

COMMITTING TO PROSPERITY:

Moving Forward on the Agenda to Renew Pennsylvania



**METROPOLITAN POLICY PROGRAM
THE BROOKINGS INSTITUTION**



Foreword

Three years ago, the Brookings Institution gave the residents of Pennsylvania a wake-up call in the form of its report, “Back to Prosperity.” It’s not that we didn’t know we were facing plenty of challenges. We saw our cities and towns losing residents and businesses, and our rural landscape and working farms giving way to housing developments and office and warehouse “parks.” And we watched our children leaving for better opportunities in other states.

What “Back to Prosperity” helped us understand was how far Pennsylvania lagged most of the country in economic growth. The report also linked our weak economic performance with our patterns of growth and development. It demonstrated how we were squandering the very assets—urban and rural—that we needed to compete in a global economy. Most important, the report highlighted the decisions we were making for ourselves at the state and local level, which if changed, could help reverse these trends.

Three years later, the report you are about to read—“Committing to Prosperity”—issues a much-needed progress report and call to action. It shows us that many (though not all) of the downward trends of the 1990’s have continued into the opening years of the 21st century. There are, to be sure, some signs of progress. For example, we have begun to make some badly-needed investments to revitalize our older communities and reinvigorate our economy.

But much more action is needed. Although Pennsylvania has a history of incremental reforms, small steps are not enough to reverse the trends. And the timing is propitious. Calls for reform across the Commonwealth are loud and clear. This report will help shape those reforms—and nudge us toward the fundamental, systemic changes that will help free our communities and our regions from constraints imposed by an outmoded system of governance, taxation, and public investment.

The recommendations in “Committing to Prosperity” are not one-size-fits-all solutions to Pennsylvania’s problems. Indeed, there can be no such solutions in a state as diverse as Pennsylvania. Despite stark differences among our regions, however, all of them have been hobbled for decades by the same limiting tax and governance system, needless barriers to cooperation, and disjointed public investments and workforce development. All of us will benefit from reforms proposed in this report.

Reflecting back on what William Penn would think of us today, I am optimistic that working together we can ultimately cause change in Harrisburg—change that will lighten the dead weight of our archaic municipal government structure, change that will remove the impediment to economic growth caused by our property tax system. And most important, a fundamental change of attitude in policy through all branches of government will provide truly meaningful help to our cities and towns—the heart and soul of our communities.

And so to paraphrase Mr. Penn, any good that we can do, let us do it now. Let us not defer it or neglect it, for we shall not pass this way again.



Founding Director
10,000 Friends of Pennsylvania
March, 2007



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Preface

In December 2003, the Brookings Institution Metropolitan Policy Program released “Back to Prosperity”—a comprehensive analysis of statewide growth and development trends. “Back to Prosperity” proposed how the Commonwealth might address the underlying factors—a shifting economy, weak planning, and a history of haphazard investments—that hindered its future competitiveness.

The original report was the result of listening to literally hundreds of people across the state in a large number of “listening sessions.” Because so much of “Back to Prosperity” represented the work and concerns of the Pennsylvanians we spoke with, it is not surprising that the resulting report struck a nerve. Two dozen newspapers all over the state ran page-one stories on “Back to Prosperity” and the issues it raised. The report helped catalyze a healthy debate among a wide range of champions and critics about how to position the state for a brighter future. It also prompted the launch of a new initiative called The Campaign to Renew Pennsylvania (RenewPA), a venture of 10,000 Friends of Pennsylvania, whose mission is to campaign for the kinds of systemic policy reform called for in the report. The real work toward change has begun in Pennsylvania.

Now it is time to check in on that work. With the continuing interest in the themes of the original report, Brookings and its partners decided to revisit “Back to Prosperity” and ask how Pennsylvania is faring three years after the original report. Hence this follow-up report, “Committing to Prosperity,” which is designed to carry the agenda of the original forward. The new report aims to do three things: revisit the state of the state, underscore the importance of addressing the problems described in “Back to Prosperity,” and suggest the next round of policy reforms.

In preparing “Committing to Prosperity,” we revisited different corners of the state for more rounds of listening sessions and conversations with state and local leaders. In addition, we teamed with rural scholars from Penn State University to hold additional listening sessions in rural areas of the state.

Our meetings across the state with local leaders were palpably different—the mood in Pennsylvania has shifted. Instead of cautioning us that much of what we proposed would never be taken seriously, as happened in 2003, we were instead encouraged everywhere we went to push forward. In very few places did we hear the resignation to the status quo and the deep skepticism about the possibility of change that seemed common three years ago. But the other strong message we heard was that leaders across the state felt that much more work and much more change were still required before the state would be back on the road to lasting prosperity—that the successes to date were only a start at the needed systemic changes.

Innovation is happening everywhere in Pennsylvania. Local governments are finding ways to work together, despite a governance system that makes it difficult for them to do so. The state government is coming up with cutting-edge ways to prioritize investments and begin organizing existing and new programs under this new mantle, in addition to removing barriers to intergovernmental cooperation. State and local leaders are dedicated to the idea of a prosperous Pennsylvania future. And the state is blessed with energetic and capable organizations like 10,000 Friends of Pennsylvania and the Pennsylvania Economy League that are leading the drive to commit Pennsylvania to a lasting prosperity. Their optimism sparks our optimism. Their efforts are proving that, through hard work, change is possible.



Executive Summary

Pennsylvania is at once the same and different, three years after the release of the 2003 Brookings Institution report “Back to Prosperity,” which proposed a new vision for how Pennsylvania might revitalize its cities, towns, and regions in order to compete more energetically in today’s global economy.

The key challenges identified in the first report—slow growth, “hollowing” metropolitan and rural areas, and economic struggles—still persist.

And yet, much has changed in the last three years. Since 2003, the Rendell administration, some members of the Pennsylvania General Assembly, and many local leaders have made substantial progress in ensuring that the state thinks and acts more strategically in its pursuit of prosperity and a great quality of life.

An air of reform has spread. Thoughtful debates have begun over how best to update the local governance system to empower municipalities to innovate in pursuing greater efficiency and fiscal strength. State agencies are spending tax dollars more strategically and working to align community development, economic development, and transportation investment with a new, place-oriented vision of economic success. And for that matter, public opinion has also shifted, as the recent legislative shake ups in Harrisburg show. Survey research, for that matter, now shows that voters are increasingly supportive of common-sense thinking on such key issues as empowering local government and prioritizing reinvestment.

But these laudable developments represent only a beginning. Three years after “Back to Prosperity,” Pennsylvania must now truly commit to enacting the next round of deeper-going systemic reform. Quite simply, now is the time for a great state to muster the political will and self discipline to continue moving forward on a comprehensive drive toward economic competitiveness that incorporates such compelling goals as governance reform, reinvestment, and the creation of more quality jobs.

This report, sponsored by the Campaign to Renew

Pennsylvania, an initiative of 10,000 Friends of Pennsylvania, and entitled “**Committing to Prosperity: Moving Forward on the Agenda to Renew Pennsylvania**,” endeavors to assist in that recommitment. Intended to “update” the story told by “Back to Prosperity,” “Committing to Prosperity” revisits the state of the state three years after the earlier report, assesses progress at state policy reform since then, and proposes some ideas for the next push toward lasting systemic reform.

To that end, this report draws three major conclusions about the state as it continues to work at building a more prosperous Pennsylvania:

1. Pennsylvania’s trends of slow growth, hollowing metropolitan areas, and anemic economic growth persist, albeit with some improvement.

“Back to Prosperity” described a series of troublesome growth and economic trends challenging the economy, and for the most part these trends continue to hold sway, albeit with some encouraging new developments:

- **Pennsylvania is still barely growing.** The Commonwealth’s population grew at a rate of just 0.24 percent per year between 2000 and 2005, for a gain of just under 149,000 people or 1.2 percent during that time period. This ranked the state 46th out of the 50 states in percent population growth during this time period, up from 48th in the 1990s. Almost all of the growth occurred in the eastern part of the state. One bright spot: The state’s heavy past out-migration appears to be slowing or reversing. Between 2003 and 2005, the state experienced a net in-migration of 9,600 people
- **The state is still spreading out and hollowing out.** Between 2000 and 2005, cities lost another 3.3 percent of their population and boroughs lost 1.9 percent. Meanwhile, the population of the Commonwealth’s outlying second-class townships grew by 5.9 percent since 2000. These developments continued the long-term outward shift of

the state's population. One more encouraging development, however, was an up-tick in new housing construction and rehabilitation in cities and boroughs. These types of municipalities issued 22.5 percent more housing permits between 2000 and 2004 as compared to between 1995 and 1999

- **The state's transitioning economy is still lagging, although signs of greater vitality have appeared recently.** Pennsylvania's job growth continues to trail the nation's, according to the Bureau of Labor Statistics' Current Employment Survey. Between 2000 and 2006, the Commonwealth registered a 1.1 percent increase in jobs at a time when the nation as a whole saw a 3.3 percent increase. This performance ranked the state 37th among the states in job growth between 2000 and 2006, but represented an improvement on the state's ranking of 45th during the 1990s (when the state's job base grew by 10.1 percent). Also encouraging has been the state's faster job growth coming out of the 2000–2003 recession. Between 2003 and 2006, the state added 141,900 jobs in a recovery that ranked 39th among the states for those years. Still, notwithstanding the new growth, the economy remains on balance tepid, constrained by the state's relatively low (although improving) higher-education attainment rates. Those rates and other issues ensure that average annual pay and household income remain slightly below the national average, although they are rising

2. In light of these continuing realities, the state faces several major challenges that it must address in order to achieve economic prosperity. In particular, three especially deep-set consequences of the state's development trends could circumscribe the state's ability to renew its economy if they are not dealt with:

- **First, an epidemic of fiscal distress is weakening Pennsylvania municipalities, undercutting their ability to govern effectively and provide top-quality amenities.**

Pennsylvania by the Numbers

Population Growth

Pennsylvania's percent population growth, 2000–2005 (Rank out of 50 states)	46
Pennsylvania's percent population growth, 1990–2000 (Rank out of 50 states)	48

Job Growth

Pennsylvania's percent job growth, 2000–2006 (Rank out of 50 states)	37
Pennsylvania's percent job growth, 2003–2006 (Rank out of 50 states)	39
Pennsylvania's percent job growth, 1990–2000 (Rank out of 50 states)	45

Fiscal decline

Percent of Pennsylvania cities experiencing a decline in relative fiscal health, 1970–2003	98
Percent of Pennsylvania boroughs experiencing a decline in relative fiscal health, 1970–2003	67
Percent of Pennsylvania second-class townships experiencing a decline in relative fiscal health, 1970–2003	35

Change in Land Use

Number of developable acres changed from rural to non-rural land use in Pennsylvania, 1980–2000	2,857,800
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On this front, new research from the Pennsylvania Economy League (PEL) confirms that more and more Pennsylvania cities, boroughs, and even townships are finding themselves radically weakened in their ability to control their fiscal and development destiny. As a result more and more municipalities are slipping into fiscal distress. This matters because Pennsylvania's future economic competitiveness depends on the future competitiveness of its municipalities, as measured by their ability to provide top-flight services, deliver desirable amenities, and promote sound economic development and sustainable land-use planning. Municipalities that are strapped for cash are limited

in their ability to provide the local environment that businesses and households demand when they make the decision to put down roots and create jobs

■ **Secondly, the state's unbalanced development patterns continue to erode the state's rural and urban quality of place, just when those assets matter more.**

Today's economy relies on well-trained workers and productive firms that, in turn, value high-quality communities with plentiful amenities. In this regard, the increasing need to attract and retain more skilled workers and high-value corporations to Pennsylvania points to the need to defend and enhance the Commonwealth's quality of place. However, the state's quality of place is under attack from the continued inroads of the state's erratic and often ill-planned development patterns. Between 2000 and 2005, for example, 51 cities, 774 boroughs, and 48 first-class townships—the majority of each type of municipality—lost population, making more of them vulnerable to residential abandonment, losses of retail business, and urban decay. What is more, between 1980 and 2000, almost 2.9 million acres of Pennsylvania's rural land were converted to more developed uses—a 22 percent loss of rural land. Pennsylvania's unique and historic urban centers, its rural towns, and its pastoral countryside are all under threat just when they matter more than ever before to the attraction of mobile workers and firms

■ **Finally, Pennsylvania is still laboring to revitalize its transitioning economy and make itself globally competitive in more post-industrial sectors.** Significant efforts to stimulate, diversify, and renew a changing economy have been launched in Pennsylvania, but the work of transformation has only begun. Until very recently, the state lacked a commitment to diversify its traditionally manufacturing-oriented economy by investing in the state's most promising high-value "export" sectors—specializations such as the life sciences, education, food processing,

and business and financial services. Only since 2003 has the state developed and begun to implement a sophisticated cluster- and workforce-based strategy for generating better-paying, longer-lasting jobs. A lot of work remains to be done, work that is made more urgent by the fact that the state—as well as the whole nation—may be heading toward a workforce and skills shortage as the well-educated baby boom generation gets ready to retire. By 2029, Pennsylvania will lose to retirement almost one million baby boom workers with college degrees, and will need to replace them

3. Given these challenges, recent state-level policy changes have enacted important reform, although more needs to be done to lock in lasting systemic renewal. Along these lines, "Committing to Prosperity"—following up on "Back to Prosperity"—suggests that at least three major areas of policy reform be kept in mind. To that end, "Committing to Prosperity" suggests that the Rendell administration and General Assembly work together to:

- **Empower local governments to better manage change, combat fiscal distress, and invest in the future.** Through its revival of the defunct State Planning Board, the Rendell administration has done a good job engaging a diversity of stakeholders in mapping out a reasonable path toward substantial governance and planning reform. Now, the General Assembly should enact key elements of that agenda by enacting legal changes to make it much easier for local governments to voluntarily collaborate and raise revenue in order to stave off fiscal distress, save money on service provision, and better manage development
- **Continue making reinvestment a priority.** On this front, the Rendell administration has launched a nationally significant drive—epitomized by its Keystone Principles for Growth, Investment, and Resource Conservation—to prioritize investment in existing communities and existing infrastructure as

Policy Recommendations at a Glance

<u>GOALS</u>	<u>RECOMMENDATIONS</u>
<p style="text-align: center;">Empower Local Governments</p> <p><i>Progress to date includes:</i></p> <ul style="list-style-type: none"> • <i>Ongoing work to increase capacity of local governments</i> • <i>Revival of State Planning Board</i> 	<p>Next Steps:</p> <ul style="list-style-type: none"> • Make intergovernmental cooperation on service delivery easier • Foster intergovernmental service provision, including quality local and regional land-use planning, with more financial and technical assistance • Allow boundary changes • Make planning mean more • Reform Act 47 to make it a more effective emergency measure for distressed localities <p>Deeper Reforms:</p> <ul style="list-style-type: none"> • Help municipalities reduce the costs of healthcare and pension liabilities, tax collections, and other activities • Create a larger palette of available tax tools for counties and municipalities • Enhance the role of counties
<p style="text-align: center;">Continue to Make Reinvestment a Priority</p> <p><i>Progress to date includes:</i></p> <ul style="list-style-type: none"> • <i>Revitalized Interagency Land use Team</i> • <i>Creation of the Keystone Principles</i> • <i>Creation of the Community Action Team</i> • <i>Adoption of Growing Greener II</i> 	<p>Next Steps:</p> <ul style="list-style-type: none"> • Support the diffusion of the Keystone Principles and criteria throughout all relevant state agencies • Charge the Economic Development Cabinet with reviewing all community and economic development programs to ensure they meet state priorities <p>Deeper Reforms:</p> <ul style="list-style-type: none"> • Link transportation spending to land-use and economic development planning • Link water and sewer development to land-use planning • Build a culture of fix it first and reinvestment
<p style="text-align: center;">Continue to Build a Competitive Economy</p> <p><i>Progress to date includes:</i></p> <ul style="list-style-type: none"> • <i>Two industry-cluster studies</i> • <i>Creation of “high priority occupations”</i> • <i>Adoption of Jobs Ready PA</i> • <i>Adoption of the Economic Stimulus package</i> 	<p>Next Steps:</p> <ul style="list-style-type: none"> • Make clusters the primary client of the Governor’s Action Team • Expand the role of the state’s Industry Partnership Grants <p>Deeper Reforms:</p> <ul style="list-style-type: none"> • Create—and then commit to—the Commonwealth Clusters Principles and Criteria • Dissolve barriers between economic and workforce development • Coordinate economic development and land use planning



a state policy. Still, more work remains to be done to further institutionalize these spending criteria, link transportation investment to land-use planning, and rein in haphazard water and sewer implementation

- **Continue building a competitive economy through strategic investment in key clusters and complementary workforce development.** Since “Back to Prosperity” appeared, the state has taken important steps to develop a clear long-range plan for diversifying its transitioning economy, fostering promising industrial clusters, and “tuning” the workforce training system to the needs of those clusters. Now the state needs to go farther in making regional clusters the central organizing tenet of all of its economic policies even as it dissolves the barriers between economic and workforce development

In the end, Pennsylvania is at once similar to how it was in 2003, yet very different. The same challenges first discussed in “Back to Prosperity” continue to work against the state’s competitive future. But change—much change, especially in government and public policy—is now underway. The state has made notable progress toward addressing its systemic problems since “Back to Prosperity” was released. What is called for now is a strong commitment to carrying through on the work already started and the political will to make the deeper improvements that will yield a more prosperous future for the Commonwealth.

