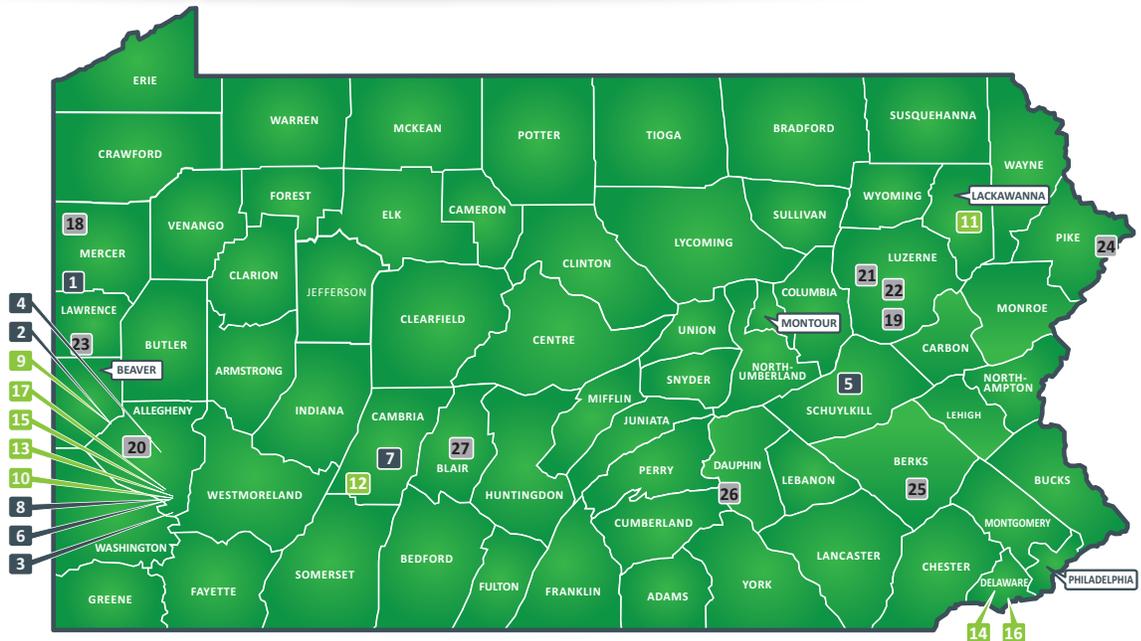
Sincerely,

Rob McCord  
Pennsylvania State Treasurer

## History of Act 47 Designations

Act 47 was born following the collapse of the steel industry in southwestern Pennsylvania during the early and mid-1980s – a point reinforced by the fact eight of the first 10 municipalities declared “distressed” were from that region.

Since then, communities of all sizes from all corners of the state have found themselves in Act 47, but the most recent additions to the program have been smaller cities with populations of less than 250,000.



CITY	DECLARED DISTRESSED	DECLARATION RESCINDED
1 Farrell	Nov. 12, 1987	
2 Aliquippa	Dec. 22, 1987	
3 Clairton	Jan. 19, 1988	
4 Wilkensburg	Jan. 19, 1988	Nov. 10, 1998
5 Shenandoah	May 20, 1988	April 16, 1993
6 Braddock	June 15, 1988	
7 Franklin	July 26, 1988	
8 Rankin	Jan. 9, 1989	

CITY	DECLARED DISTRESSED	DECLARATION RESCINDED
9 Ambridge	April 10, 1990	April 16, 1993
10 Duquesne	June 20, 1991	
11 Scranton	Jan. 10, 1992	
12 Johnstown	Aug. 21, 1992	
13 E. Pittsburgh	Nov. 13, 1992	Dec. 27, 1999
14 Millbourne	Jan. 7, 1993	
15 Homestead	March 22, 1993	March 28, 2007
16 Chester	April 6, 1995	
17 N. Braddock	May 22, 1995	April 11, 2003

CITY	DECLARED DISTRESSED
18 Greenville	May 8, 2002
19 West Hazleton	March 27, 2003
20 Pittsburgh	Dec. 29, 2003
21 Plymouth Twp.	July 27, 2004
22 Nanticoke	May 26, 2006
23 New Castle	Jan. 5, 2007
24 Westfall Twp.	April 14, 2009
25 Reading	Nov. 12, 2009
26 Harrisburg	Dec. 15, 2010
27 Altoona	May 3, 2012

SOURCE: PA Department of Community and Economic Development.

