

Economic Shutdown Effects on Municipal Government Revenue

Cities, boroughs and townships provide basic public services that citizens and businesses rely on daily. These services are jeopardized. The pandemic and the subsequent economic shutdown has had a detrimental effect on municipal revenues. Early estimates identified a loss of almost \$1B in tax revenues for southwestern Pennsylvania municipalities and projected that 21% of the region's municipalities may face insolvency by 2021.

More specifically, through August, Allegheny County sales tax revenue distributions to municipalities were 6% lower than during the same period in 2019. The City of Pittsburgh reported that tax revenues through July were down by about \$20M, or 6% compared to 2019. Payroll, parking and amusement taxes have been the hardest hit. Washington County earned income tax records show that as of July 2020, municipal revenues there were running 3% behind 2019, and earned income tax collections were lower for 43 of the municipalities compared to the 23 where they were higher.

As the crisis lingers, revenue challenges will only increase for local governments. Some homeowners and commercial building owners may find it difficult to pay real estate taxes resulting in future foreclosures and declines in tax revenue. The Commonwealth's program to assist financially distressed municipalities may become overtaxed as more municipalities incur financial shortfalls and the state itself sees tax revenues dwindle. Some municipalities are and will be laying off employees or holding off on filling vacant positions as the financial picture darkens. Municipal purchases of goods and services from local vendors will also decline.

Municipal fragmentation is an embedded challenge. Of the top 50 U.S. metro areas, the Pittsburgh MSA ranks second with the most fragmented local government, leaving the region in many cases, without the tax base or resources to meet the challenges of a prolonged recovery.

As is the case with other aspects of the pandemic, under-resourced communities and communities of color are likely to be hurt disproportionately by municipal financial weakness. Black and Brown residents, and low-income people are more likely to live in municipalities that were already financially compromised before COVID-19 hit. Public safety and social services needs are highest in these communities - so these communities will be hit hardest by cutbacks in such essential services.