I. Introduction

So how is Pennsylvania doing?

Is the Commonwealth moving toward vitality?

Three years after the Brookings Institution Metropolitan Policy Program released its 2003 report “Back to Prosperity,” the answer to that question is ambiguous. Pennsylvania is at once the same and different.

“Back to Prosperity” proposed a strong new vision of how Pennsylvania might reclaim the prosperity it once enjoyed, yet the tough challenges identified in the first report still exist.

Pennsylvania’s demographic and development trends still threaten its economic competitiveness. The state’s job growth, while continuing to rebound from the nationwide recession, is still sluggish (although its rank in relation to other states has improved). For that matter, Pennsylvania continues to grow lower-paying jobs while losing higher-paying jobs. And meanwhile, Pennsylvania’s existing, older places are still hollowing out while previously undeveloped parts of the state are seeing more sprawling development—despite Pennsylvania’s overall minimal population growth.

This isn’t unexpected, because the period of time that has elapsed is quite short and substantial change will take a much longer time to register in the data. But until the trends do bend for the better, Pennsylvania can ill afford to let focus drift away from the serious problems it continues to face.

And yet, much *has* changed in the Keystone State. Since 2003, the Rendell administration, the Pennsylvania General Assembly, and local leaders have stepped up to the plate and have implemented a number of key reforms that create a strong platform for future work. The state has worked to develop a sharper economic vision by identifying priority industry clusters and has started to shape workforce and economic development programs with these priorities. Agencies are prioritizing reinvestment and working to align transportation, community development, and economic development funding to these principles. Local governments are striving

to work out ways to collaborate to efficiently deliver services to their citizens. And the state government is working to make this kind of local government innovation easier.

There is also a broader change in public sentiment. It may be that Pennsylvanians are now more ready than ever to commit to changing the status quo. The recent election shows that Pennsylvanians have become deeply dissatisfied with politics as usual. But it’s more than just a general dissatisfaction with Harrisburg. Opinion research shows that Pennsylvanians care about the issues raised in “Back to Prosperity.” In a recent poll conducted by Marttila Communications for The Campaign to Renew Pennsylvania, the majority of voters favor making reinvestment a priority and encouraging local governments to collaborate.¹ Or, as commentator Terry Madonna sums up the situation, “The present moment seems to offer an historic opportunity to wrench the state out of its 18th and 19th century roots and thrust it firmly into the 21st century—able at last to take a leadership position among the American states appropriate to Pennsylvania’s size and importance.”²

In essence, then, the executive branch and certain members of the General Assembly have begun to think and act strategically about priorities and investments, and have begun to consider governance reform as a way to ensure greater efficiency and fiscal strength.

The Way Forward

But these laudable successes represent only a beginning. Three years after “Back to Prosperity,” Pennsylvania must now truly commit to a compelling vision of governance reform, reinvestment, and economic revitalization. Quite simply, the state needs to build on recent progress and muster the political will and self-discipline to move beyond solid initial steps to embody its stated priorities in deep-seated systemic reform.

In this connection, a strong new drive to give local governments the tools to reengineer local services and deliver them at the most efficient level of gov-



About the Analysis

The analysis in this report is structured along the lines of “Back to Prosperity.” At the same time, “Committing to Prosperity” adds new analyses that necessitated some deviation from the original. The data available, however, are not quite as rich as the Census 2000 data used in the original report because most intercensal data products do not provide the level of geography and level of detail provided by the decennial census information in the original report.

Geography. Although the Census has now adopted a new set of metropolitan definitions, we have utilized the older definitions used in “Back to Prosperity” in order to keep the definitions of the state’s 14 metropolitan areas constant over time. Likewise, this report employs the same six regions (Northeast, Northwest, Southeast, Southwest, Central and South Central) used in the original to analyze patterns at a larger scale.

This report also uses the same municipal classification as “Back to Prosperity.” The Commonwealth has three classifications of municipalities: cities, boroughs, and townships. Townships, in turn, are subdivided into first-class townships and second-class townships. Cities, boroughs, and first-class townships—with population densities more than 10 times those of second-class townships—represent in most cases the historic locus of settlement in Pennsylvania. By contrast, the second-class townships represent in most cases the traditionally less-densely built balance of the state. As with “Back to Prosperity,” this report categorizes cities, boroughs, and first-class townships as “older Pennsylvania.”

“Committing to Prosperity” attempts to pay closer attention to the non-metropolitan portions of Pennsylvania, and therefore more data are provided for those counties not part of any of the 14 metropolitan areas. Although not ideal, we use “non-metropolitan” as a loose proxy for “rural.”⁵

Data sources. All of the updated population information (including race data) utilizes the Census Bureau’s Population Estimates Program. Population estimates are available for all municipalities within Pennsylvania, regardless of size. Thus, the report is able to update the information about older Pennsylvania and second-class townships.

For information about employment, this report relies on the Bureau of Labor Statistics’ Current Employment Survey, because it provides the most up-to-date employment information available.

To update information such as educational attainment, household income, and place of birth, we make use of the Census Bureau new American Community Survey (ACS). The ACS samples the population annually and provides the same detailed statistics available from the decennial census, allowing researchers to get yearly information between census years. However, there are some drawbacks that should be noted. The sample size of the ACS is much smaller than the decennial census, so there is a wider margin of error. Also, the 2005 ACS reports data only for communities with 65,000 people or more, meaning it is not possible to get information about individual small communities and counties. Finally, the 2005 ACS only provides information for people living within households, which means people living in institutions such as prisons, dormitories, and hospitals are excluded. In order to be able to make an “apples-to-apples” comparison, therefore, we had to provide household-only data for 2000 when we could, using the Census’s Advanced Query System. Therefore, the 2000 numbers in “Committing to Prosperity” may not be identical to those in the original report.

As with “Back to Prosperity,” a number of other data sources were used, including data from the Bureau of Labor Statistics, the Internal Revenue Service, and various Commonwealth repositories.

ernment will help municipalities overcome many of the fiscal challenges they face. A sustained commitment to reinvesting in the state's established municipalities will help the Commonwealth provide a high quality of life for more of its citizens. What is more, the stronger the quality of Pennsylvania's places, the more successful the state will be at attracting and retaining skilled workers and highly productive and competitive firms.

Now, it is true that Pennsylvania has launched a series of strategic programs designed to address the myriad problems the state faces. And many of those programs are laudable. But what is needed now is a redoubling of the state's recent efforts to mount a deliberate and strategic attack on the root causes of the challenges facing the state. Again, the first steps have been taken. But now Pennsylvania must undertake the hard work of integrating a variety of the state's myriad efforts into a compelling, deep-rooted campaign to secure and sustain prosperity.

The commitment to systemic change is also, it should be noted, an effective way of creating good policy for a very diverse state. The western parts of the state, with higher rates of population loss, face very different challenges than the eastern parts, with their rapid land-use change in the outer areas. Likewise, Pennsylvania is home to the fifth largest city in the nation, while at the same time about 60 percent of its municipalities encompass less than 2,500 people.³ In light of those extremes and that diversity, a renewed commitment to getting at the underlying causes of the state's longstanding drift has the best chance of uniformly boosting all places' ability to adapt to change.

It should go without saying, moreover, that this competitiveness agenda is not just about cities. All parts of the state—be it small rural boroughs, rapidly suburbanizing second-class townships, aging inner-ring suburbs, or isolated, rural townships—are affected by the state's drift. In no region of the state is the economy truly dynamic. In all areas—rural counties as well as urban ones—older, more established communities are losing population as outlying areas grow. And as the Pennsylvania Economy League has found, fiscal distress is spreading—no region or municipal type is immune to this danger.⁴

They may be experiencing different symptoms, but they all suffer from inadequacies in the way the stage is set by state policy. Prioritizing reinvestment, for example, is not just about investing in cities. It's also about being fiscally responsible by investing in places with existing infrastructure, existing assets, and existing traditions before abandoning them. Likewise, strategic, targeted economic development is not just about attracting a firm into an individual city, but about making sure that the state's economic development plans are intrinsically tied to regional land-use plans and regional economic visions and specializations.

The time to commit to prosperity, then, is now. Global demographic and economic forces, such as the nation's increasingly mobile skilled workforce and an increased market interest in traditional neighborhoods and communities, as well as a reform-minded political moment in Pennsylvania, have created a window of opportunity for lasting change. However, this window will not remain open long. The fiscal problems municipalities are facing, along with a declining quality of place due to sprawling development patterns and troubling workforce trends create a great deal of urgency.

Report Objectives

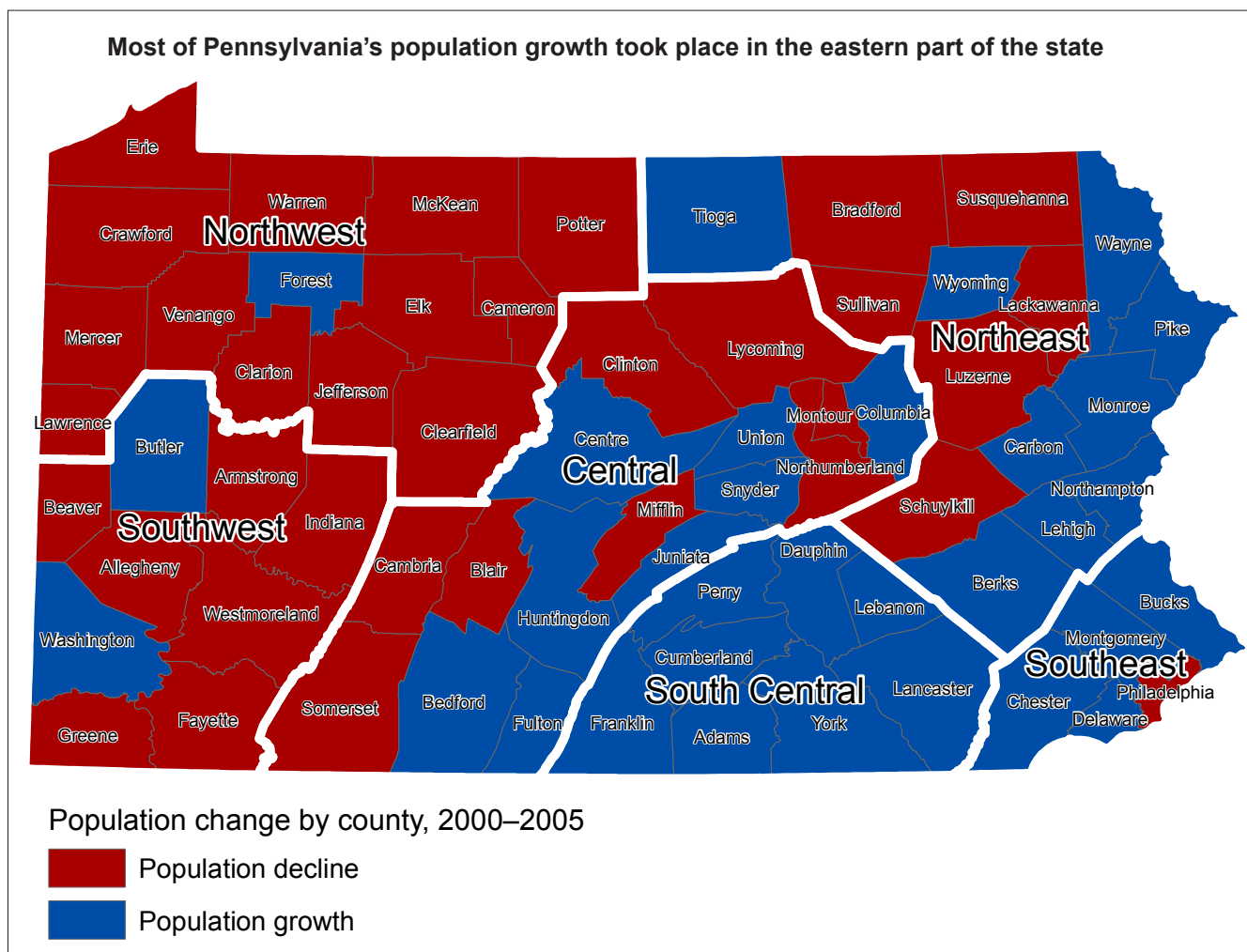
"Committing to Prosperity" revisits the territory explored by "Back to Prosperity" and provides a mid-decade review of the state's trajectory and its implications for continued state policy reform. Three main sections make up the report. First, many of the trends described in the original report are updated. Second, the report outlines three reasons the state needs to act now to pursue a true economic competitiveness agenda. These reasons include the Commonwealth's looming statewide municipal fiscal crisis; the "hollowing out" and "blowing out" of its metropolitan regions; and changing economic and workforce development dynamics. And finally, the last section of "Committing to Prosperity" reports on policy activity since the original report and recommends an agenda for moving forward.

A word about what the update does *not* attempt to do: "Committing to Prosperity" *does not draw any causal connections between policy actions and trends.*

Rather, it simply updates, as much as available information allows, the demographic and economic trends identified in “Back to Prosperity,” and provides a progress report on policy responses to those trends. But those distinct activities should in most respects be considered separately from each other. Too little time has elapsed to be able to make strong conclusions about whether or not any of the policies adopted in the wake of “Back to Prosperity” have altered the trends. In this respect, it may be best to think of “Committing to Prosperity,” then, as two separate updates housed in the same document: a trends update and a separate policy update.

And yet, for all that, the time is right for taking a second look at the Commonwealth. With a strong governor’s second term just underway, the electorate is calling for change and progress, yet time is

limited. By reflecting on how Pennsylvania is doing three years after a major assessment, “Committing to Prosperity” offers an opportunity for a great state to renew its efforts and move forward toward prosperity with a clear strategy and a focused sense of priorities.



Source: U.S. Census Bureau, Population Estimates

II. Development Trends in Pennsylvania: The State of the Commonwealth at Mid-Decade

“Back to Prosperity” described in detail a series of troublesome growth and economic trends challenging the Commonwealth. For the most part, these trends persist—unsurprising given the short time that has passed.