## Reasons for Distressed Status

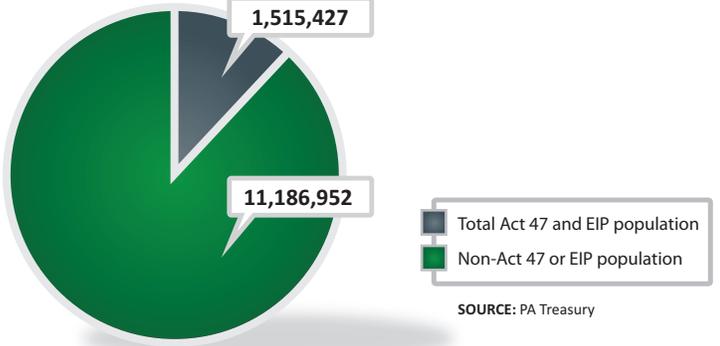
Act 47 provides for 11 different criteria municipalities may cite when applying to DCED for distressed status. The following table indicates which criteria were cited in the 10 most recent distressed declarations.

	Deficit ≥ 1% in each of past 3 FYs	Expenditures > Revenues for 3+ years	Bond or rental payment default	Missed payroll for 30 days	Missed payments to judgment creditors	30 days delinquent on forwarding income tax withholdings or social security contributions	Deficit ≥ 5% of revenues	Failed to make budgeted municipal pension obligation payment	Failure to resolve claim ≥ 30% of fund/budget	Filed a debt readjustment plan pursuant to Chapter 9 bankruptcy	Municipal service decrease/reached legal limit in real estate tax levy.
Altoona	xx	xx									xx
Harrisburg			xx					xx			
Reading	xx	xx					xx				
Westfall Township									xx		
New Castle	xx	xx					xx	xx			
Nanticoke	xx	xx					xx				
Plymouth Township	xx	xx	xx			xx					xx
Pittsburgh	xx	xx					xx				
West Hazleton	xx	xx	xx				xx	xx			xx
Greenville	xx	xx	xx				xx				

SOURCE: Respective municipalities' recovery plans.

## Living in Challenged Communities

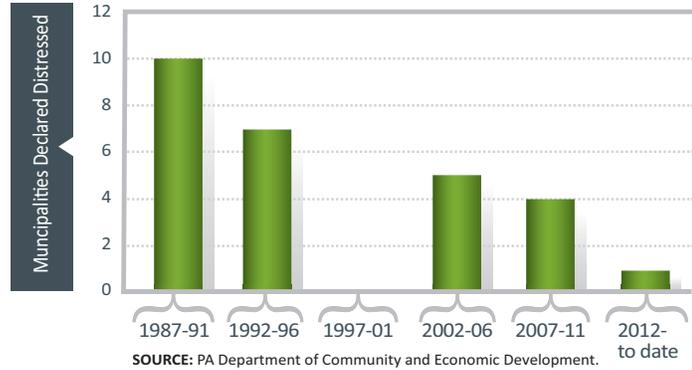
More than 1.5 million Pennsylvanians, or 12% of the state's population, live in municipalities or counties that have been declared financially distressed or that are currently enrolled in the state's Early Intervention Program – an effort to help local governments avoid Act 47.



SOURCE: PA Treasury

## Distressed Declarations Through the Years

In the first five years of Act 47, 10 municipalities were declared distressed. See how many municipalities entered the program in each of the subsequent five-year intervals.

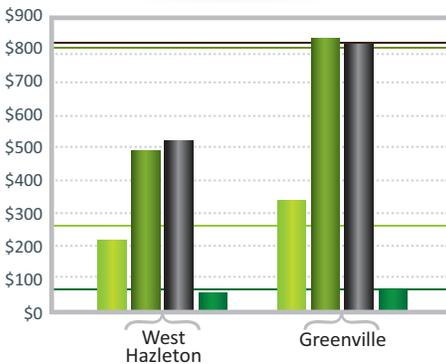


SOURCE: PA Department of Community and Economic Development.

