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Home Rule and the Size of County Government in Pennsylvania

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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, allowing the county government to set tax rates higher than the statutory limits. Opponents argue that home rule leads to higher taxes and an expansion of county government so the legislative tax limitations are necessary to restrain its growth. This paper finds that government expenditures are, indeed, higher in those counties which have freed themselves from the tax limitations imposed by the state legislature; however, the removal of such limitations is not associated with significantly higher per capita tax levels.

1. Introduction

The fiscal behavior of county governments in Pennsylvania is tightly constrained by state law. First of all, the Pennsylvania Constitution prescribes the form and administrative structure 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 imposes statutory rate limitations on real estate and other taxes levied by county governments.

However, the Pennsylvania Constitution allows all counties to exercise home rule powers through the adoption of a home rule charter, under which the au-

thority 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; home rule counties, in contrast, 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 are not bound by the state legislature's maximum tax rates and may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents.

In all, as of 2007, six of the 66 counties in Pennsylvania have adopted a home rule charter.¹ Home rule referenda were voted down in two counties during the 2003 elections. Opponents of the proposed Luzerne

¹The 67th county, Philadelphia County, does not have revenues and expenditures separate from those of the City of Philadelphia and does not have a county government. So, it is not included in the analysis.

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). In all, voters in 10 counties (Bucks, Lawrence, Luzerne, Mercer, Montgomery, Schuylkill, Venango, Warren, Washington, and York) have rejected home rule charter proposals since 1974. As of 2007, government study commissions, the second step towards adopting a home rule charter after voter approval of such a commission, are impeded in Clinton and Lancaster Counties.

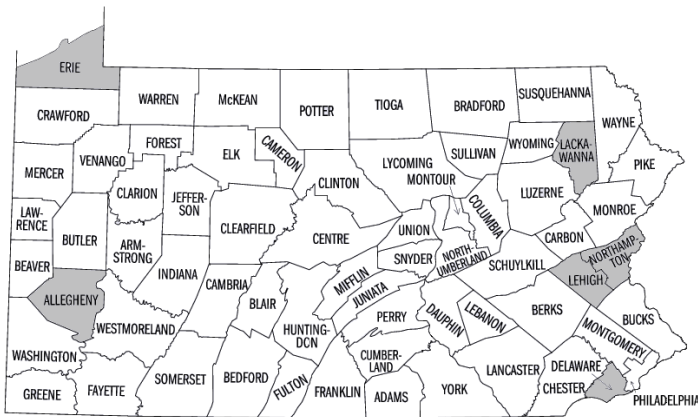


Figure 1. Pennsylvania county map. Counties with a home rule charter are shaded.

Municipal governments in Illinois also have the ability to adopt broad-based home rule powers similar to those available to local governments in Pennsylvania, and there is no empirical support in the literature for the contention that local elected officials in Illinois, once freed by a home rule charter from the restraints of state law, will expand the scale of local government spending and taxation. 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 instances over a 30 year period 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 Pennsylvania home rule opponents to the test by examining the relationship between home rule status and the size of county

government taxes and expenditures in Pennsylvania using budget data from 1955 through 2004.

This inquiry has implications for the study of the growth of government as home rule opponents seem to have in mind some conception of government as Leviathan: county government is a monopolist with the sole objective of maximizing tax revenue in order to make the government sector as large as possible. Brennan and Buchanan (1980) argue that only constitutional limits on tax collections or the level of expenditures can curb the growth of such a government. The authors of the proposed Luzerne County charter did include an article limiting the annual increase in county real estate taxes to an amount equal to the percentage increase in the Consumer Price Index unless a supermajority of the county council votes otherwise (Luzerne County Government Study Commission 2003, p. 44). The Allegheny County home rule charter contains even stronger tax limitation provisions. Real estate, hotel room rental, and additional sales and use taxes “shall not exceed the rate limitations fixed by law by the General Assembly of the Commonwealth of Pennsylvania” (Allegheny County Government 2005, p. C3).

