

# **Bond Case Briefs**

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## **Zombie Towns' Days Numbered Under Pennsylvania Bill.**

[Pennsylvania](#) created its municipalities. It won't let them die.

The state is one of 10 that don't permit communities to dissolve, even as its steel and coal towns dwindle. Pennsylvania trails only [Illinois](#) and [Texas](#) in the number of local governments and school districts, with about 4,900. Almost 800 of its municipalities have less than 1,000 residents.

Lawmakers are considering a bill that would allow dissolution and limit municipalities' stay in the state's distressed program. Thirteen cities have been stuck with that designation for at least a decade, and fragmentation at the local level makes it harder to turn them around, said [Matt Fabian](#), managing director at Concord, Massachusetts-based research firm Municipal Market Advisors.

"The commonwealth of Pennsylvania creates all these municipalities, so the buck comes back to the commonwealth if their citizens are not able to receive services adequately," said Representative [Chris Ross](#), a Republican from East Marlborough Township west of Philadelphia.

"We need to have a viable alternative," said Ross, sponsor of the measure, which awaits a vote in the Pennsylvania House of Representatives.

### **Existential Question**

Some localities have shrunk so much they may be unable to operate, according to Ross. The communities are stagnating as Pennsylvania's economy is falling behind, with job and population growth trailing most states, said Standard & Poor's.

The company assigns the sixth-most populous state a AA rating, third-highest, though with a negative outlook partly because of its sluggish economy. Bonds of Pennsylvania issuers have earned 4.8 percent this year through May 1, compared with 4.9 percent for the entire municipal market, S&P Dow Jones Indices show.

The House bill, with sponsors from both parties, would force distressed municipalities to alleviate fiscal strains within five years, unless they receive a three-year extension. Otherwise, the communities would fall under state receivership.

This would shake them out of their "zombie-like status," Ross said.

The bill also lets Pennsylvania dissolve municipalities, transforming them into unincorporated districts run by state-appointed administrators.

### **Phased Out**

Ted Smakosz, a former councilman in Fallston, northwest of Pittsburgh, said Pennsylvania should phase out towns that fall below a certain size in population and area. That includes his own, with about 266 residents in 0.5-square mile (1.3-square kilometer).

“Pennsylvania has way too many little municipalities that should not exist,” said Smakosz, who as councilman supported a merger of the borough with a larger township, a step that Fallston voters rejected last year. “It’s a waste of money.”

Dissolution, or disincorporation, differs from merger or consolidation, which Pennsylvania permits. The latter step results in a new governing body and requires voter approval in affected towns. In disincorporation, a municipal border is eliminated and residents, now in an unincorporated area, are served by the surrounding higher level of government, often a county. This process needs approval only by the government wishing to erase itself.

In Pennsylvania, every square inch of land must be incorporated, preventing dissolution. Municipalities in [Connecticut](#), [Delaware](#), [Hawaii](#), [Massachusetts](#), [New Hampshire](#), [New Jersey](#), [North Carolina](#), [Rhode Island](#) and [Vermont](#) also restrict dissolution, said Michelle Wilde Anderson, who studies distressed communities as an assistant professor at University of California Berkeley School of Law.

## **Municipal Toolkit**

Pennsylvania’s rural populace, Rust Belt communities and former company towns that have lost residents could benefit from the option, she said.

Legislators “should give those kinds of areas the tools to reconsider what’s the best way to provide services,” she said. Having the ability to dissolve can give municipal officials leverage, she said.

“It’s a way to say, if we can’t survive on this business model, we have to think about which of the changes we can make,” she said. “It’s one more thing on the list to focus voters’ attention on the urgency of fiscal challenges and get them to make some hard decisions.”

## **Pennsylvania Choice**

The path of merger or consolidation is often unavailable because municipalities are reluctant to take on neighbors, which may be distressed.

State officials recommended that Farrell, a steel city on the Ohio border whose population has fallen to 5,000 from more than 15,000 in the 1920s, consolidate with four neighboring municipalities to tackle its fiscal strains. Yet voters in three of the other communities rejected the measure, and Farrell has been in the state’s program for distressed communities since 1987.

“People don’t want to give up their territories,” said Mayor Olive McKeithan, who doesn’t support dissolving Farrell. “Why would you want somebody coming into your town to run your community?”

In Fallston, merging with the adjacent township of Patterson would have resulted in savings and better services, said Smakosz, the former councilman.

Even though the township’s population is 10 times greater than Fallston’s, the borough spends almost as much — \$18,000 a year — for municipal insurance, he said. The borough [website](#) displays a call for volunteers to help provide services.

## **Cuomo Push**

There have been 10 mergers and consolidations since 1994, according to state data. In neighboring [New York](#), more villages have dissolved in the past five years than in the previous 30, said [Joseph Stefko](#), chief executive officer of the Center for Governmental Research, a Rochester,

New York-based nonprofit that advises municipalities. Since 1920, 47 villages have dissolved, with 10 cases in the last five years, he said.

“Economic and fiscal pressures have resulted in more communities looking at this,” he said.

New York Governor [Andrew Cuomo](#) touts the need to reduce local governments to lower property taxes, and has proposed rebates to land owners in localities that share services.

In New Jersey, Pennsylvania’s other neighbor, the merger of Princeton Borough and Township last year has resulted in savings and some services being expanded, said Stefko, whose group worked on the transition.

“Pennsylvania is at a critical junction,” Gerald Cross, executive director of the Pennsylvania Economy League, told lawmakers at a hearing last month in Harrisburg, the capital.

“If we fail to reform the way local governments operate, we will see more and more communities unable to claw their way out, but plenty of reasons for residents to move out for other states that take a more modern approach to governance,” he said.

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