And yet the state of the Commonwealth bears reassessment. The following analysis updates these trends to the latest data available, while adding some new insights to the state of the Commonwealth. On balance, while there are some encouraging developments, the general drift of the trends reported in “Back to Prosperity” persists:

- Pennsylvania is still barely growing
- The state is still spreading out and hollowing out
- The state’s transitioning economy is still lagging, although signs of greater vitality have appeared recently

The Trend: Pennsylvania is still barely growing

Population growth remains minimal

Pennsylvania grew sluggishly in the 1990s and that trend has continued. Moreover, as in the 1990s, significant geographic and demographic variation continues to divide the state.

Pennsylvania remains—as it did in the 1990s—one of the slowest growing states in the nation

According to the U.S. Census Bureau’s estimates, the Commonwealth’s population grew by just 0.24 percent per year between 2000 and 2005 for a gain of just under 149,000 people (or 1.2 percent all told). This performance ranked the state 46th out of the 50 states in percentage population growth during this time period.⁶ At the same time, though, this tepid growth does represent a modest relative improvement in the state’s vitality, since the state’s average annual population growth in the 1990s ranked it only 48th among the states. By comparison, however, the nation as a whole has been grow-

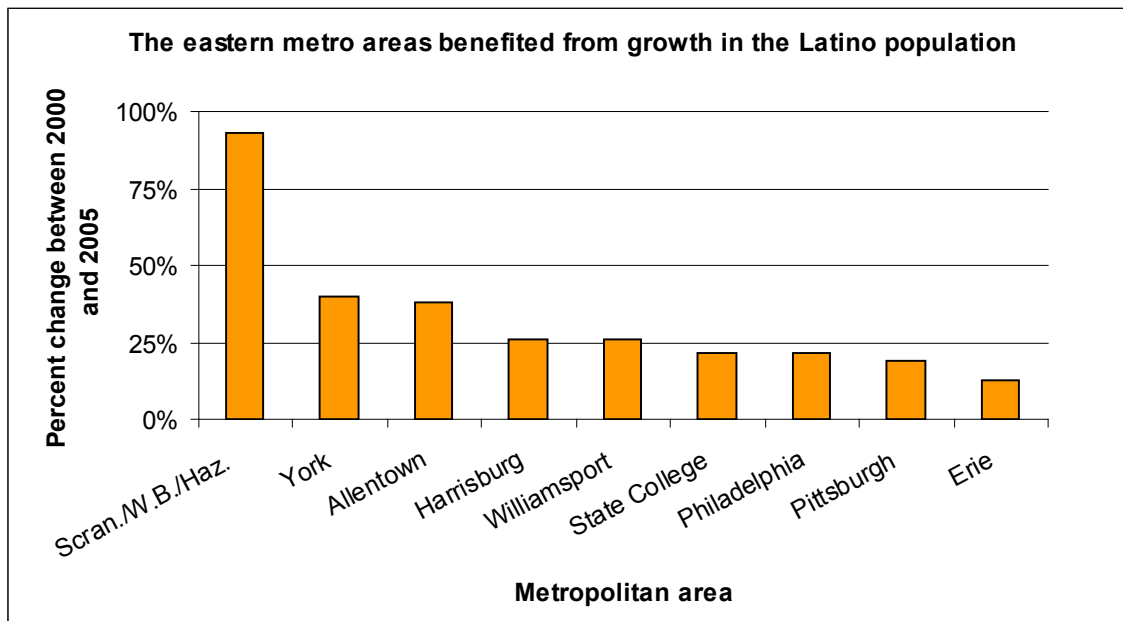
ing more than four times faster than the Commonwealth, and added more than 1 percent per year to its population between 2000 and 2005.

The little growth that did occur took place almost exclusively in the eastern half of the state

To be specific, virtually all of the state’s population gains were confined to the eastern regions of the state. Between 2000 and 2005, the south central region grew by 0.94 percent per year, the southeast grew by 0.21 percent per year, and the northeast grew by 0.83 percent annually. Consistent with this pattern, the four metropolitan areas that added population the fastest in the 1990s—**York, Lancaster, Reading, and Allentown**—continued to lead the state in the 2000-to-2005 period. Metro **York** increased its annual growth rate from 1.18 in the 1990s to 1.38 between 2000 and 2005, while **Reading’s** growth accelerated from 1.05 to 1.33 percent per year, and **Allentown** went from 0.70 to 1.29 percent per year. (Lancaster’s growth slowed slightly from 1.08 percent per year in the 1990s to 0.83 percent per year between 2000 and 2005.)

Meanwhile, the western and northwestern parts of the state continue to lag in terms of population growth

The southwest was the only region that, as a whole, lost population in the 1990s. That region’s trend continued between 2000 and 2005, and the rate of loss increased from 0.14 percent annually in the 1990s to 0.37 percent annually after 2000. The northwest, which grew some in the 1990s, lost population between 2000 and 2005: while it grew 0.10 percent annually in the 1990s, it lost 0.25 percent annually after 2000. The **Johnstown, Scranton / Wilkes-Barre / Hazleton, Pittsburgh, Altoona, and Sharon** metropolitan areas all lost population in the 1990s. The list of metropolitan areas that lost population between 2000 and 2005 included all of these, but also included metro **Williamsport** and metro **Erie**. The rate of population loss in all of these metropolitan areas increased from the 1990s to the post-2000 period.



Source: U.S. Census Bureau, Population Estimates

Non-metropolitan “rural” counties, for their part, grew slightly faster than metropolitan counties, due to non-metropolitan growth in the eastern part of the state

Between 2000 and 2005, non-metropolitan counties added 26,600 people for a growth of 1.4 percent. Metropolitan counties, meanwhile, added 124,500 people, for a growth of just 1.2 percent.

The population change among non-metro counties has been highly uneven, however. Non-metropolitan counties in the south central and northeastern regions of the state grew quickly between 2000 and 2005: by 7.5 and 4.9 percent respectively. Meanwhile, non-metropolitan counties in the southwest and northwest lost population.

The state is becoming more diverse

Between 2000 and 2005, the minority population grew by 232,600 residents. This continued the pattern the state experienced in the 1990s, when the total population saw a net increase of 399,000 but the minority population grew by 499,000. Moreover, 48.1 percent of the minority growth between 2000 and 2005 was due to increases in the Latino population alone, which increased 28.4 percent to go from 394,000 to 506,000.

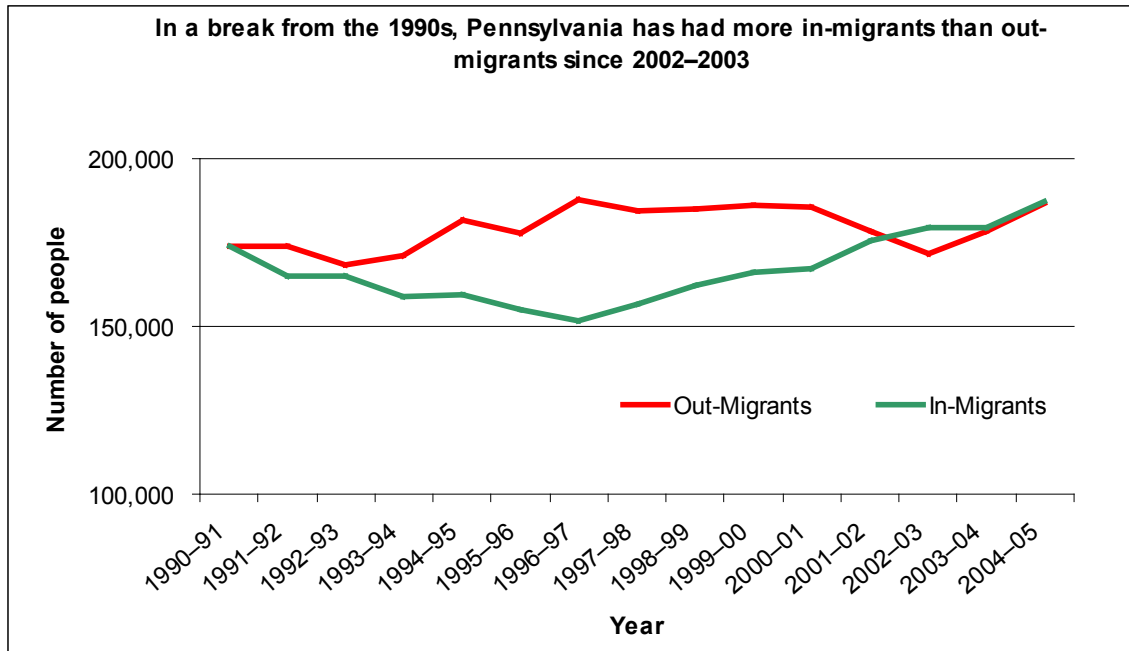
Without these gains in the minority population, the Commonwealth would have registered population losses between 2000 and 2005.

As with overall population growth, Hispanic population gains remain concentrated in eastern Pennsylvania

The most significant gains in Latino population are in the northeastern region, where the size of the Hispanic population is up 44.7 percent from 2000. The western regions saw smaller increases. Southwestern Pennsylvania experienced an 18.1 percent growth in its Hispanic population, and northwestern Pennsylvania a 16.9 percent increase.

The **Scranton/Wilkes-Barre/Hazleton** metro’s Latino population grew from 7,500 to 14,400 between 2000 and 2005. The **York, Allentown, and Reading** metropolitan areas all had increases of between 35 and 40 percent. The **Philadelphia** metro, which already had the largest number of Latinos in Pennsylvania, saw its population grow by an additional 20.4 percent to reach 37,300.

School enrollment data point to further demographic change in the more easterly metropolitan areas. School districts in the **Scranton/Wilkes-Barre/Hazleton** metro, in particular, have seen their Hispanic



Source: Internal Revenue Service, County-to-County Migration Data

student population double in just four years, as their Latino student enrollment grew from 1,400 to 3,600 between 2000 and 2004.⁷ In 2004, Latino students made up 20 percent of the total student body in metro **Reading** and 17 percent of the student body in the **Allentown** metro.

On balance, however, more people have continued to move out of the state than move in

Pennsylvania is still a net exporter of people, rather than a net importer, although there have been some changes since the 1990s.

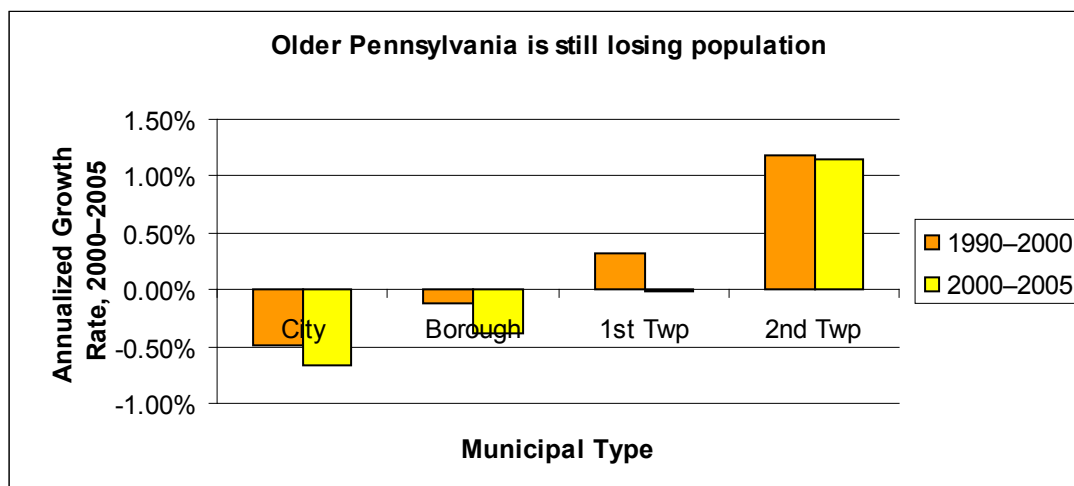
Overall, Pennsylvania has experienced a net out-migration of people since 2000

Although Pennsylvania grew slightly, more people moved out of the state than moved into the state between 2000 and 2005. According to IRS domestic migration data, 889,500 moved into Pennsylvania from another state, but 900,600 moved away—leaving the state with a net migration loss of 11,100.⁸ This continues the pattern—albeit to a less acute degree—the state experienced in the 1990s, when 1.79 million moved out but only 1.61 million moved in.

However, the state may be turning a corner on migration

Between 1990 and 2000, more than 175,000 more people left the state than entered it. The ratio of in-migrants to out-migrants during that time period was 0.90 (if there were the same number of in-migrants as there were out-migrants, the ratio would be 1). However, for the 2000 to 2005 period, the ratio of in-migrants to out-migrants was 0.99 as the state neared a migration equilibrium. During that period, the state had a net out-migration of only 11,100.

Even more remarkably, in 2003, 2004, and 2005, there were more in-migrants than out-migrants—the only time this has happened in the past 15 years. Between 2003 and 2005, the state experienced net in-migration of 9,600—a first step toward regaining some of the population losses sustained over the past years. Meanwhile, the latest Moody's Economy.com report shows that more than 195,000 people moved into Pennsylvania in 2005 while 192,000 moved out.⁹



Source: U.S. Census Bureau, Population Estimates

Within the state, non-metropolitan counties as a group had the largest net in-migration

Between 1994 and 2005, non-metropolitan counties experienced a net in-migration of 40,600 people. No metropolitan area in the state received nearly that many net in-migrants. In fact, six out of the 14 metropolitan areas in the state experienced net out-migration. The migration leaders were the metropolitan areas of **Allentown** (30,000), **York** (26,400), and **Reading** (17,000). In each of these metro areas, an important source of the in-migrants is people moving from other big metropolitan areas. For example, in 2005, 32 percent of the people who moved to the **Reading** metro came from the **Philadelphia** metro. Meanwhile, the two biggest metropolitan areas experienced the largest out-flows. More than 144,000 more people moved out of the Philadelphia metro than moved in. The Pittsburgh metro area had 80,800 more people move out than move in.

International in-migration remains sluggish

Today, 5 percent of Pennsylvania’s population is foreign born, ranking the state 30th out of the 50 states.¹⁰ Compared to 2000, the share of foreign-born residents actually increased from 4.1 percent.¹¹ The low rates of international migration contribute to the state’s overall slow population growth.

The state continues to age

Meanwhile, the state’s torpid demographics ensure that the state is continuing to grow older

To be sure, a smaller share—14.6 percent, compared to 15.1 percent—of Pennsylvania adults are age 65 or older today than in 2000.¹² Nevertheless, the state still has the third highest share of older adults in the country. And with a median age of 39.7, Pennsylvania also has the fifth highest median age in the country.¹³

The state also possesses a relatively small younger or working-age population. In 2005, only 11.9 percent of the state’s population was 25 to 34 years old. This is down from 2000, when 12.9 percent of the state was between the age of 25 and 34 years old.¹⁴ This follows the national trend of decline in this cohort—from 14.1 percent in 2000 to 13.4 percent in 2005.