Since the adoption of a home rule charter can free county government from the binding tax limitations imposed by the state legislature, Pennsylvania provides an opportunity to examine whether opportunistic governments take advantage of the removal of such restrictions to expand their size in accordance with the Leviathan hypothesis. Abrams and Dougan (1986), Shadbegian (1996), Bails and Tieslau (2000), and Besley and Case (2003) have all examined the impact of tax and expenditures limitations on the size of state and local government. Using 1980 data, Abrams and Dougan (1986) find that states that have constitutional limits on government expenditures or taxes spend at the same level as those states without such constraints. Berry and Lowrey (1987) advocate the use of time series data when performing regressions on government size and the other three studies mentioned above, while reaching contradictory conclusions about the effectiveness of tax and expenditure limitations, all make use of such data. Shadbegian (1996), using state and time dummy variables, concludes that tax limitations reduce the growth of government in low income growth states but increase the growth of government in high income growth states for the period 1972-1987. Tax and expenditure limitation laws usually cap the growth of the public sector relative to personal income growth, allowing states with high income growth to keep increasing the size of government while preventing states with low income growth from doing the same. Bails and Tieslau (2000), deploying a random

effects model to examine data taken at five-year intervals from 1969 through 1994, find that state and local government spending in states with tax/spending limitations is \$41 per capita lower than in those states without limitations, everything else the same. Besley and Case (2003) determine that nonbinding tax or expenditure limitations are not significantly correlated with state government tax revenues or expenditures per capita based on a fixed effects specification of panel data for the 48 contiguous U.S. states from 1950 to 1999. Meanwhile, potentially binding tax or expenditure limits are positively correlated with per capita taxes.

2. Data and Methods

County budget information for each of the years 1955 through 2004 (excepting the years for which the data are not reported: 1957 and 1967-69) was obtained from Pennsylvania's Department of Community Affairs' *Local Government Financial Statistics* (1955-1985) and the Department of Community and Economic Development's NewPA web site (1986-2004). Six counties currently operate under home rule charters: Delaware (adopted in 1976), Lackawanna (1977), Erie (1978), Lehigh (1978), Northampton (1978), and Allegheny (2000). The Allegheny County charter, however, binds the county government to the same tax limitations imposed by the state legislature on non-home rule counties. Therefore, Allegheny County is treated as a non-home rule county in all that follows. Table 1 reports summary 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 relative to the average

county. 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 period during which most home rule charters were adopted. A more revealing comparison is for 2004: per capita expenditures for all counties averaged \$659 (in 2004 dollars) while per capita expenditures were an average of \$974 in home rule counties. Taxes per capita averaged \$165 in all counties compared to \$227 in home rule counties. Non-tax revenues per capita averaged \$494 in all counties and \$783 in the five home rule counties.

Pennsylvania county governments have traditionally acted as the agent for the state government in "the administration of justice, maintenance of legal records, the conduct of elections and the administration of human service programs (Commonwealth of Pennsylvania 2003). In recent years, county governments have also gained some responsibility for zoning, parks and recreation, emergency management, and solid waste management.

"Since the early 1960s, however, county government has experienced explosive growth, especially in human services programs and criminal justice areas. Counties have grown into the role of the primary provider of state and federal social programs. Counties have outgrown their former 'caretaker' status and evolved into active providers of services for their inhabitants"

Commonwealth of Pennsylvania (2003), p. 4.

Table 1. County Summary Statistics (Time Series Averages of Annual Average Cross-Sectional Attributes, 1955-2004 and 1976-2004)

Group	Average number	Expenditures	Taxes	Non-tax revenues	Personal income
All counties (1955-2004)	66	\$291	\$101	\$189	\$20,506
All counties (1976-2004)	66	\$392	\$120	\$272	\$24,081
Counties under home rule charter without tax limitations (1976-2004)	5	\$541	\$156	\$395	\$27,698

Note: The table reports time series averages of annual cross-sectional averages for the time periods indicated. Data is per capita in 2004 dollars.

