

# Home Rule and the Size of County Government in Pennsylvania

by

David A. Latzko  
Business and Economics Division  
Pennsylvania State University, York Campus  
1031 Edgecomb Avenue  
York, PA 17403

phone: 717-771-4115  
e-mail: [dlatzko@psu.edu](mailto:dlatzko@psu.edu)

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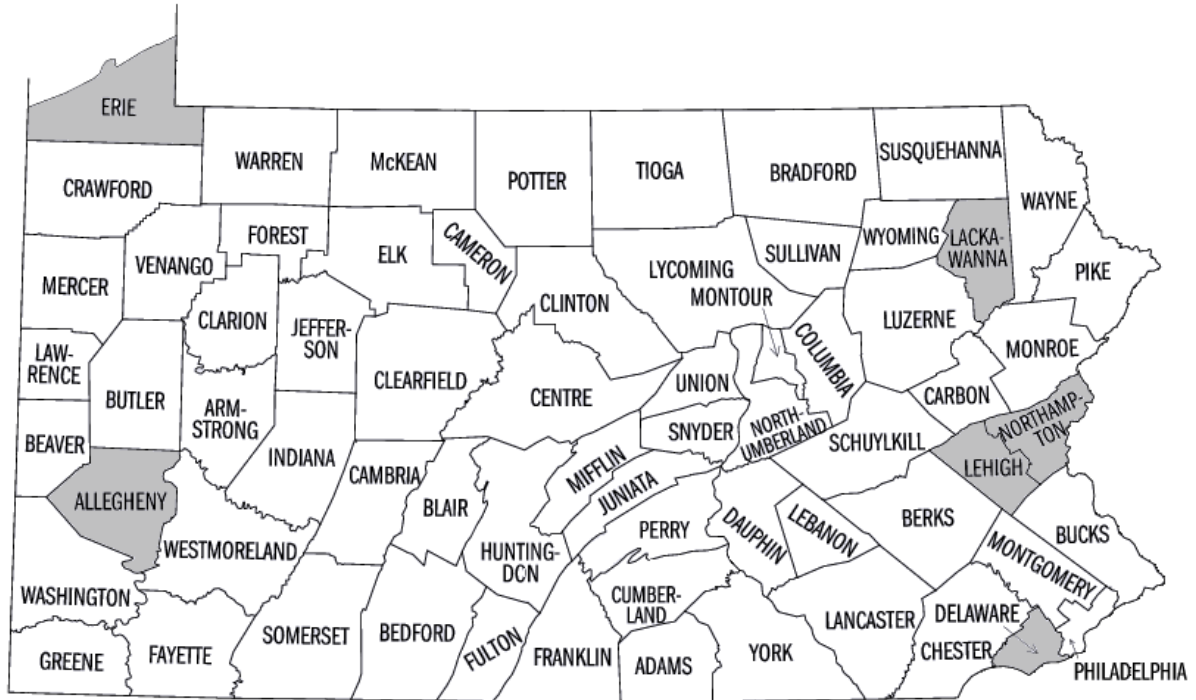
## **Abstract**

The fiscal behavior of county governments in Pennsylvania is constrained by state law. Counties can adopt a home rule charter, freeing the county government to set tax rates higher than the limits provided in state laws. Opponents argue that home rule leads to higher taxes and an expansion of county government. This paper finds that taxes are not significantly higher or lower in counties which have adopted a home rule charter. Non-tax revenues in the form of state and federal grants are higher in home rule counties. As a result, county expenditures are also positively related to home rule status.

## Home Rule and the Size of County Government in Pennsylvania

The fiscal behavior of county governments in Pennsylvania is tightly constrained by state law. First of all, the 1968 Pennsylvania Constitution prescribes the organization of county government and assures minority party representation in the government: “County officers shall consist of commissioners, controllers, or auditors, district attorneys, public defenders, treasurers, sheriffs, registers of wills, recorders of deeds, prothonotaries, clerks of the courts . . . Three county commissioners shall be elected in each county. In the election of these officers each qualified elector shall vote for no more than two persons, and the three persons receiving the highest number of votes shall be elected” (Constitution of the Commonwealth of Pennsylvania, Article IX, Section 4). Furthermore, the state legislature places statutory rate limitations on real estate and other taxes levied by counties.