The Trend: Pennsylvania is still spreading out—and hollowing out

Older jurisdictions continue to lose population, while second-class townships continue to gain

Pennsylvania is still spreading out, despite very slow overall growth

“Back to Prosperity” described how older places—cities, boroughs, and first-class townships—grew minimally or lost population in the 1990s, whereas the newer second-class townships boomed. Cities lost nearly 5 percent of their population, and boroughs lost 1 percent of theirs; but second-class townships grew by nearly 12 percent.¹⁵

This trend has continued between 2000 and 2005. Second-class townships grew by 5.9 percent since 2000, but cities and boroughs each lost more of their population. Cities lost another 3.3 percent of their population and boroughs lost 1.9 percent. First-class townships, meanwhile, gained 0.9 percent.¹⁶

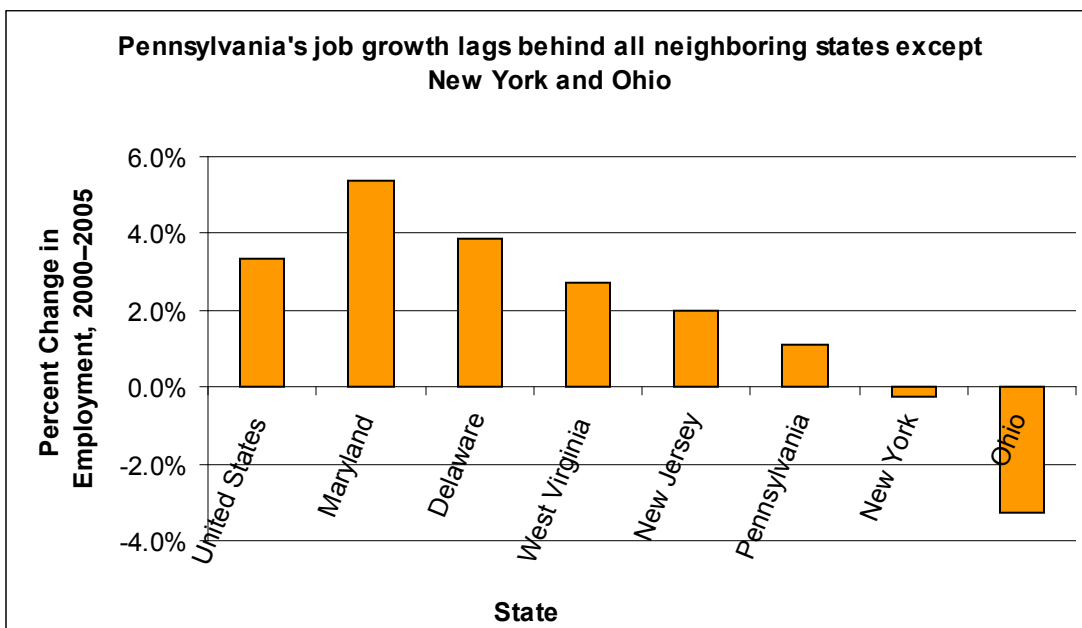
What is more is that the rate of loss for cities and boroughs has increased in the post-2000 period. In the 1990s, cities lost an average of 0.49 percent per year. Between 2000 and 2005 the average population loss for cities was 0.66 percent a year. Likewise, boroughs lost 0.11 percent of their population per year in the 1990s, but more than tripled that rate between 2000 and 2005 (a loss of 0.39 percent year). Meanwhile, second-class townships grew 1.12 percent per year in the 1990s, but 1.15 percent per year

between 2000 and 2005.

Collectively, second-class townships were home to 43.7 percent of the state’s population in 2005—up from 41.7 percent in 2000. Meanwhile, all other municipalities saw their share of the state’s population decrease. The largest share loss was in cities. In 2000, cities had 25.4 percent of the population but by 2005 they had 24.3.

Older places in the west are struggling more than older places in the east

Not surprisingly, cities, boroughs, and first-class townships in western regions sustained larger population losses between 2000 and 2005 than those types of municipalities in the east. In the central, northwest, and southwest regions, to be specific, more established communities suffered losses of more than 3 percent. No city in the state lost more population than Johnstown which dwindled by 5.7 percent in just 5 years. By contrast, more established communities in the northeast and southeast regions contended with population losses of just 0.3 percent and 2.2 percent respectively. South central’s cities, boroughs, and first-class townships actually



Source: Bureau of Labor Statistics

gained population collectively, and added almost 10,000 people for a 1.4 percent increase in recent years. In like fashion, the only metropolitan area where cities managed not to shed population was Allentown. Second-class townships in the northeast grew by 10 percent between 2000 and 2005, while their northwestern counterparts grew by just 0.3 percent.

Non-metropolitan counties are also continuing to “hollow out”

While non-metropolitan second-class townships added some 43,000 residents to grow by 3.4 percent between 2000 and 2005, rural boroughs and other more established communities there lost 17,000 residents, their population base dwindling by 2.6 percent.

Likewise, Pennsylvania’s homebuilding trends reflect the continued hollowing out of older Pennsylvania, although there are new signs of life

Second-class townships still dominate new housing development in Pennsylvania

Second-class townships’ overwhelming 75 percent share of the total number of issued building permits remained steady from the 1995 to 1999 period and through the 2000 to 2004 years. Meanwhile, the 158,000 housing permits issued by second-class townships since 2000 represent a 13 percent increase over the number issued between 1995 and 1999.¹⁷ However, in two metropolitan areas—**Erie** and **Philadelphia**—the number of permits issued in second-class townships actually declined by 9 percent and 5 percent respectively.

At the same time, recent years have seen an up-tick in new development activity in cities, boroughs, and first-class townships

Despite continued population losses, a number of established communities are seeing significant increases in new housing construction. Philadelphia and Harrisburg, in particular, have scored big construction increases since 2000. The Harrisburg metro had 122 permits issued in its two cities (Harrisburg and Lebanon) between 1995 and 1999. Between 2000 and 2004, Harrisburg issued three times as many housing permits in its cities. For that

matter, cities in the Philadelphia metro issued over twice as many permits between 2000 and 2004 than between 1995 and 1999. Altogether the cities of Philadelphia, Chester, and Coatesville handed out 7,805 permits between 2000 and 2004.

Together, cities and boroughs statewide saw a 22.5 percent increase in the number of permits issued between 2000 and 2004 compared to the number issued between 1995 and 1999. This increase is remarkable considering that these areas of the state registered a 2.1 percent population loss during the recent time period and are more built out than newer parts of the state.

Unfortunately, however, the quickening of residential development activity did not extend to the more established communities in non-metropolitan Pennsylvania

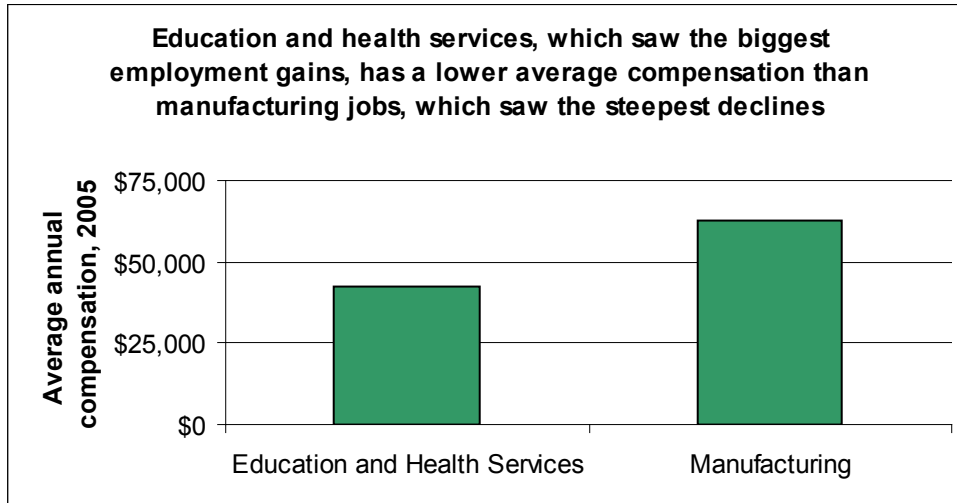
In fact, permitting actually slipped by 3.4 percent in boroughs and other older places in rural Pennsylvania between 1995 to 1999 and 2000 to 2004. And for every housing permit issued in an older place in rural Pennsylvania between 2000 and 2004, ten were issued in a second-class township.

The trend: Pennsylvania’s transitioning economy still lags, although signs of greater vitality have appeared recently

Employment growth in the Commonwealth remains tepid but has accelerated somewhat of late

Pennsylvania continues to rank low among states in employment growth, although signs of greater vitality have recently appeared

During the dynamic 1990s, Bureau of Labor Statistics’ data show the number of Pennsylvania jobs grew anemically: by 521,100 positions (or 10.1 percent), good for a 0.96 percent annual job increase compared to the nation’s 1.87 percent annual growth and 20.4 percent total increase between 1990 and 2000. Between 2000 and 2006, by comparison, the overall job growth rate in Pennsylvania actually *slowed* to 0.18 percent per year—one-third of the nation’s 0.55 rate—as the state added just 61,900 jobs (for a 1.1 percent total increase between



Source: Bureau of Economic Analysis

2000 and 2006). To be sure, the nation as a whole experienced an economic recession in the early years of the decade, so employment growth rates were sluggish everywhere. Still, Pennsylvania has remained among the slowest growing states in the country throughout this period. For employment growth between 2000 and 2006, the Commonwealth ranked 37th in job growth, up from 45th between 1990 and 2000.¹⁸

At the same time, the pace of job creation—and Pennsylvania’s rank on that measure—has improved somewhat recently. In this respect, it is worth noting that thanks to the nationwide recession, Pennsylvania lost 80,000 jobs between 2000 and 2003, and only began replacing the losses in 2004. That means that virtually all of the modest job gain registered between 2000 and 2006 owed to significantly faster growth between 2003 and 2006, when the state added 141,900 jobs, to grow its job base by 2.5 percent. That ranked the state’s three-year percentage job growth 39th among the states. Although still slow-growing, Pennsylvania has markedly improved its standing on a crucial indicator.

Job growth varies significantly across regions

Some regions are exhibiting genuine economic vitality, while others continue to struggle. On the upside, the metropolitan areas of **Allentown** (where the job base expanded by 5.6 percent during the years 2000 to 2006), **State College** (5.0 percent), **Lancaster** (4.2 percent), **Harrisburg** (4.1 percent),

and **York** (4.1 percent) all surpassed the national job growth rate of 3.3 percent over the time period.¹⁹ By contrast, the state had three metropolitan areas that lost employment: **Williamsport** (which shed 3.6 percent of its jobs), **Erie** (which lost 2.1 percent), and **Pittsburgh** (which lost 0.8 percent). The state’s largest metropolitan area, **Philadelphia**, saw its employment grow 0.5 percent.

At the same time, the Commonwealth’s unemployment rate has fallen significantly in recent years

In 2003, when “Back to Prosperity” was published, the state’s average annual unemployment rate was 5.7 percent, just below the nation’s 6 percent rate. By 2006, unemployment had fallen to just 4.7 percent, a rate about on par with the nation’s 4.6 percent rate.²⁰

The state’s service sector dominates employment growth

Pennsylvania, like the rest of the nation, has continued to lose manufacturing jobs and add service sector jobs

“Back to Prosperity” reported that the state’s service sector grew quickly between 1970 and 2000, while manufacturing jobs declined precipitously. This trend continued in the post-2000 period.

Big gains for the state include educational and health services (which saw a 136,800-person, 14.9 percent growth in employees) between 2000 and 2006. Professional and business services registered

gains of 10.6 percent, and construction gained 5.7 percent.

But between 2000 and 2006, the state sustained a 22.2 percent loss of manufacturing jobs. There were, in 2006, 192,100 fewer people employed in manufacturing than there were in 2000. The Commonwealth also absorbed job losses in retail (-3.7 percent) finance and insurance (-0.7 percent), and trade, transportation, and utilities (-0.3 percent).

Economic sector trends among the metropolitan areas generally reflect those of the state, with some variations

Educational and healthcare jobs increased in every metropolitan area in the state, while manufacturing jobs declined in all. The healthcare sector grew fastest in the **Lancaster, State College, Reading,** and **York** areas in percentage terms. **Scranton/Wilkes-Barre/Hazleton, Philadelphia, Harrisburg** and **Pittsburgh** saw the smallest increases in healthcare sector jobs, although **Philadelphia** and **Pittsburgh** generated the largest absolute increases (42,100 and 25,600 jobs, respectively).

The biggest percentage manufacturing losses were in the metropolitan areas of **State College, Johnstown, Allentown,** and **Erie**, while the smallest percentage manufacturing losses were in **Harrisburg, York, Williamsport,** and **Lancaster**.

Unfortunately, several of Pennsylvania's fastest growing industry sectors offer lower average compensation than its declining industry sector

The average compensation in 2005 for education and health services—the area where the state saw the largest gains—is \$42,500.²¹ In contrast, the average compensation for manufacturing jobs—the state's steepest decline in employment—was \$62,400.

Given these trends, pay in the Commonwealth continues to lag the national average, although there has been some improvement

Specifically, average annual pay in Pennsylvania remains low, but is rising

By 2005, for example, the average annual compensation (wages plus benefits) in the state had reached \$48,000. This figure ranked the Common-

wealth 17th in the nation among states and slightly trailed the nation's annual average compensation of \$49,777, though it remained far beneath the pay levels of such mid-Atlantic neighbors as New York (where the average pay is \$62,100), Maryland (\$54,700), and Delaware (\$53,700).²² However, between 2000 and 2005, average annual compensation increased by a solid 6.2 percent, ranking the state 31st in compensation growth. Nationally, pay grew by only 5.6 percent.

Household income also continues to trail the national average

While the nation's median household income in 2005 stood at \$46,200, Pennsylvania's was only \$44,500. This ranked Pennsylvania 24th out of the 50 states.²³

Pennsylvania's educational attainment lags at the high end

Pennsylvania high school graduation rates remain solid

In 2005, 86.7 percent of Pennsylvanian adults had finished high school, which ranks the state 24th.²⁴ That figure exceeded the national completion rate of 84.2 percent. Although not an apples-to-apples comparison, this most likely represents an improvement from 2000, when 82 percent of adults had a high school diploma.²⁵

College attainment is likewise improving but still trails much of the nation

Only 25.7 percent of the Commonwealth's adult population has a college degree or higher compared to 27.2 percent of the nation. That achievement rate represents a slight improvement since 2000 (when 24.4 percent of adults had a bachelor's degree or higher), and ranks the state 24th.²⁶ This is an improvement from 2000, when Pennsylvania ranked 30th in college attainment.