Table 2. County Government Expenditure and Revenue Summary Statistics (Time Series Averages of Annual Average Cross-Sectional Data, 1955-2004 and 1976-2004).

Fiscal item	Percentage of total (1955-2004)	Percentage of total (1976-2004)
Expenditure:		
Welfare and human services	24.5	27.6
General administration	19.6	14.0
Judicial	12.0	10.7
Corrections	11.0	10.3
Health	6.8	9.2
Highways	2.5	1.2
Other spending	23.8	26.9
Revenue:		
Taxes	45.7	33.5
Intergovernmental grants	30.8	40.6
Departmental earnings	14.0	16.0
Liquid fuels tax allocation	2.3	0.9
Other revenues	7.2	9.0

Note: The table reports time series averages of annual cross-sectional averages from 1955 to 2004 and 1976 to 2004 for expenditures and revenue categories as a percentage of total expenditures and total revenues for all county governments in Pennsylvania.

Table 2 summarizes the relative importance of various expenditure categories and revenue sources in county government budgets over the period 1955-2004. Welfare and human services account for nearly one-quarter of county expenditures on average. General government administration is about one-fifth of expenditures. Other spending consists of various small items such as parks and recreation, emergency management, library, interest, and airports. Although taxes (real estate, per capita, occupation, personal property, and hotel room rental) average out as the most important revenue source over the entire study period, intergovernmental grants have been the single most important revenue source since the 1970's. In 2004, intergovernmental grants accounted for 40 percent of all county revenue on average while taxes were just 29 percent. With the demise of federal revenue sharing, state grants make up the bulk of the intergovernmental aid received by Pennsylvania county governments. Both the state and federal government provide counties with operating grants, funding for state-mandated or specific programs. Both also make payments in lieu of taxes for property in the county owned by state and federal government. Although not separated in the data, the state government gives counties entitlement grants to cover the state's portion of specific costs such as the expenses of county judges.

An intuitive approach to examining how a county's home rule status affects its budget outcomes is to ask whether county government fiscal variables vary with its home rule status. However, home rule status is likely correlated with other county characteristics that may also affect county government expenditure and tax decisions. Observable county characteristics such as the degree of urbanization or the age profile of the population can affect the decision to adopt a home rule charter as well as influence county government budget variables. Unobservable characteristics such as county political culture will also produce such correlations. This endogeneity issue makes using variation across counties to identify the effect of home rule status on county government budget policy problematic. The approach I take is to start by using variation within counties to identify this effect: for a given county, do county government expenditures and taxes vary with its home rule status and consequent freedom from the state legislature's binding tax limitations. This is accomplished by introducing county fixed effects into the budget equations.

I adopt a very parsimonious model of county government fiscal outcomes: county government budget variables are 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

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

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 without a tax limitation provision in year t and a value of 0 otherwise, Z_{it} is a vector of county-specific taste and political parameters, a_i is a county-specific constant, and e_{it} is a random error term. Four variables are used as the county-specific control variables in Z_{it} : the percent of the county population living in urban areas, the percentage of the county population age 65 or older, the fraction of county voters registered Democratic, and the percentage of adults with a bachelors degree, all for year t .

3. Results for Budget Aggregates

As noted above, the data consists of annual observations on 66 Pennsylvania county governments. 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 as well as any time-invariant omitted, unobserved, or unmeasured variables in the constant a_i . All of the economic variables measured in dollars are converted into real per capita levels. The initial 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. This results in a total loss of six observations.