However, the Pennsylvania Constitution allows all counties to exercise home rule powers through the adoption of a home rule charter, under which the authority to act in local affairs is transferred from state law to a local charter, adopted by county voters through a referendum. Home rule shifts much of the responsibility for county government from the state legislature to the local community, including control over the structure and operations of county government. While state law mandates a three-member commission form of government, home rule counties have the freedom to adopt alternative forms such as the executive/council model. Counties without home rule can do only those things specifically authorized by state law; however, home rule counties can do anything not specifically forbidden by state or federal law. Most importantly for the purposes of this paper, counties adopting a home rule charter may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents.



**Figure 1. Pennsylvania county map. Counties with a home rule charter are shaded.**

In all, as of 2005, six of the 66 counties in Pennsylvania have adopted a home rule charter.<sup>1</sup> Home rule referenda were voted down in two counties in recent elections. Opponents of the proposed Luzerne County home rule charter argued that home rule would lead to higher taxes and a concentration of power in the hands of the county executive. An anti-charter television advertisement sponsored by the Democratic candidates for county commissioner pointed to two home rule counties, Lehigh and Northampton, that had raised real estate taxes the previous year (Janoski 2003). The incumbent county controller, stating that he was “here to protect taxpayers and their properties” urged a no vote on the proposed home rule charter (Ney 2003).

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<sup>1</sup> The 67th county, Philadelphia County, does not have revenues and expenditures separate from those of the City of Philadelphia, and so it is not included in the analysis.

There is no empirical support in the literature for the contention that local elected officials in other states, particularly the well-studied case of Illinois, once freed by a home rule charter from the restraints of state law, cannot be trusted with broad-based tax powers. Dye and McGuire (1997) find that the home rule status of Illinois municipalities is unrelated to the growth of property taxes and property taxes per capita. Banovetz (2002) is able to uncover just a handful of examples over a 30 year period of instances in which Illinois' home rule municipalities raised taxes without regard for the wishes of voters. The purpose of this paper is to put the claims of home rule opponents to the test by examining the relationship between home rule status and the size of county government in Pennsylvania using budget data from 1960 through 2002.

## I. Data and Methods

County budget information for the years 1960 through 2002 was obtained from Pennsylvania's Department of Community Affairs' *Local Government Financial Statistics* (1960-1985) and the Invent PA web site (1986-2002). Six counties operate under home rule charters: Delaware (adopted in 1976), Lackawanna (1977), Erie (1978), Lehigh (1978), Northampton (1978), and Allegheny (2000). Table 1 reports summary budget data. On a per capita basis, home rule county governments are larger on average than that of the typical Pennsylvania county. However, the data in Table 1 may exaggerate the expenditures and revenues of home rule counties. Home rule counties are wealthier than the average county and might, therefore, be expected to have higher spending and taxes per capita. More importantly, the growth of all county governments in Pennsylvania has accelerated since the 1970's, the

**Table 1**  
**County Budget Summary Statistics**

The table reports time series averages of annual cross-sectional averages from 1960 to 2002. Data is per capita in 2002 dollars.

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Time Series Averages of Annual Average Cross-Sectional Attributes, 1960-2002

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<u>Group</u>	<u>Average number</u>	<u>Expenditures</u>	<u>Taxes</u>	<u>Non-tax revenues</u>
All counties	66	\$283	\$98	\$186
Counties under home rule charter	3	\$491	\$145	\$351

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period during which most home rule charters were adopted. A more revealing comparison is for 2002: per capita expenditures for all counties averaged \$336 in constant dollars while per capita expenditures were an average \$504 in home rule counties. Taxes per capita averaged \$86 in all counties compared to just \$99 in home rule counties. Non-tax revenues per capita averaged \$250 in all counties and \$384 in home rule counties.