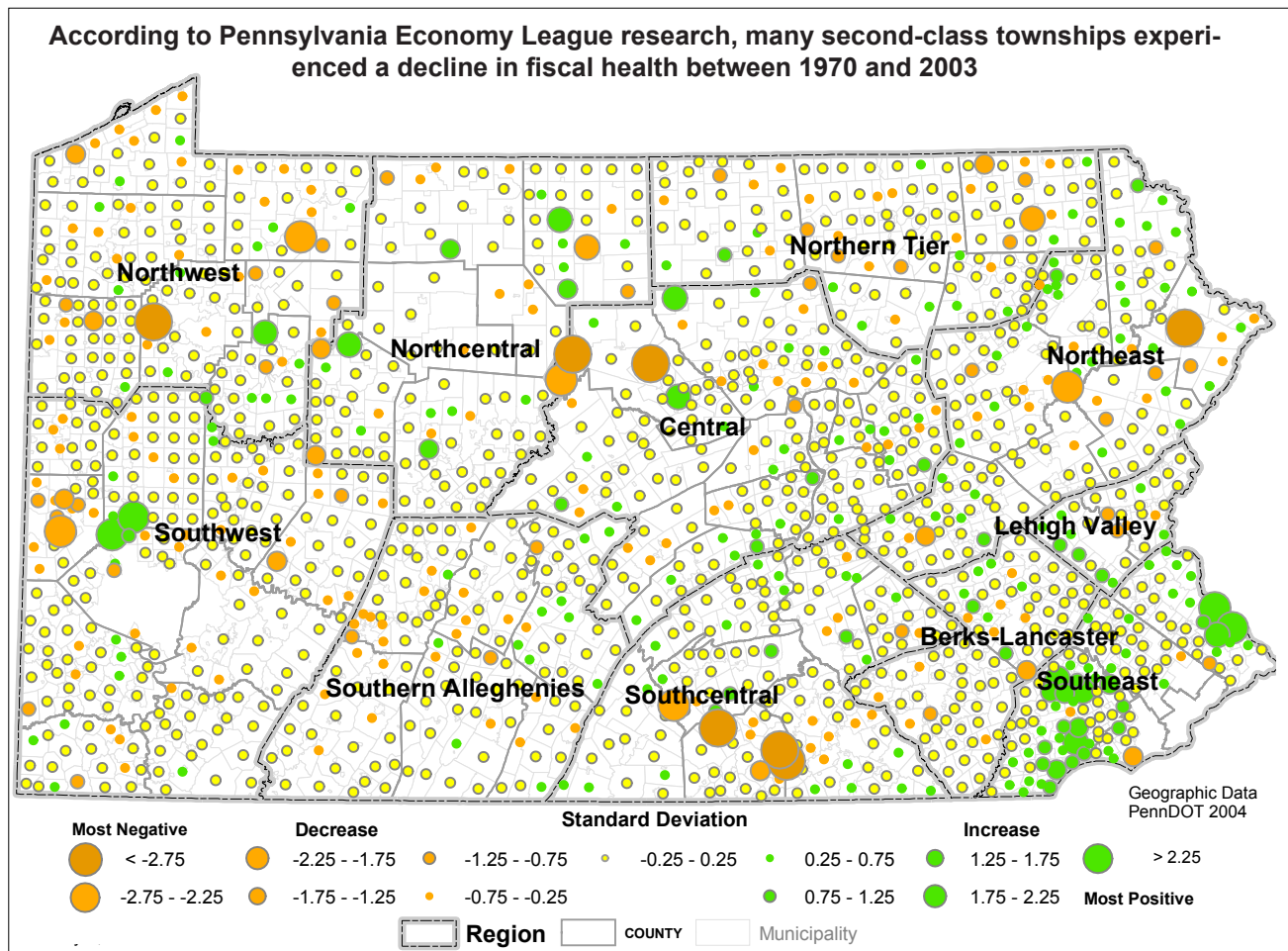
In sum, many of the trends described in "Back to Prosperity" persist three years later, notwithstanding some encouraging signs of progress, which means that on balance Pennsylvania's uneven patterns of core decline, low-density sprawl, and slow overall

economic growth continue to limit the state's future prospects.

These trends have significant implications. First, the spreading and hollowing out of Pennsylvania settlement sharpens the fiscal challenges facing both communities managing decline and those managing growth. Those managing decline face shrinkages of their tax base that in turn limit their ability to provide services, while those managing growth struggle to provide new physical and social infrastructure for unplanned development. Likewise, the state's development patterns are harming the state's quality of place, as they contribute to farm land loss and residential and commercial abandonment in cities and boroughs. And finally, the state's continued struggles with industrial change and its growing workforce skills challenges could—if unchecked—lock in a vicious cycle of firm attrition that

can exacerbate the out-migration of skilled workers, and so drive further loss.

The next section explores these implications in depth and argues for quick attention to these problems while the time is right to affect change.



Source: Pennsylvania Economy League

III. Bearing Down: Three Key Challenges for the Next Push Toward Renewal

Given Pennsylvania's current mix of progress and drift, the Commonwealth needs to maintain and sharpen its recent focus on economic renewal.

What is more, the changing nature of the global economy makes imperative new approaches to revitalization.

Why is that? Here's why: Key components of the global economy—individuals, innovation, investment, industries—are increasingly mobile today. Places that can offer skilled workers and productive businesses quality services and the best amenities will therefore have an advantage over those that cannot.

Which is why the integrity of Pennsylvania's urban and rural places matters so much to its economic competitiveness. If Pennsylvania localities and the state can collaborate to harness the Commonwealth's many assets, Pennsylvania cities, boroughs, and townships may yet find a new niche in the global economy by crafting vital, well-run, and attractive sites of economic dynamism. If they cannot so cooperate and innovate, however, the state will find it increasingly difficult to compete in today's rapidly globalizing economy.

Hence the urgent need for Pennsylvanians to redouble their recent efforts to tackle the state's persisting growth and development challenges. Three problems in particular require renewed attention:

To begin with, an epidemic of fiscal distress is weakening Pennsylvania municipalities, undercutting their ability to govern effectively and provide top-quality amenities

On this front, more and more Pennsylvania cities, boroughs, and even townships are finding themselves radically weakened in their ability to control their destiny, provide a great quality of life, or even maintain basic services.

What is the source of this vulnerability? In large

part, the weakness of Pennsylvania cities, boroughs, and townships results from the limited array of governance and tax tools they possess to contend with the fiscal impacts of unplanned development, public safety demand, and disinvestment.

But at any rate, the spreading reach of fiscal distress gives the lie to the notion that financial malaise is solely an urban problem in Pennsylvania and underscores the urgency of the need for substantial governance and fiscal reform in the Commonwealth.

In this regard, important new research from the Pennsylvania Economy League (PEL) describes in stark detail the widening extent of Pennsylvania's local government capacity crisis.²⁸ Providing a 33-year panorama of fiscal decline, PEL's research shows that more and more, municipalities are slipping into fiscal distress, and that the problem affects not just cities. Increasingly, PEL reports, *all* types of communities may become subject to fiscal trouble. A walk through the state's municipality types makes the point:

Cities. In 1970, 54 of the state's 56 cities were below the state's fiscal average, according to PEL.²⁸ By 2003, all cities fell below the average. Moreover, the fiscal health of almost all cities deteriorated between 1970 and 2003 by comparison with the state average. PEL identifies only one city that saw an improvement in its relative fiscal health: St. Marys, which was part of a municipal consolidation.

Boroughs. Like cities, the fiscal health of boroughs is generally declining. Roughly two-thirds (635) of the Commonwealth's boroughs struggled with declines in their relative fiscal health between 1970 and 2003.²⁹ Only 20 boroughs went from being below the state average in 1970 to exceeding the state average in 2003 and only 53 more started as above average in 1970 and remained that way in 2003. However, even among those 53 boroughs, most were still trending downward—35 of these boroughs saw declines in fiscal health from 1970.

First-class townships. Of the state's 91 first-class townships, 70 saw their fiscal health decline rela-

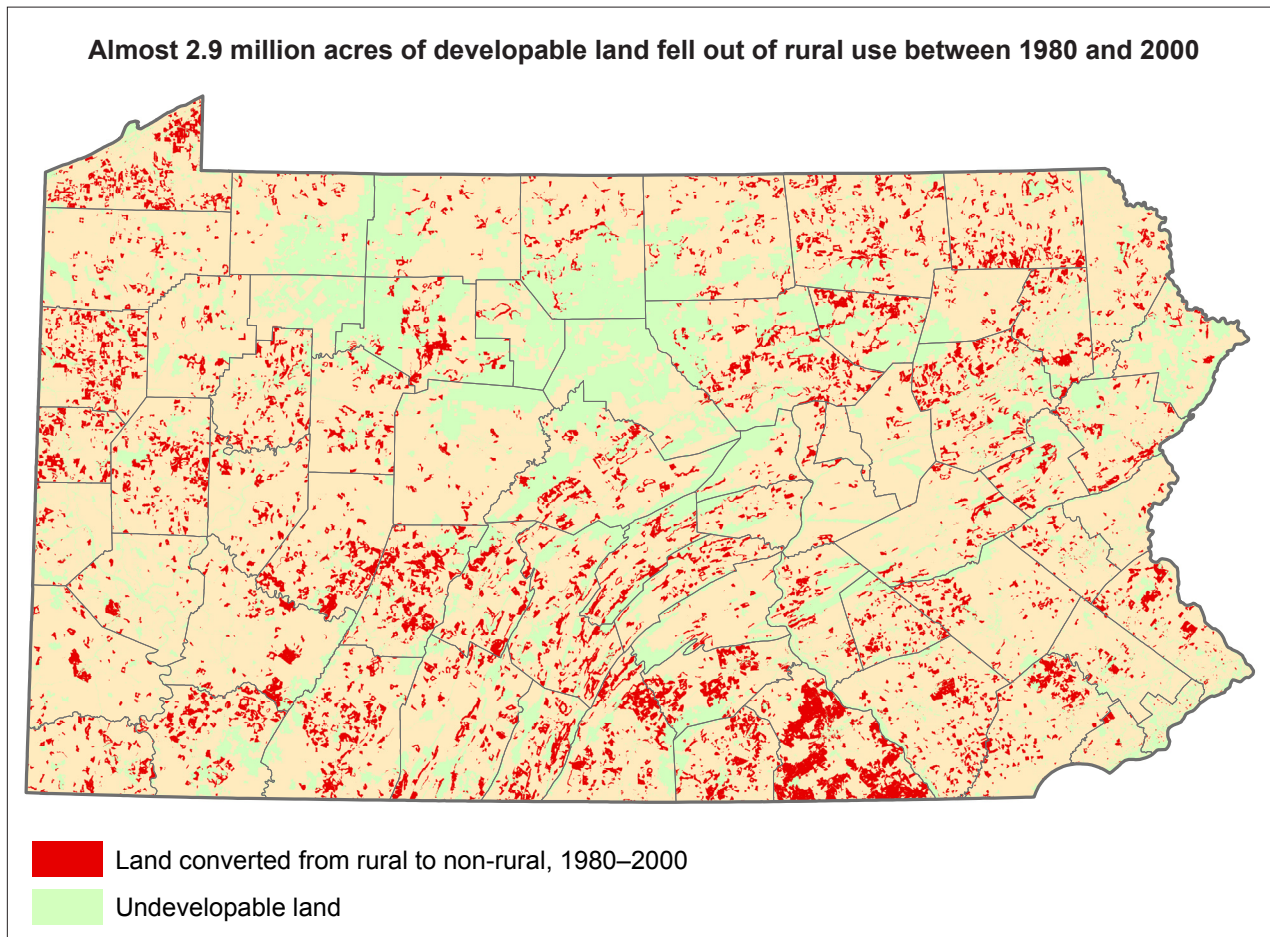
tive to the state average from 1970 to 2003. While 57 of these municipalities enjoyed above-average fiscal health, nearly half of those still experienced a decline in their fiscal health since 1970.

Second-class townships. Finally, PEL reports that the fiscal health of some 417 second-class townships—representing 35 percent of these communities—had slipped below the state average by 2003. Moreover, among the townships that managed to remain above the state average, 42 percent experienced declining fiscal health.

Why does this spreading zone of distress matter? It matters because in a very real sense Pennsylvania’s economic competitiveness depends on the competitiveness of its municipalities, as manifested by their ability to deliver top-quality services, provide desirable amenities, and promote sound economic development and sustainable land-use planning. Along these lines, the urban scholars Barry Blue-

stone, Alan Clayton-Matthews, and David Soule of the Center for Urban and Regional Policy at North-eastern University well describe the important role localities play in location decisions. They argue that people and companies locate in particular municipalities as well as in regions or states. They argue, further, that the ability of a city, town, or village to deliver excellent public services and a top-notch quality of life plays a critical role in business and personal location decisions.³⁰

Hence it is imperative to ensure that Pennsylvania municipalities retain the fiscal and legal capacity to manage and govern effectively. If fiscal distress prevents too many boroughs or townships from providing reliable trash collection, effective policing, and attractive streetscapes, then the entire state’s ability to assemble a quality workforce and attract and retain quality employers will be compromised. Likewise, if municipalities’ ability to raise necessary revenue or manage land-use development is



Source: Brookings analysis of housing density data from David Theobald, Colorado State University



degraded, then again, the whole state will suffer. Or as Bluestone, Clayton-Matthews, and Soule state: “Municipalities that are strapped for cash are limited in their ability to provide the local environment that businesses demand when they make the decision to put down roots and create jobs. If cities and towns have inadequate revenue to carry out these efforts, economic development for the entire state suffers.”³¹

Secondly, the state’s unbalanced development patterns continue to erode the state’s rural and urban quality of place, just when those assets matter more

In this respect, the need to attract and retain skilled workers and high-value corporations to Pennsylvania points to another challenge the state faces: defending and enhancing the Commonwealth’s quality of life despite the continued inroads of the state’s erratic and sometimes destructive development patterns.

Pennsylvania is blessed with superb physical assets: beautiful rural countryside and historic older cities; tranquil heartland small towns and distinctive urban ones.

Pennsylvania’s rural places harbor the state’s natural resources, and provide superb recreational amenities that are a boon to the entire state. Rural small towns offer a high quality of life—something that rural participants in Penn State’s recent listening sessions on rural development named consistently as a strong asset.³² In addition, the strong sense of community in rural towns, their proximity to open space, and the absence of traffic-clogged commutes to work available there are also attributes that make the entire state more attractive.

By the same token, Pennsylvania’s numerous cities, boroughs, and older townships are also precious and important. These more “urban” communities retain a special potential to catalyze growth because they possess assets unavailable elsewhere, such as: regional centers of business, medicine, and education; strong existing road and rail systems; distinctive livable neighborhoods, and a wealth of restaurants, shops, and entertainment.

In this connection, the state’s cities and established places offer complex, adaptive, and useful systems to organize all kinds of human activities.

At their best, Pennsylvania cities and boroughs represent places where Pennsylvania businesses and households can cluster together to take advantage of important benefits of doing so—what economists call agglomeration economies.³³ What is more, research also shows that Pennsylvania’s small and large cities embody something that may soon be in greater demand. Consumer preference studies more and more report a national shift in demand towards a greater interest in city living, particularly among segments of the population that are growing in Pennsylvania. For example, the 45-and-older population is increasingly interested in densely-built, walkable neighborhoods.³⁴ More generally, the popular perception of cities in this country has also gotten a boost in recent years.³⁵

Yet here is the problem: Pennsylvania’s current development patterns, which find the state at once sprawling and hollowing out, increasingly threaten both the state’s rural and urban assets, just as these assets are becoming more important to Pennsylvania’s competitive future. All across Pennsylvania, it turns out, older, more established or urban areas are losing people while Pennsylvania’s beautiful rural areas and open spaces are being rapidly and haphazardly developed.

Most noticeable, between 1980 and 2000 alone, almost 2.9 million acres of Pennsylvania’s developable rural land—some 22 percent of the state’s original total—were converted to suburban and other uses.³⁶ In some parts of the state, the change has been downright astonishing. York County had 293,000 acres of rural land in 1980, but by 2000 it was left with only 68,000 acres—meaning it had seen a 77 percent decline in its rural land! For that matter, even parts of the state that are not growing as fast as York experienced major losses of rural land. Erie, for example, experienced a 34 percent loss of rural land between 1980 and 2000. Add it up, and it’s clear that slow-growing Pennsylvania continues to contend with a rapid erosion of its rural character. By 2000, only 42 percent of the state’s land mass remained rural, down from 54 percent in 1980.

Yet simultaneously, the quality of place in Pennsylvania's more urban communities is also suffering. On this front, while rural land is being subdivided, many existing communities continue to decline.

Between 2000 and 2005, for example, 51 cities, 774 boroughs, and 48 first-class townships—the majority of each type of municipality—lost population. For that matter, while recent years have seen more building projects in the larger cities—particularly Philadelphia—many of Pennsylvania's more urban or established places continue to struggle with residential abandonment, losses of retail businesses, and limited redevelopment activity. This, too, eats away at the quality of place Pennsylvania can offer as it competes to craft great places to attract and retain great companies and productive people. The upshot: Pennsylvania's unique, historic urban centers; its rural towns; and its pastoral countryside are all under threat just when they matter to the state's economic future more than ever before.