The use of county-specific fixed effects most clearly mitigates the possible endogeneity problem when the sample is limited to the five home rule counties. However, the F -test indicates the presence of panel effects in the data and the Hausman test supports the use of the fixed effects specification in these regressions for both the full sample of 66 counties and the home rule county sub-sample. The estimated coefficients are reported in Table 3 for both the full sample of 66 counties and a sub-sample of just the five home rule counties.² The sub-sample consists of observations on those five counties over the entire study pe-

riod, 1955-2007, both before and after their adoption of a home rule charter. The coefficients for the two samples do not differ meaningfully in sign and magnitude except for the home rule variable in the tax equations.

Table 3. Panel Estimates of the Total Budget Functions

Independent variables	Expenditures	Taxes	Non-tax revenues
Full Sample:			
Home rule status	0.066* (1.72)	0.033 (1.04)	.192** (2.90)
Income	1.564** (55.54)	0.951** (40.16)	2.691** (55.02)
Observations	3,030	3,030	3,030
Adjusted R ²	0.89	0.80	0.87
Home Rule Counties:			
Home rule status	0.131** (2.12)	-0.216** (4.34)	0.650** (6.21)
Income	2.286** (22.95)	1.541** (19.26)	3.223** (19.13)
Observations	228	228	228
Adjusted R ²	0.94	0.88	0.93

Note: 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 seven variables: a dummy variable taking a value of 1 for counties operating under a home rule charter without a tax limitation provision and a value of 0 for counties without a home rule charter, county personal income per capita, the percent of the county population living in urban areas, the percentage of the county population age 65 or older, the fraction of county voters registered Democratic, the percentage of adults with a bachelors degree, and a county-specific constant. Absolute values of t -statistics are in parentheses. ** indicates that the coefficient is significantly different from zero at the 0.05 level. * indicates that the coefficient is significantly different from zero at the 0.10 level.

² For the full sample of 66 counties, county expenditures per capita are positively related to the urban, senior citizen, and college educated populations. Taxes are positively associated with the urban population and senior citizen variables but negatively related to the fraction of voters registered Democratic. Non-tax revenues are positively related to the fraction of the county population that is age 65+, registered Democratic, and college educated.

County government expenditures are positively related to home rule status. Consider Erie County. Based on the coefficients from the full sample in the top half of Table 3, Erie County's status as a home rule county is associated with an additional \$44 in per capita expenditures in 2004. Actual per capita expendi-

tures were \$938. County government expenditures are higher than they would otherwise be in the five counties operating under a home rule charter by an average of about 6 percent or \$55 per capita for 2004. The positive relationship between home rule status and county government expenditures holds even when the sample is restricted to the five home rule counties without tax limitations as evidenced by the coefficients in the bottom half of Table 3.

For the tax equation, the coefficient on the home rule status variable is positive but not significantly different from zero for the full sample. The *p*-value of the coefficient is 0.3. Taxes are not significantly higher or lower in a statistical sense in counties that have adopted a home rule charter compared to similar counties functioning under state-mandated tax limitations. If Luzerne County had been operating under a home rule charter in 2004, the coefficients imply that per capita taxes would have been about \$6 higher than the actual amount of \$239. Taxes in Luzerne County were nearly \$2 per capita lower than taxes in Northampton County, the county which figured prominently in anti-charter ads prior to the 2003 Luzerne County charter vote. Assuming the validity of the estimated coefficient on home rule status, up to half of the \$2 difference in per capita taxes between Northampton and Luzerne Counties in 2004 may at best be attributable to Northampton County's operating without a tax limitation in place. The coefficients in the bottom half of Table 3 imply, for example, that Lackawanna County's taxes of \$209 per capita in 2004 were nearly \$40 below what would have been predicted if the county had not been operating under a home rule charter.

Per capita tax revenues are at worst statistically unrelated to home rule status. However, county government expenditures are higher in counties operating under a home rule charter. If not financed through higher taxes, non-tax revenues must fund this additional spending. Indeed, in both sets of regressions home rule status is positively and significantly associated with total non-tax revenues received by county governments. \$174 in non-tax revenues out of a total of \$765 is attributable to Delaware County's home rule status in 2004. On average, non-tax revenues per capita were almost 60 percent higher in counties operating under a home rule charter in 2004 than in non-home rule counties.