I model county government budget variables as a function of county income per capita, county-specific political and taste variables, and the county's home rule status. The basic equation, written in logarithms, is

$$(1) \ln G_{it} = a_i + b_1 \ln Y_{it} + b_2 HR_{it} + b_3 \ln Z_i + e_{it} ,$$

where  $G_{it}$  is the budget variable under consideration in per capita terms of county  $i$  for year  $t$ ,  $Y_{it}$  is income per capita for county  $i$  in year  $t$ ,  $HR_{it}$  is a dummy variable taking a value of 1 if the county  $i$  is operating under a home rule charter in year  $t$  and a value of 0 otherwise,  $Z_i$  is a vector of time invariant taste and political parameters,  $a_i$  is a constant, and  $e_{it}$  is a random error term.

## II. Results for Budget Aggregates

The repeated observations of a cross-section of county budgets allows for the use of panel data analysis. Equation (1) is estimated assuming a fixed effects model in which the intercept is county-specific to control for the taste and political differences across counties that do not vary over time,  $Z_i$ , as well as any time-invariant omitted, unobserved, or unmeasured variables in the constant  $a_i$ . The dependent variables are total expenditures per capita, total taxes per capita, and non-tax revenues per capita. Budget information for some county governments is incomplete so when the empirical model is estimated, any missing observations are deleted.

An  $F$ -test indicates the presence of panel effects in the data and the Hausman test supports the use of fixed effects. The estimated coefficients are reported in Table 2. County government expenditures are positively related to home rule status. Consider Erie County. Based on the coefficients in Table 2, Erie County's home rule status is responsible for an additional \$209 in per capita expenditures in 2002. Actual per capita expenditures were \$788. For the tax equation, the coefficient on the home rule status variable is positive but not significantly different from zero. Taxes are not significantly higher or lower in counties which have adopted a home rule charter. If Luzerne County had been operating under a home rule charter in 2002, per capita taxes would have been just 0.3 percent, or 65 cents, higher than the actual amount of \$217.03. Taxes in Luzerne County are nearly \$70 per capita higher than taxes in Northampton County, the county which figured prominently in anti-charter ads prior to the 2003 charter vote, so it is not meaningful to attempt to estimate the impact of home rule status on this tax difference. Up to 14 percent of the difference in per capita taxes between Delaware and Bucks Counties, \$193 versus \$186, is attributable to Delaware County's home rule charter. Home rule status is unrelated to per capita tax revenues. However, non-tax revenues are higher

**Table 2**

**Panel Estimates of the Total Budget Functions**

The table reports the coefficients from fixed effects regressions of total county government expenditures per capita, total county taxes per capita, and non-tax revenues per capita on three variables: a dummy variable taking a value of 1 for counties operating under a home rule charter and a value of 0 for counties without a home rule charter, county personal income per capita, and a county-specific constant. *t*-statistics are in parentheses.

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Independent variables	Expenditures	Taxes	Non-tax revenues
Home rule status	0.237 (5.02)	0.003 (0.06)	0.457 (5.53)
Income	2.112 (81.24)	1.000 (38.58)	3.461 (76.41)
Observations	2,621	2,621	2,621
Adjusted R <sup>2</sup>	0.79	0.59	0.74
Standard error of regression	0.32	0.32	0.56

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in counties operating under a home rule charter. In fact, non-tax revenues were over 60 percent higher in counties operating under a home rule charter in 2002 than in non-home rule counties.

III. Results for Specific Budget Items

Home rule status is associated with an expansion of the size of county government in Pennsylvania. Both expenditures and non-tax revenues are higher in a county operating under a home rule charter than in a non-home rule county, everything else the same. This section examines county budget expenditure and revenue categories in order to determine which specific budget items are positively associated with home rule status. Table 3 summarizes the relative importance of various expenditure categories and revenue sources in county government budgets over the period 1960-2002. Welfare and human services account for just over one-quarter of

**Table 3**

**County Government Expenditure and Revenue Summary Statistics**

The table reports time series averages of annual cross-sectional averages from 1960 to 2002.