Finally, Pennsylvania is still laboring to revitalize its transitioning economy and make itself globally competitive in more post-industrial sectors

Significant efforts to stimulate, diversify, and renew a changing economy have been launched in Pennsylvania, but the work of transformation has only begun.

The challenge is clear. Study after study (including “Back to Prosperity”) documents the need for Pennsylvania (and other industrial states) to combat employment declines in still-productive manufacturing sectors with a focus on stimulating high-value knowledge- and innovation-based specializations as the best means of bringing more and better jobs back to Pennsylvania.

Likewise, a raft of other studies show that businesses flourish not individually and independently, but as parts of “clusters” of competing but related firms, talented workers, entrepreneurs, and support institutions. Along these lines, numerous analysts stimulated by Harvard Business School professor Michael Porter often observe that the economic impact of a

concentration of related firms is often greater than the sum of its parts.³⁷ A concentration of firms promotes shared learning and intensifies competition, for example. Likewise, such a bunching of employers facilitates specialization and promotes the development of industry-specific skills. Most importantly, clusters frequently generate new ideas—and often new firms—that lead to further economic growth.³⁸ That trait makes the development of strong clusters in innovative export industries even more important as the global economy increasingly turns on the proliferation of great ideas.

The problem for Pennsylvania is that although the state boasts a portfolio of important high-value “export” specializations—including the life science, education, food processing, and business and financial services—the state lacked until 2003 a systematic commitment to investing in these sectors and others. Starting then, to be sure, the state began moving aggressively to develop and implement a sophisticated cluster- and workforce-based strategy for diversifying its economy by focusing on the post-industrial, knowledge-based industries of the future. But for all that, Pennsylvania's historic absence of a clear post-industrial economic vision has left the state with a lot of work to do on both the industrial and labor force fronts as it seeks to break out of the daunting double bind it now faces.

The challenge facing the state is tough. Without good jobs in dynamic industries, skilled workers will continue to leave the Commonwealth. And yet, without a strong pool of workers, it will be hard to build dynamic clusters and attract quality firms. What is more, the labor force challenge is made even more acute by the fact that the state—as well as the nation as a whole—may be heading toward a workforce shortage as the well-educated baby boom generation gets ready to retire. Specifically, by 2029, Pennsylvania will lose to retirement almost one million baby boom workers with college degrees.³⁹ Nor will the state be able to rely heavily on attracting workers from elsewhere to replace the boomers, as the entire nation will be competing for a diminished supply of skilled workers. Instead, the state will most likely need to depend on existing residents as it builds the labor force it will need to support more dynamic industries.



All of which means the state continues to face a troublesome double challenge as it seeks to enlist the many assets it possesses in a sustained drive to cultivate broad-based prosperity in Pennsylvania. With relentless discipline, the Commonwealth must invest steadily and strategically in promising industry clusters, even as it moves aggressively to train the highly productive workforce those clusters will need.

In the end, it is not surprising that many of the most troublesome demographic, development, and economic trends that held sway before the publication of "Back to Prosperity" persist three years later. Three years is not a long time, given the long waves of history and the time it takes to get important things done.

IV. Committing to Prosperity: Moving Forward on the Agenda to Renew Pennsylvania

Nor is it surprising, given the short passage of time, that some of the most fundamental policy challenges identified in “Back to Prosperity”—the question of how to help localities govern more effectively, the need to promote reinvestment, the need to renew the state’s transitioning economy—remain pressing. Three years, in that sense, is not enough time for a state to alter settled practices and bend the long trends of demographic, development, and economic change.

And yet, three years or five years can make all the difference. Three years is long enough to begin the process of public policy change—and such change has begun, especially with the Rendell administration’s flurry of reforms since 2003. Meanwhile, five years is time enough to begin the work of systemic, deep-going program and policy reform. And so, this last major section of “Committing to Prosperity” assesses the nature and extent of state-level policy response in Pennsylvania since the release of “Back to Prosperity” and presents an updated action agenda for continued reform.

Running through this discussion is an abiding view that the earlier report’s emphasis on empowering local governments, focusing the state’s investments on existing assets, and investing to build a high-road economy remains the right one. Also implicit here is a continued sense of urgency, and a belief that updating the local government system, focusing attention and resources on existing communities, and adhering to a clear vision of economic transformation represents a credible response to fiscal stress, the need to foster regional innovation, and economic development needs.

In keeping with this perspective, the following pages of “Committing to Prosperity” suggest the following three major objectives—derived from “Back to Prosperity”—as key priorities for continued policy reform:

- Empower local governments to better manage change, combat fiscal distress, and invest in the future
- Continue making reinvestment a priority
- Continue building a competitive economy through strategic investment in key industries and complementary workforce development

In each case, these pages “reset” the renewal agenda by reviewing the Commonwealth’s recent work on these issues over the last three years, and suggesting the most important areas for continued reform.

Action along these lines will propel a great state closer to the fundamental, systemic reforms that can yield long-lasting, sustainable, positive change.

Empower local governments to better manage change, combat fiscal distress, and invest in the future

First and most important, Pennsylvania needs to move ahead on the difficult task of updating the state’s restrictive, cost-inducing local governance system.

To be sure, statutory reform in Harrisburg cannot by itself create local appetite for change where it does not exist. Still, it can allow it to strengthen when it does arise.

So, the need for action is clear. Maximizing the efficiency and flexibility of this basic, underlying structure represents a prerequisite for progress on every other front.

Reform of the local governance system holds the key to combating local fiscal distress, “right-sizing” service provision, and in the long run saving



taxpayers money. In addition, making voluntary governance reform more possible is necessary to stimulate more local and regional innovation and to ensure that regional land-use planning and economic development is sustainable.

But beyond that, the benefits of reform go beyond those important boons to the state's fundamental economic competitiveness. As noted in "Back to Prosperity," successful state economies are made up of successful localities assembled into successful regions that "compete together, not against each other, for standing in the global economy." That suggests that if the local government system's flaws remain unaddressed, the chances of really unleashing the state's economy will be greatly reduced. Or to put it another way: working to renew the economy without renewing the governance system is akin to driving a car with the parking brake on. With an enormous amount of extra effort, the car may move, but only by releasing the brake will the car really accelerate.

Moreover, voters agree that governments should work together: 95 percent believe that local governments should coordinate and plan economic development, transportation, and open space preservation together. Eighty-four percent believe that regional police departments should be formed, and 64 percent believe that pooling resources to deliver municipal services should be encouraged. Importantly, a full 70 percent of voters are more likely to support elected officials who advocate for the sharing of municipal services among local governments.⁴⁰

And so the General Assembly should consider and act on the efforts of the Rendell administration and others to empower local governments to collaborate much more than they can now. Granted, a beginning has been made, but much more needs to be done to ensure that local governments that wish to collaborate to share services, plan regionally, or even merge with another local government or authority are actually able to do so easily and legally.

The Berks-Lehigh Regional Police Department: Better Service through Functional Consolidation

In 2001, municipalities in Berks and Lehigh counties created the second of Pennsylvania's only two consolidated cross-county police forces. Lehigh's Upper Macungie Township joined the Northeastern Berks Regional Police Department—itsself the product of an earlier 1991 consolidation of the Topton Borough Police Department with the municipalities of Lyons Borough and Maxatawny Township. The new department—representing four municipalities—became the Berks-Lehigh Regional Police Department.

Upper Macungie Township—which grew 58.7 percent between 1990 and 2000—was struggling to provide adequate police coverage for its booming population. With no police department of its own, it had been contracting state police services, but the costs were becoming increasingly expensive, and state forces were spread thin. The costs of joining an existing police department, replete with existing facilities and officers, were much less than creating its own police force from scratch.

The result of the consolidation? Better services and more police coverage for the communities served by the Berks-Lehigh Regional Police. The four communities now have 24-hour local police coverage, and the economies of scale allow the department to provide far more than the basic level of service that the municipalities would struggle to provide on their own. The Berks-Lehigh Regional Police Department now has its own criminal investigative unit, accident investigators, a canine unit, and traffic unit.

For the member municipalities of the Berks-Lehigh Regional Police Department, consolidation brought solutions to pressing problems. It offers quality coverage at a reasonable cost.

Progress to Date

“Back to Prosperity” recommended a number of reforms that the state has acted upon, and the Commonwealth seems much now than it was in 2003 to work toward meaningful governance reform as the focus shifts to the enacting statutory reforms in the General Assembly.

The Rendell administration, to begin with, has continued its ongoing work at **increasing the capacity of local governments and local officials** to provide top-quality services and engage in regional planning, for example, and meanwhile the Commonwealth has been mapping a reasonable path toward substantial planning and governance reform.

Most notably, in the winter of 2003–2004, Gov. Rendell revived the defunct **State Planning Board**, a critical step toward addressing the state’s governance and planning issues. In 2006, the planning board released its first report. Of particular note for renewing planning and governance is the Governance Committee’s report. It outlines sensible recommendations to promote voluntary innovation in four areas: right-sizing the provision of services, consistency of planning and implementation, tax revenue and tax base sharing, and barriers to boundary changes.⁴¹

The Way Forward: Foster multi-municipal collaboration and stave off distress by improving the legal and fiscal environment in which local governments operate

The Commonwealth has laid the groundwork for major governance reform, but the real work remains and will require the engagement of the General Assembly. Several incremental steps will help the state get started, but to truly enact deep-going change Pennsylvania must take on a major recasting of the current fiscal and jurisdictional arrangements. The time is now to get started on the work.

Next Steps: Get started on governance reform

To begin the reform process, the General Assembly should adopt a series of modest and commonsensical recommendations—mostly advanced by the

State Planning Board—for adjusting the state’s local government statutes to improve municipalities’ ability to deliver services and otherwise manage their affairs more effectively and cheaply.

Currently, municipalities are straitjacketed by laws that limit their options and actually make certain obvious local or regional solutions illegal or at least more difficult than they should be. Current law also contributes to fiscal distress by essentially precluding sensible problem-solving by municipalities that are instead left to continue down a fiscally-unsustainable path.

To that end, the General Assembly should pursue five important incremental reforms that will enable municipalities to more easily rearrange their affairs if they so choose:

Make intergovernmental collaboration on service-delivery easier

First, the General Assembly should pass several reforms that will immediately permit more creative and collaborative work by municipalities to “right-size” local and regional service provision to maximize efficiency. Currently, conflicts among the governing codes of various municipalities can impede creative problem-solving. At the same time, potential efforts to achieve economies of scale by transferring the responsibility for some service provision to the county from the local level are stymied by the fact that Pennsylvania law bars counties from providing many types of services. Accordingly, the General Assembly should move to sweep away these significant obstacles to local innovation and cost-saving by enacting a number of legal changes:

- ✓ Amend the Intergovernmental Cooperation Law to include a procedure for resolving code conflicts that may hobble efforts to reach new cooperative agreements
- ✓ Amend the Pennsylvania County Code to provide clear legal authority for counties to deliver traditional municipal services, in partnership with cities, boroughs, and townships. The code should also expressly permit municipalities to purchase services from counties

- ✓ Explore the notion of giving counties the power to conduct studies with the local governments on which key services—police, fire, EMS, water and sewer, transportation—might best be delivered either at the county level or in regional service districts. An amended county code could then be invoked to permit municipalities to opt into the area or county service districts
- ✓ Authorize, after careful local or regional study, providing counties or sub-county service districts new taxing authorities that allow for the reduction of local property taxes and a shift to more progressive and sustainable forms of local revenue generation

Foster intergovernmental service provision, including quality local and regional land-use planning, with more financial and technical assistance

Second, to foster higher-quality and more innovative service delivery, the state needs to increase the amount of up-front or multi-year technical and financial assistance available to cities, boroughs, and townships that choose to engage in intergovernmental cooperation, service right-sizing, or high-quality local or regional planning. For many

localities, the up-front costs of developing new forms of service delivery can constitute a serious obstacle to innovation. To offset those costs, the state should put its money where its mouth is and step up the amount of assistance available through such programs as the Shared Municipal Services Program, the Regional Policy Assistance Program, and the Land Use Planning and Technical Assistance Program (LUPTAP). All of these are sound programs that need to be maintained and bolstered and not allowed to dwindle. A case in point is LUPTAP. The budget appropriation for 2004–05 was \$3.5 million but went down to \$3.3 million in 2005–06 and stayed level for 2006–07. Gov. Rendell has proposed that LUPTAP's budget be increased almost \$2 million for the next fiscal year, and the General Assembly should adopt this recommendation and explore providing additional assistance to local governments. The Commonwealth would be pennywise and pound foolish to encourage local government innovation and service efficiency yet not provide county and local governments with the ability to implement their ideas.

Allow boundary changes

A third area of incremental reform should be a significant streamlining of the unclear and cumbersome laws governing municipal mergers and

Metro-York: A New Initiative Explores Countywide Inter-Governmental Collaboration

Like the rest of Pennsylvania, York County faces a number of inter-related challenges: its older communities are struggling with high levels of poverty, a shrinking tax base, poorly performing schools, and an aging infrastructure. But York is not giving up to these trends. There is a growing recognition among leaders and residents that its core communities' problems are the result of deep structural problems in governance, which impacts the school system and the tax structure.

And so, a group of leaders is working toward systematically addressing these underlying problems.

In May 2006, YorkCounts—a collaboration of Better York, The United Way of York County, WellSpan Health, York College of Pennsylvania, York County Commissioners, York County Chamber of Commerce, and the York County Community Foundation—created a new project called “Metro-York.” Metro-York's mission is to work across government boundaries to improve the area's economy, educational system, and public safety.

Through a series of community dialogues, “Metro-York” is developing an action plan—divided into immediate steps, intermediate goals, and long-term plans—in three possible areas: a regional approach to public safety, multi-municipal planning efforts, and long-term tax sharing. The agenda will be publicly announced in Summer 2007.

consolidations. Merging or consolidating municipalities remains an important strategy for improving government efficiency. However, groups of municipalities that want to reorganize themselves to respond better to changing realities face a daunting and often impossible process of legal consultations, interpretive riddles, initiative petitions, votes, and joint agreements in order to prevail. In addition, there exists no procedure in Pennsylvania for the scores of boroughs and townships too poor to maintain viable governments to voluntarily “disincorporate” themselves with the goal of melting into one or more of their neighbors. This ensures that scores of severely stressed communities are forced to continue to exist, despite being unable to provide even basic services. Given these problems, the General Assembly should significantly streamline the state’s convoluted and repressive border-change procedures with several other reforms:

- ✓ Clarify and rework the Municipal Consolidation or Merger Act to make it much easier for municipalities to merge or consolidate. The State Planning Board has provided a detailed list of recommended technical adjustments
- ✓ Amend the county and municipal codes to establish clear procedures for achieving municipal disincorporation. Again, the planning board has enumerated the technical changes needed

Make planning mean more

A fourth area for needed empowerment of Pennsylvania municipalities is on land-use planning. To grow differently and better and more cost-effectively, the state and its localities must continue improving the state’s planning system to ensure that localities gain truly meaningful and effective planning authority. The problem here is that the state’s main land use law, the Municipalities Planning Code (MPC), remains seriously flawed by its current lack of a definitive requirement that local zoning ordinances conform to county, regional, or local comprehensive plans. As the State Planning Board report points out, “Section 303 (c) [of the MPC] dramatically reduces the importance of comprehensive planning in Pennsylvania because it renders comprehensive

plans legally powerless and prevents their appropriate use as the rationale for zoning, subdivision, and other land use ordinances and decisions.”⁴² This effectively negates the effectiveness of comprehensive planning and hobbles local efforts to guide growth by rendering plans essentially unenforceable. In light of this, the state should bolster localities’ planning authority by amending Section 303 (c) of the MPC. Local action to manage and shape development should be fortified, and bound clearly to local and regional visioning.