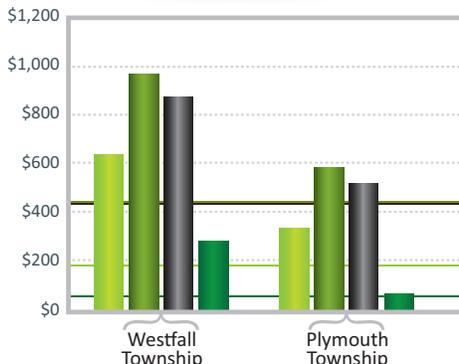
## Per Capita Comparisons

The following table compares the per capita tax collections, total revenues, total expenditures, and debt service payments for nine municipalities that entered the Act 47 program since 2002 to each other and to the average of similarly chartered municipalities across the state that reported such figures in 2010. Note, Pittsburgh is omitted as it is the state's only city of the 2nd class, thus there are no other similarly chartered cities for comparison.

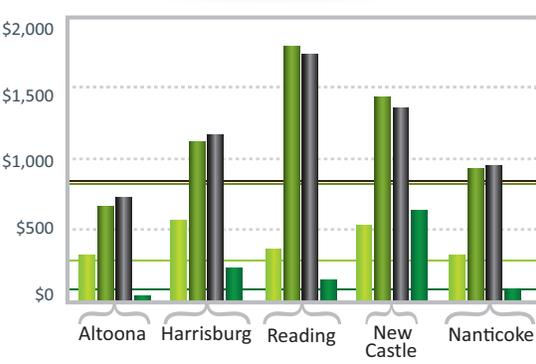
### Boroughs



### Townships



### Cities



SOURCE: PA Department of Community and Economic Development and PA Treasury.

**PER CAPITA**

- Taxes (light green)
- Revenues (dark green)
- Expenditures (grey)
- Debt service (dark green)

**AVERAGE BY MUNICIPAL CLASS**

- Taxes (light green)
- Revenues (dark green)
- Expenditures (grey)
- Debt service (dark green)

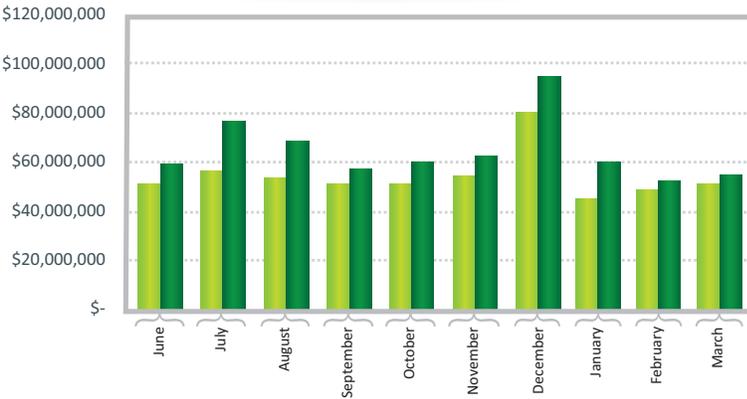
# Liquor Privatization: The Washington State Experience

In November 2011, voters in Washington State approved Initiative 1183, which privatized the sale and distribution of spirits. Seven months later, on May 31, 2012, the state's government-run operations closed, and private retailers began their sales the following day.

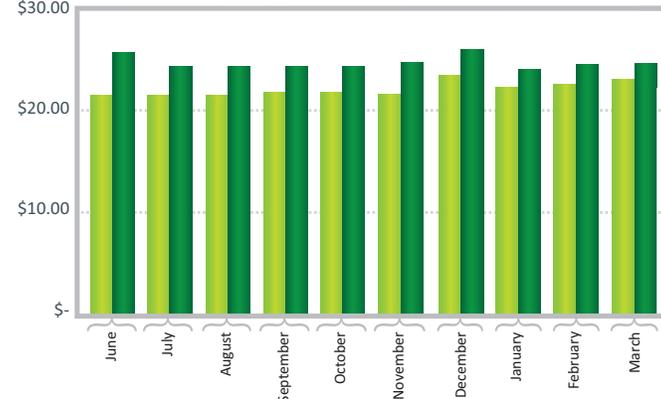
Washington's Department of Revenue and Liquor Control Board have tracked total sales, tax revenues and liters sold since the transition and compared performance through the first nine months of sales under the privatized system. The following graphs illustrate the difference in sales performance by private retailers to consumers for off-site consumption. The agencies also provide data on spirit distributor sales to on-premise licensees (i.e., restaurants, bars, taverns, etc).