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Time Series Averages of Annual Average Cross-Sectional Data, 1960-2002

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<u>Expenditure item</u>	<u>Percentage of total expenditures</u>
Welfare and Human Services	26.8
General Administration	18.2
Judicial	11.6
Corrections	10.5
Health	8.0
Highways	2.4

<u>Revenue source</u>	<u>Percentage of total revenues</u>
Taxes	29.4
State and federal grants	24.3
Departmental earnings	10.3
liquid fuels tax allocation	1.2

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county expenditures on average. General government administration is nearly one-fifth of expenditures. Although taxes average out as the most important revenue source over the entire study period, state and federal grants have been the single most important revenue source since the 1970's. In 2002, grants accounted for 30 percent of all county revenue while taxes were just 22 percent.

Equation (1) was estimated for each of the expenditure and non-tax revenue items summarized in Table 3. The results are reported in Tables 4 and 5. Corrections, health care, human services, and judicial expenditures are all positively associated with home rule status.

**Table 4****Panel Estimates of Expenditure Category Functions**

The table reports the coefficients from fixed effects regressions county government expenditures per capita for various spending categories on three variables: a dummy variable taking a value of 1 for counties operating under a home rule charter and a value of 0 for counties without a home rule charter, county personal income per capita, and a county-specific constant. *t*-statistics are in parentheses.

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Independent variables	Welfare & human services	General administration	Judicial
Home rule status	0.236 (2.00)	-0.067 (1.40)	0.287 (7.67)
Income	2.729 (42.53)	0.879 (34.01)	1.494 (73.29)
Observations	2,620	2,620	2,620
Adjusted R <sup>2</sup>	0.54	0.57	0.76
Standard error of regression	0.79	0.32	0.25

Independent variables	Corrections	Health	Highways
Home rule status	0.364 (4.43)	0.924 (5.34)	0.087 (1.03)
Income	1.583 (35.36)	1.690 (17.96)	0.120 (2.14)
Observations	2,620	2,620	2,310
Adjusted R <sup>2</sup>	0.47	0.41	0.44
Standard error of regression	0.55	1.17	0.54

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**Table 5**

**Panel Estimates of Non-tax Revenue Item Functions**

The table reports the coefficients from fixed effects regressions county government per capita non-tax revenue items on three variables: a dummy variable taking a value of 1 for counties operating under a home rule charter and a value of 0 for counties without a home rule charter, county personal income per capita, and a county-specific constant. *t*-statistics are in parentheses.

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Independent variables	State and federal grants	Departmental earnings	Liquid fuels tax allocation
Home rule status	1.056 (4.26)	-0.022 (0.12)	-0.604 (1.61)
Income	5.142 (38.10)	3.432 (33.64)	1.607 (4.82)
Observations	2,620	2,620	2,310
Adjusted R <sup>2</sup>	0.42	0.40	0.18
Standard error of regression	1.67	1.26	3.19

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Administrative spending, nearly 20 percent of total county expenditures, is not significantly higher in home rule counties than in non-home rule counties.

Of the three non-tax revenue items examined, only state and federal government grants are correlated with home rule status. In 2002, total grants averaged \$348 in home rule counties compared to \$253 among all Pennsylvania counties. As an example, Northampton County received \$460 in grants on a per capita basis while Luzerne County received \$347 per capita. The coefficients from the fixed effects regression imply that Northampton County's home rule status can account for at least 2/3 of the difference in the amount of state and federal government grants received by the two counties..

#### IV. Conclusions

Counties in Pennsylvania operating under a home rule charter, which frees the county government from budget restrictions imposed by the state legislature, do exhibit an expansion of county government, especially in the areas of health care, judicial administration, and human services. However, the expansion of county government is financed by grants from the state and federal governments. It appears that the residents of home rule counties enjoy a greater level of government services yet do not pay higher taxes than the residents of non-home rule counties.

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