Reform Act 47 to make it a more effective emergency measure for distressed localities

Finally, the state must update its responses to the state’s spreading municipal fiscal distress problem. Currently, the Municipal Financial Recovery Act, known as Act 47, remains the state’s principal instrument for assisting severely distressed municipalities. Adopted in 1987, the law aids financially troubled municipalities that voluntarily enter the program to access state loans, obtain increased tax levying capabilities, and garner state-provided technical assistance. It also provides for the appointment of a “recovery coordinator” who works with the locality to develop and implement a plan to improve municipal finances. The problem is that Act 47 has so far failed to resolve the problems of distressed communities. As PEL notes, 23 municipalities have entered the program, but only five have left. One reason is that the program does too little to correct the more fundamental financial problem faced by most distressed communities: the fact that the localities’ available revenue sources are often insufficient to cover necessary expenditures. Another reason: The act does little to help municipalities reduce expenditures, say through renegotiating collective bargaining agreements or encouraging inter-municipal cost sharing.

And so the General Assembly should respond to the spreading epidemic of municipal distress in Pennsylvania by significantly improving Act 47. Along these lines, Act 47 should be amended to provide a series of new elements, including: time limits for program participation to encourage action and movement out of distress, a process for resolving collective bargaining disputes, incentives to encourage cost savings through inter-municipal cooperation, and

provisions for providing new sources of funding or revenue *after* municipalities successfully shed their distressed status. Such changes will make Act 47 into a true municipal turnaround vehicle rather than a holding bin.

Deeper Reforms: Address the underlying problems facing local governments

And yet, incremental steps are not enough. Deeper-going systemic reforms will be necessary to correct the long-standing structural problems that plague Pennsylvania's governance system.

Fiscal distress, for example, will not be reduced until significant changes are made that alter the way municipal pensions and healthcare are provided and expand the possibilities for tax base and tax revenue sharing between municipalities. Likewise, the kinds of chaotic and sprawling development patterns that lie at the root of entrenched problems like fiscal distress will not be curbed until the state empowers some sort of vehicle for larger-area regional land use and infrastructure planning.

In light of these imperatives, Pennsylvania needs to look beyond incremental adjustments to deeper structural reforms of the local government system.

Help municipalities reduce the costs of healthcare and pension liabilities, tax collections, and other activities

First, the Commonwealth needs to play a lead role helping to reduce some of the heavy costs incurred by localities in conducting the public's business. As research from PEL indicates, municipalities are rarely in fiscal distress because of mismanagement.⁴³ More commonly, they are struggling with the crushing burden of simply providing the basics of government: funding healthcare and pensions to their present and past employees, and administering the tax code.

Often, these obligations represent heavy fiscal burdens, especially for small municipalities. Dealt with in isolation, moreover, there is little that can be done to reduce these budget items. However, the state can play a role in trying to help municipalities with their costs by allowing them to collectively pool their resources and find savings through larger economies of scale. For example, the state can and

should take the lead in restructuring the state's public employee benefits systems to help municipalities better manage the costs of their healthcare and pension liabilities. Additionally, the state should work with local governments to find more efficient ways of collecting taxes, which may garner additional savings. In this fashion, the state could:

- ✓ Consolidate municipal pensions at the state level. Through lower administrative costs and a higher rate of return, municipalities would garner cost savings
- ✓ Consolidate healthcare insurance. By pooling all municipal health care plans, municipalities would vastly increase their purchasing power and would be able to secure discounts. PEL estimates this would result in \$250 million in reduced costs
- ✓ Streamline the tax collection system. PEL estimates that inefficiencies in local tax collection cost \$100 million a year. This represents a huge potential for saving money that is currently leaving local governments' coffers⁴⁴

Create a larger palette of available tax tools for counties and municipalities

There need to be reforms on the other side of the fiscal ledger as well. Counties and local governments should be given a wider range of tax tools to help battle fiscal distress, provide top-quality services, and fund investments in the future. In this connection, the state should embrace the State Planning Board's recommendations that it: allow counties and local governments a broader menu of taxing options to generate revenue to support high-quality government; clarify the mechanics of the tax revenue sharing between municipalities; and make tax *base* sharing legal.

On the latter front, tax revenue and base sharing are each ways of addressing the large fiscal disparities found among local governments. However, while the municipal code is supportive but hazy on the matter of tax revenue sharing, tax base sharing is nowhere authorized in state law. Accordingly, neither mechanism is used as much as it might be.

And so the assembly should pass legislation that explicitly allows tax-base and tax-revenue sharing for those municipalities who wish to enter into

such partnerships. Beyond that, the mechanics of how tax sharing should be implemented need to be clarified: what kind of taxes can be shared, what

Downtown Wilkes-Barre: A Successful State-Local Partnership Rejuvenates an Urban Center

Downtown Wilkes-Barre's ongoing revitalization testifies to the power of focused reinvestment, supported by the Keystone Principles.

Wilkes-Barre's downtown was struggling. On top of years of the suburbanization of jobs and people, the early part of this decade saw downtown Wilkes-Barre grapple with a series of failed developments—such as an unfinished multiplex theater project that failed after the construction site was prepared but before anything was built and a call center that lost its tenant—that had been the latest attempts to resurrect the downtown. Left with unfinished downtown projects, empty downtown buildings, a hole in the ground, and \$11 million in debt, the final indignation was the removal of downtown's aging street lights. Downtown Wilkes-Barre was literally sitting in the dark.

In 2003, newly elected Mayor Thomas Leighton worked with the Greater Wilkes-Barre Chamber of Business & Industry to take action. Along with the chamber, the mayor presented the state with a community-informed downtown revitalization plan, and through the Community Action Team and a LUPTAP planning grant, the administration responded with help putting together a focused investment strategy and market study.

The focused state funding, shaped by local vision, resulted in a number of investments and improvements:

- The failed multiplex project was reinvented as Northampton & Main, a 145,000 square foot mixed-use infill development located in the heart of downtown Wilkes-Barre—a combination of new construction and historic buildings. The complex includes a 14-screen theater, residential units, and commercial space. The \$30 million funding package included \$7.87 million in Redevelopment Assistance Capital Fund (RACP) funds, together with a \$1 million Pennsylvania Housing Finance Authority (PHFA) loan in support of the housing component
- A new lease for state government offices, the Bureau of Disability Determination, was secured for a newly constructed building built on the site of the “hole in the ground,” bringing 250 new workers downtown each day
- The vacant call center was purchased by Wilkes University, which transformed it into administrative offices and an indoor campus recreational facility. CAT worked with Department of Community and Economic Development (DCED) to reduce the debt and lien on the property, relieving a multi-dollar obligation, which helped make the project possible and helped turn it in to a Main Street anchor
- Finally, CAT worked with PennDOT to provide a \$1 million Hometown Streets grant to the city for streetlight replacement, allowing the lights to go back on in Downtown Wilkes-Barre

In a remarkably short period, Wilkes-Barre has seen the reemergence of a vibrant downtown. The rapid turn around illustrates the importance of a coordinated focus on investment in Pennsylvania's older places.

kind of development can be the basis of a tax share arrangement, and how contribution and distribution formulas ought to be determined. The clearer the legislation is, the more able municipalities will be to make use of this tool for reducing the tremendous tax capacity gaps that contribute to sprawl and drive many municipalities into distress.

Enhance the role of counties

Finally, the Commonwealth should strengthen county government where that is desired. This it could do by allowing the state's most "regional" local governments to provide stronger leadership, more regional coordination, and both traditional county and municipal government services across wide areas. Counties, in this regard, represent very appropriate agents for the cost-effective provision of a number of critical local government responsibilities as well as well-placed potential leaders on regional land use planning. In view of that, the General Assembly should give Pennsylvania counties the option to take on greater responsibilities and build their capacity, even beyond allowing them to take on municipal services. Perhaps county planning agencies should take the lead role in overseeing and coordinating the various regional aspects of county and multi-municipal plans. Perhaps counties should be given the authority to raise revenue so they can provide municipal-type services in a more efficient and coherent way than individualist or tiny municipalities. Whatever the ultimate decision, the legislature has the power to significantly enhance localities' ability to act regionally through counties and should exercise it.

Continue making reinvestment a priority

A second major priority for the next round of renewal in Pennsylvania should be to continue and extend the Commonwealth's recent drive to make reinvestment in existing places and existing assets a central goal in allocating public investments.

Current growth and distress patterns do not result solely from consumer preferences or, for that matter, local government divisions. They have been shaped by decades of past government funding of programs and projects that have promoted chaotic

development dispersal, distorted local economies, and shifted economic activity around unproductively without seriously improving the state's economic competitiveness.

"Back to Prosperity" probed some of this ill-targeted spending, and in doing so, tapped into a deep suspicion felt by many Pennsylvanians that the state had been frittering away billions of its limited dollars on projects that only sometimes supported the state's struggling existing communities or built on their significant assets.

Subsequently, the state has moved to rethink the state's investments and channel them toward projects that strengthen existing communities, dovetail with existing plans, upgrade existing infrastructure, or support ongoing economic activity. The rationale has been that both fiscal and quality-of-place needs counsel systematic, well-planned investment in existing places with sound existing infrastructure.

Public support, moreover, seems to support this strategy. According to the Campaign to Renew Pennsylvania poll, 91 percent of voters believe that fixing existing roads and bridges should be prioritized, and 70 percent of voters believe the state should concentrate investment in older, existing communities.⁴⁵ And so the Commonwealth should redouble its efforts to channel its investments toward spending that revitalizes existing communities, upgrades existing infrastructure, and stimulates existing markets. Such renewed effort will help the state to simultaneously promote fiscal efficiency, combat sprawl, and enhance the state's economic competitiveness.

Progress to Date

Gov. Rendell came into office having spoken of making reinvestment in existing communities a priority, and "Back to Prosperity" affirmed the wisdom of that stance while proposing ways to advance the cause. Significant action has begun.

In 2004, the Rendell administration revitalized the dormant **Interagency Land Use Team**, making it a working group of the new **Economic Development**

Cabinet and using it to foster cross-agency cooperation to promote sound land-use practices, smart growth, and sustainable development in government activities. In 2005, the development cabinet adopted the **Keystone Principles for Growth, Investment, and Resource Conservation**, a set of guidelines for state investment to be applied across 23 participating state agencies that award state grants or loans to municipal or private applicants. Developed by the Interagency Land Use Team, the guidelines explicitly prioritize reinvestment in existing developed areas, and contain such principles as, “Redevelop First;” “Provide Efficient Infrastructure;” “Concentrate Development;” “Enhance Recreational and Heritage Resources;” and “Be Fair.” Application of the principles by agencies has been ongoing, and is being evaluated, critiqued, or approved by an inter-agency monitoring committee.

And there has been other activity. In 2004, the Rendell administration launched the **Community Action Team (CAT)** program, which aims to replace the Commonwealth’s past scattering of money toward piecemeal projects with a more coordinated marshaling of the state’s redevelopment resources on “impact” projects. CAT takes a fresh approach to reinvestment funding by channeling the resources of multiple agencies on investments likely to have community-changing impacts. Likewise, **PennDOT**—which just months after “Back to Prosperity” appeared scuttled 26 highway projects in order to free up \$5 billion for more strategic investments and work on existing roads—has strengthened its maintenance-first approach to funding highway and bridge work. The agency has also participated actively in the state government’s **Action Plan for Integrating Transportation, Land Use, and Economic Development**, an effort to fully integrate transportation planning with land-use planning, economic development priorities, and environmental policy. Finally, Gov. Rendell and the General Assembly worked together to enact **Growing Greener II**—legislation that authorized a successful statewide vote on a \$625-million, six-year bond program for environmental clean-up, open space preservation, and community revitalization. Growing Greener II is noteworthy in that it married traditional conservation spending with such revitalization concerns as investments in urban parks,

brownfield remediation, and mixed-use development projects in existing communities.

The Way Forward: Continue and intensify the commitment to reinvesting in existing communities to mitigate decades of decline

On reinvestment, too, the state has begun the work of reorienting decades of haphazard, often counter-productive public investment. But on this front, more work needs to be done to enact lasting change that maximizes the degree to which the Commonwealth expenditures of limited dollars leverage the states’ existing infrastructure and other assets. Several initial steps should, for example, be dedicated simply to reinforcing the state’s initial efforts to institute a new set of priorities in development decisions. Deeper-going reforms, meanwhile, should move to further align the state’s longstanding, deeply entrenched investment practices with the state’s emerging development vision.

Next Steps: Reinforce the state’s initial moves to prioritize reinvestment

To reinforce the state’s admirable initial efforts to promote reinvestment, the Rendell administration and General Assembly should first implement several modest changes that will help diffuse the state’s new development priorities through state government and complement reinvestment in core communities with streamlined planning and permitting.

Support the diffusion of the Keystone Principles and criteria throughout all relevant state agencies

A first priority for state government must be to continue expanding the reach and clout of the Keystone Principles and criteria within state government. Currently the principles are only advisory and do not automatically replace agency program guidelines or program criteria. Instead, agencies have a choice of either integrating the principles and criteria into their current funding decisions, or employing them as additional “bonus points” for projects. Further, few community leaders in the state are even aware of the Keystone Principles, indicating that the well thought-out criteria for how best to allocate state dollars are not serving to inform and guide local decisionmaking. And so, as much as possible, full integration of the Keystone Principles and criteria

throughout state government should be urged and supported. Making the principles public and aggressive by educating the public about their benefits matter a lot. To ensure that full integration takes place, the monumental task of disseminating the principles, getting them implemented by multiple agencies, and monitoring their use needs to emerge as a top priority of the Rendell administration in its second term. Currently, the work of supporting the Keystone Principles and evaluating their adoption is being carried out by a government committee of which all its members have multiple other primary responsibilities. The Rendell administration should commit a dedicated staff person to shepherding this vital process forward.

Charge the Economic Development Cabinet with reviewing all community and economic development programs to ensure they meet state priorities

Many of the programs currently operated by the Departments of Community and Economic Development, Education, Labor and Industry, and Environmental Protection are holdovers from previous administrations and previous policy initiatives. That is, many of the state programs in existence today are neither designed to forward the objectives of the current Commonwealth, or able to meet them. And so, a second incremental step toward deeper reform should be a stringent, comprehensive review of all of the state's major growth and development programs. Such a review could very appropriately be undertaken by the Economic Development Cabinet, in conjunction with economic and community development professionals from a cross-section of the state, as well as agency staff. The assessment would seek to ascertain which programs comport with the state's current, reinvestment-oriented priorities—and which do not. Ultimately, the development cabinet could use its exercise to coordinate across agencies, reallocate resources from outdated programs to more relevant ones, and reduce the number of duplicative and confusing programs in different agencies.

Deeper Reforms: Tie core infrastructure decision-making to reinvestment

But the state needs to go further in order to truly reform the state's long history of haphazard, often

wasteful and disruptive, development spending. Most crucially, the Commonwealth needs to fundamentally recast the state's infrastructure policies, which have played and will continue to play a huge role in determining where development occurs, and whether it supports existing communities.

Fully integrating transportation and water-sewer system planning with quality land-use planning are the crucial steps.

Link transportation spending to land use and economic development planning

The link between transportation systems and development is incredibly strong. For decades, the failure to coordinate transportation and land-use planning in Pennsylvania contributed greatly to sprawl, and so helped "hollow out" the state's metropolitan areas and add to the maintenance costs of Pennsylvania's massive road system. Consequently, it is absolutely essential that Pennsylvania transportation spending henceforth be closely linked to sound land-use planning.