To view and monitor this data in future months, visit [www.dor.wa.gov](http://www.dor.wa.gov)

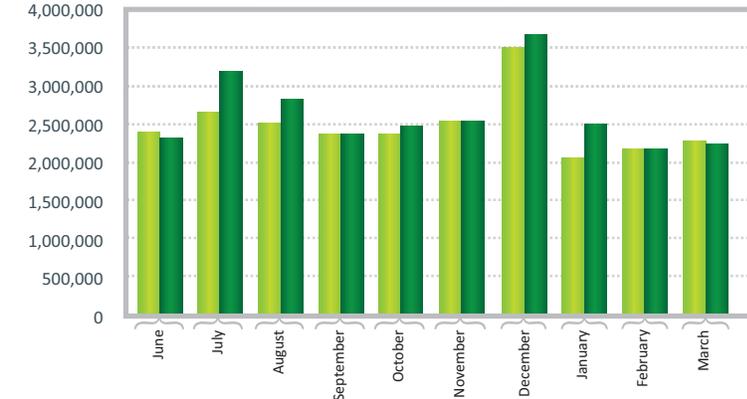
## Total Product Price Plus Taxes



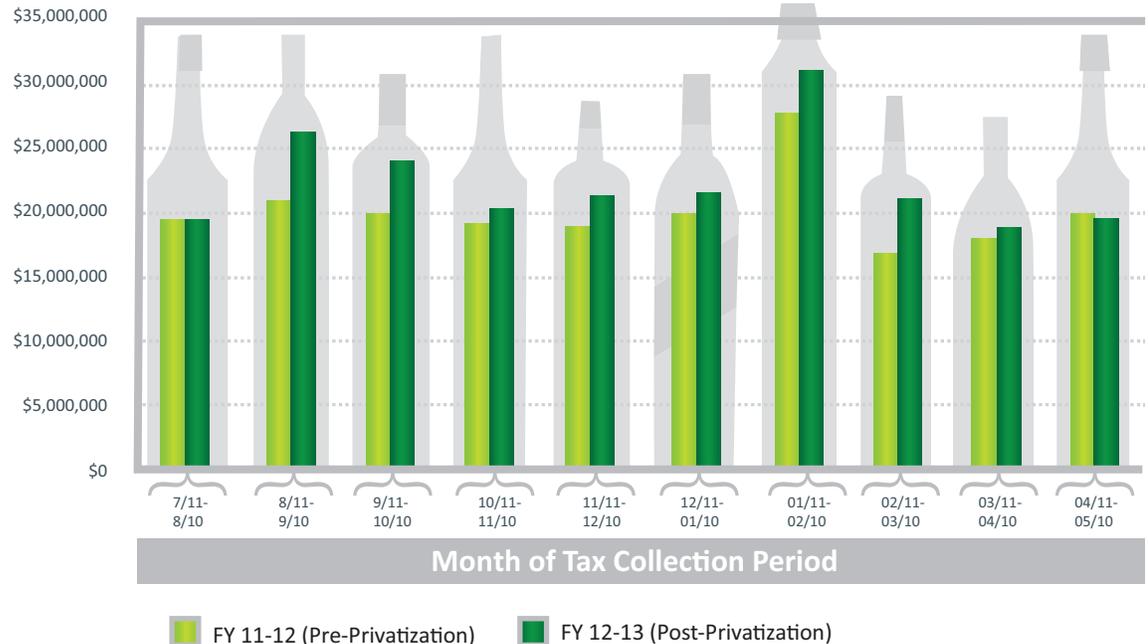
## Average Price Per Liter, After Taxes



## Number of Taxed Liters Sold to Consumers



## Total Spirits Tax Collections



According to the Tax Foundation, Washington imposed the highest excise taxes of any state in the nation on spirits before it privatized liquor sales (\$26.70 per gallon). Under the new privatized system, those taxes have increased. As of January 1, 2013, Washington's total spirits excise tax rate was \$35.22 per gallon – a 32% increase since 2011.

By comparison, Pennsylvania's per gallon excise tax rate declined from \$7.57 per gallon in 2011 to \$7.22 per gallon in 2013.

Source: Washington Department of Revenue and the Tax Foundation