In this connection, the Rendell administration has already begun tackling the needed coordination through the development of its Action Plan for Integrating Transportation, Land Use, and Economic Development. Equally forward-looking were many recommendations of Gov. Rendell's recent Transportation Reform and Funding Commission, which underscored the need to firmly link future transportation spending to a reinvestment-oriented land-use and economic development vision.⁴⁶ In that vein, the state should move to make legally binding such fundamental principles as these:

- ✓ Fix it first
- ✓ Focus transportation investment on existing communities
- ✓ Precondition capacity expansion on the existence of sound, binding land-use controls
- ✓ Promote the use of public transportation
- ✓ Promote transit-oriented development and infill development

In short, future capital spending and revenue raising needs to be made contingent on deep system reform. Achieve that, and Pennsylvania will move

to the forefront among states engaged in making reinvestment a core principle of governing.

Link water and sewer development to land use planning

The location of water and sewer facilities also plays a major role in shaping where development occurs on the landscape. But here, too, a historical lack of coordination between sewer and water facility decisions and land-use and development planning has tended to facilitate dispersed development and sprawl as well as wasteful infrastructure redundancies. New public sewer lines and individual or community on-lot systems are continuously opening new fringe areas to development. Meanwhile, substantial excess sewer capacity exists in older urban areas.⁴⁷ The results over the years have been costly, sometimes chaotic, and redundant development patterns that fail to leverage existing capacities while adding to the public and private costs borne by communities.

What should be done? Here, too, the state needs to lead in closing the rift between infrastructure planning and land-use planning. Currently, nothing in the Municipal Planning Code either requires sewerage providers to comply with comprehensive land use plans or authorizes municipalities to regulate new facilities by these providers. At the same time, while Act 537—the Pennsylvania Sewage Facilities Act—requires municipalities to develop sewage facilities plans, these plans are routinely amended by “plan revisions” that the Department of Environmental Protection (DEP) cannot deny on the grounds of inconsistency with planning. And so the state should make the link. To help the state plan its infrastructure investments and better leverage existing capacity in existing communities, state government needs to require water and sewage plans conform to land-use plans. The General Assembly should amend both the MPC and Act 537 to provide for the true integration of sewage facilities planning and municipal, multi-municipal, and county comprehensive planning. Forge this connection along with the linkage of transportation and land-use planning, and the state will achieve truly systemic reform in service of making reinvestment the law of the state.

Continue building a competitive economy through strategic investment in key industries and complementary workforce development

Over the past several decades, Pennsylvania’s economy—like the nation’s—has undergone profound changes. Most notably, the challenge of global competition has greatly thinned employment in the state’s proud manufacturing sectors (even as productivity has soared) and left the state increasingly reliant on often lower-paying retail and services sectors.

And yet, as “Back to Prosperity” observed, despite the hand-wringing of 30 years of wrenching change, the Commonwealth had been slow in past decades to formulate a long-term plan for revitalizing the state’s economy and producing more jobs that pay good family-sustaining wages. While other states strategized, while others formulated long-term “business plans” for improving their economic futures, Pennsylvania practiced the “art of the deal,” sending a dollar in every direction through a myriad of disconnected subsidy and incentive programs that frequently did not stimulate new growth so much as shift existing activity around.

Hence the call in “Back to Prosperity” for the state to, first, craft a compelling, research-based vision of a more competitive economic future; and then, stick to it by executing a sharp-edged strategy for assessing the state’s industrial strengths; identifying and fostering desirable industries with growth potential; and improving the state’s education and training capacities and “tuning” them to the new industrial strategy.

How has the state responded to that challenge? In many respects, much progress has been made in the last three years, as the state can now be said to have a serious long-range plan for its economic future. Moreover, the state has increasingly begun to work to ensure its important workforce and training systems support that plan. However, Pennsylvania’s leaders need now to bear down even more, and make some tough decisions about the state’s goals and priorities and how to best achieve them.

Lancaster County: Organizing Efforts Around Industry Clusters Creates Synergy Across Different Efforts and Programs

Beginning in 1999, Lancaster County's Workforce Investment Board (WIB) has organized its priorities, programs, funding, and partnerships through a commitment to its regional industry clusters. This organizational strategy represents a move to align workforce development more closely to economic development rather than social services—making the job-seeker and employer mutual clients of the WIB and its one-stop service center rather than solely the job-seeker.

Through Lancaster Prospers - a coalition of economic development organizations that includes the County of Lancaster, the Lancaster County Planning Commission, the Lancaster Chamber of Commerce and Industry, the Economic Development Company, the Lancaster County Convention and Visitors Bureau, private industry, and the WIB - Lancaster County has opened a dialogue between planning, economic development, education, and workforce development that allows greater coordination of priorities.

Lancaster identified the clusters of companies that had sustained growth for the five years prior to the study, had a higher than national average concentration of employment, and whose average pay was at or above a family-sustaining wage. Through this analysis, they identified seven priority clusters: healthcare, biotechnology, construction (lumber and wood products), agriculture and food processing, communications (printing and electronics), automotive services, and metals and metal fabrication.

Through the development of a shared economic vision, the WIB's seven priority clusters are also the priorities of Lancaster County, having been endorsed by the County Commissioners and adopted by nearly every economic development entity in the area.

Supported by Job Ready Pennsylvania, the Commonwealth's focus on high priority occupations (based on statewide industry clusters) has provided both a framework for how money should be spent, as well as helped to finance WIB projects that train people in the skills that support those occupations. Moreover, the Commonwealth allows local areas to amend the high priority occupations list to meet the specific skill needs of their local economy.

In partnership with Lancaster Prospers, the Board has also created four "Centers of Excellence," which encourage innovation in the local economy by supporting incumbent worker training, local research and development, technology transfer, entrepreneurial development, and the development of a pipeline of qualified workers from school to work. Centers in long-term care practice, packaging operations, wood finishing, and production agriculture find the local competitive advantage and build an innovation system to re-invent and grow the knowledge base that supports it.

Also, the WIB supports the training of the incumbent workforce by organizing companies into industry partnerships where training resources are shared among as many as fifty companies in a common industry. Industry partnerships in food manufacturing, lumber and wood, metals and metal fabricating, health care, agriculture, construction, plastics, and industrial maintenance have engaged more than 300 companies in the region.

As Lancaster County shows, clusters can be an effective way of coordinating across levels of government and across different fields to create a strategic investment strategy for the economic future of a region.

Progress to Date

Long a state without a clear economic vision, Pennsylvania began filling the strategy gap soon after the appearance of “Back to Prosperity” with two new efforts to identify the state’s priority industries in order to inform its investments in economic development and workforce training. In 2004, the Department of Labor and Industry (L&I), in partnership with local practitioners and the Department of Community and Economic Development (DECD), developed and released “**Pennsylvania’s Targeted Industry Clusters**,” which identified nine promising clusters (advanced materials and diversified manufacturing, agriculture and food production, building and construction, business and financial services, education, information and communication services, life sciences, logistics and transportation, and lumber wood and paper).⁴⁸ The report is now being used by the state to identify skills needs, which in turn is helping to shape the state’s workforce development programs.

Additionally, DCED—together with the Team Pennsylvania Foundation—contracted with IBM Business Consulting Services to develop a benchmarking study of Pennsylvania’s industries that focused on gaining an investor perspective on sub-sectors and industries in Pennsylvania, with a special focus on the state’s international competitiveness.⁵⁰ Building on “Targeted Industry Clusters,” this initiative—the “**Action Plan for Investing in a New Pennsylvania**”—produced an interactive tool that helps regions not only identify what their existing strengths are, but also show how they compare to other similar regions across several competitor regions (across the country and internationally). This work helps link development work in the regions to the state’s overarching fix on clusters and competitive strategy.

But setting priorities and developing a cluster-based vision for future economic growth is one thing; implementing it is another. Yet here too state government has begun to reorganize and focus economic development and workforce practice along the lines of its new vision. Following up on “Targeted Industry Clusters,” Pennsylvania has identified a list of “**high**

priority occupations”—higher-skill, higher-pay occupations that are in demand by employers—to which workforce training program funding is being tied. Likewise, the state has created a **Business Development Corp.** that is utilizing the IBM work to target for recruitment industries and firms for which Pennsylvania offers competitive advantage. This new effort is actively and strategically engaged in ensuring that firm recruitment comports with the state’s emerging sectoral focuses. Gov. Rendell also formed the **Human Capital Task Force** in 2004. This intergovernmental team spans L&I, DCED, and the departments of education, aging, and corrections, and is responsible for focusing training and workforce education issues in accordance with the state’s emerging priorities, while eliminating duplicative efforts. Out of all of this activity flowed Gov. Rendell’s **Job Ready Pennsylvania** package, which was passed by the General Assembly in 2005 and employed \$91 million in new money as well as existing resources to begin aligning workforce development efforts to key state industry needs. The package included critical investments in Industry Partnerships that bring together regional businesses groups within targeted clusters to define training and educational needs. Additional investments have been devoted to skill upgrading within the targeted clusters, including programs that train more nurses to meet the needs of the growing healthcare sector, increased funding for community colleges, and increased grants to help students join occupations within targeted clusters. Job Ready Pennsylvania is an unprecedented attempt to restructure the state’s workforce development around targeted industry clusters to make the most impact.

One final note: Although less oriented to systemic reform than emergency jumpstarting, the 2004 passage by the General Assembly of Gov. Rendell’s **Economic Stimulus Package** remains an important achievement. A bundle of programs that help fund economic and community development, the package was funded at \$2.1 billion over several years, and includes programs that fund site preparation and infrastructure development, provide business investment and venture capital, and help community revitalization.



The Way Forward: Implement Increasingly Strategic Economic Development

The Rendell administration, then, has laid the groundwork for a major reorientation of the Commonwealth's economic development activities toward the most sophisticated best practices in the field. A strong, cluster-oriented economic vision has been put in place, and the work of using it to tune the state's investment activities, workforce programs, and business recruitment efforts has begun. The state, in short, has begun to do the things it ought to be doing to foster the emergence of new industries, dynamic new companies, and more good-paying jobs. However, much more needs to be done to enhance the vitality of existing firms in existing regional industry clusters. The Commonwealth needs to strengthen its economic vision, and then commit to it by aligning its resources accordingly.

In this respect, the establishment of a strong, sophisticated, cluster-oriented economic development strategy deserves applause but will over time be judged by how well and for how long it is sustained. It will take decades to reinvent Pennsylvania's economy, and the legislative and executive branches will need to stay the course and keep pushing for fundamental reform. To do that will require the discipline to not only align investments toward the prioritized industry clusters, but also to align economic development with workforce development, education policy, and land use planning.

Next Steps: Strengthen existing cluster development

As Pennsylvania continues its efforts to enhance its competitive industry sectors, several modest "next steps" would help strengthen the work. Through all, greater focus on supporting *existing* firms in existing cluster should be assured.

Make clusters the primary client of the Governor's Action Team

For one thing, a cluster logic should be inserted into the workings of the Governor's Action Team (GAT). GAT works with firms interested in relocating to Pennsylvania to provide them with a package of

programs and tax breaks and helps firms find site locations. While a useful tool to help attract individual firms, GAT should more actively integrate clusters and consortiums into this mix. Not only should it use the emerging growth of active industry partnerships as a selling point to potential firms, it should make sure to work closely with these local clusters to make sure new firm "leads" would fit with local priorities. This would move the state even farther from the old firm-chasing and smokestack-chasing of the past.

Expand the role of the state's Industry Partnership Grants

Another low-cost, near-term way to stimulate the growth of industry clusters is to bolster the emergence of new company consortiums, business associations, and networks of firms, suppliers, and institutions within promising sectors. Clusters are a seedbed of future job-creation because even competing firms compete best when they interact with their rivals. And so the state should expand the use and role of L&I's Industry Partnership Grants. These grants—focused currently on bringing employers together to work on training and educational needs collaboratively—are a great way to encourage the development of the consortiums and associations that can make the state's targeted industry clusters more than the sum of their parts. But why shouldn't the grants' reach be extended beyond skills building? It could be that additional grants should be made available to support industry groups' work on such other issues as market development or strategy development. One possible use: allow the grants to help clusters within regions identify their additional particular needs, whether for specific new infrastructure, new capacities, or new partnerships. This could truly stimulate new cluster development.

Deeper Reforms: Strengthen and act upon a clear economic vision

And the state should go farther. Along with slowly accreting sound practices, Pennsylvania state government should continue seeking ways to infuse the logic of cluster-based and human capital-oriented economic development through the operating system of the state's economic development structures. Here are a few final possible ways to do that:

Create—and then commit to—the Commonwealth Clusters Principles and Criteria

Pennsylvania should take a page from its own book and develop a set of principles and criteria paralleling the Keystone Principles for Growth, Investment, and Resource Conservation designed to infuse cluster-thinking across the government. To that end, the state should build on its “Targeted Industry Clusters” to develop and disseminate a set of “Commonwealth Clusters Principles and Criteria” which would further codify the logic, values, and priorities the government is now placing on cluster-based, sector-focused economic development as opposed to single-firm and project-specific development. These principles and criteria could further harmonize and guide the administration of the dozens of relevant programs housed in the three key agencies: DCED, L&I, and the Pennsylvania Department of Education (PDE).

Dissolve barriers between economic and workforce development

Reengineering the state’s decades-old agency machinery to conform to the state’s new economic vision should also be pursued. Most notably, the critical partnership between DCED, L&I, and PDE should be strengthened and even institutionalized in legislation. As it stands, a 2006 report by the policy research organization Social Policy Research Associates highlights some of the state’s initial successes at integrating its workforce system.⁵⁰ Still, even that report noted that Pennsylvania had yet to “institutionalize some of the changes it has made based on the vision and leadership of the current governor.”

And so the state needs to take further steps to ensure that as they work together to foster high-quality job growth in the state’s key industry sectors, DCED, L&I, and PDE maintain a high degree of coordination and constantly review their programs to assess their degree of alignment with the current cluster-oriented strategy. All of the agencies’ missions are interrelated, after all. While DCED is concerned mainly with business attraction or retention, L&I is focused more on workforce development. But as stated earlier, a skilled workforce is also critical to firm attraction and retention. Meanwhile, PDE—which produces the future workforce—needs

to continue making strides toward aligning its work with what the market is demanding from the workforce. In short, these three missions of state government—economic development, workforce development, and education—are intrinsically linked, and the state’s agencies need to further advance their coordination. Without continued and increasingly close coordination, Pennsylvania could well fritter away some of its increasingly forceful economic development vision.

Coordinate economic development and land use planning

Finally, the state should take steps to ensure its economic planning activity comports with land-use planning. This is important because economies, firms, and labor forces do not exist in some abstract realm. They are created in—and in turn shape—cities, towns, and regions. Place and placemaking informs economic development, by making a location and its workers either attractive or not, while at the same time, economic activity shapes places, and makes them dynamic and attractive or—when sags—forgone. For that reason, economic development must assume the vital importance of the state’s quality of place, and so to be truly productive and sustainable, needs to be closely connected to regional land-use plans. A plan to attract a firm without close coordination with existing clusters, existing transportation plans, and existing housing plans in the long run does little to further the state’s competitive edge. Let Pennsylvania make quality of place a calling card of a world-class economic development vision.



V. Conclusion

In the end, Pennsylvania is at once similar to how it was in 2003, yet very different. The same challenges first discussed in “Back to Prosperity” continue to work against the state’s competitive future. But change—much change, especially in government and public policy—is possible, as Pennsylvanians have already proven. The state has made significant progress toward addressing its systemic problems since “Back to Prosperity” was released. What is called for now is a strong commitment to carrying through on the work already started and the political will to make the beginnings of change early auguries of a more prosperous future.

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- or as low as 27th on this measure.
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