4. Results for Specific Budget Items

Home rule status and freedom from state-mandated tax limitations are associated with a small 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. Taxes are not significantly higher in home rule counties, either in a statistical or an economic sense. This section examines county budget expenditure and revenue categories in order to determine which specific budget items are positively associated with home rule status.

Equation (1) was estimated for the full sample of 66 counties assuming a fixed effects model for each of the expenditure and non-tax revenue items summarized in Table 2. The results are reported in Tables 4 and 5. Judicial expenditures and spending on county hospitals and health programs are all positively associated with home rule status. Welfare and human services expenditures, which include children and youth services, county home, and mental health retardation services, are weakly associated with home rule status. Administrative spending, the bureaucratic cost of county government and nearly 20 percent of total expenditures, is not significantly higher in home rule counties than in non-home rule counties.

Of the three specific non-tax revenue items examined, only intergovernmental grants are significantly and positively correlated with home rule status. In 2004, total state and federal government grants averaged \$379 in home rule counties compared to \$282 among all Pennsylvania counties. That year, as an example, Northampton County received \$492 in grants on a per capita basis while Luzerne County received \$305 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 intergovernmental grants received by the two counties.

Departmental earnings are, perhaps oddly as user fees are more efficient although more visible than broad-based taxes, negatively related to home rule status. These are monies received by the county for various services such as recording a deed or DUI administration or issuing a marriage license. Other revenues, the largest of which is revenue from the use of money and property, and the amount of the liquid fuels tax allocation retained by the county government are unrelated to home rule status, meaning that intergovernmental grants account for all of the additional non-tax revenues associated with home rule status.

Table 4. Panel Estimates of Expenditure Category Functions

Independent Variable:	Welfare and Human Services	General Administration	Judicial	Corrections	Health	Highways	Other Spending
Home rule status	0.547* (-1.70)	-0.114 (-1.44)	0.156** (-2.18)	0.202 (-1.52)	2.306** (-3.86)	-0.022 (-0.08)	-0.019 (-0.28)
Income	9.062** (-26.91)	0.599** (-10.21)	1.060** (-20.07)	0.881** (-8.95)	8.773** (-16.68)	-0.182 (-0.83)	2.206** (-43.82)
Observations	2,766	3,030	3,030	3,030	2,898	2,574	3,030
Adjusted R ²	0.34	0.28	0.57	0.33	0.31	0.40	0.80

Note: The table reports the coefficients from fixed effects regressions of county government expenditures per capita for various spending categories on seven variables: a dummy variable taking a value of 1 for counties operating under a home rule charter without a tax limitation provision and a value of 0 for counties without a home rule charter, county personal income per capita, the percent of the county population living in urban areas, the percentage of the county population age 65 or older, the fraction of county voters registered Democratic, the percentage of adults with a bachelors degree, and a county-specific constant. Absolute values of *t*-statistics are in parentheses. ** indicates that the coefficient is significantly different from zero at the 0.05 level. * indicates that the coefficient is significantly different from zero at the 0.10 level.

Table 5. Panel Estimates of Non-tax Revenue Item Functions

Independent variables	Intergovernmental grants	Departmental earnings	Liquid fuels tax allocation	Other revenues
Home rule status	1.829** (-6.45)	-0.368** (-2.74)	-0.424 (-0.87)	0.058 (-0.47)
Income	8.210** (-39.17)	2.715** (-27.37)	-0.21 (-0.52)	2.583** (-28.05)
Observations	3,030	3,030	2,507	3,030
Adjusted R ²	0.60	0.59	0.17	0.68

Note: The table reports the coefficients from fixed effects regressions of county government per capita non-tax revenue items on seven variables: a dummy variable taking a value of 1 for counties operating under a home rule charter without a tax limitation provision and a value of 0 for counties without a home rule charter, county personal income per capita, the percent of the county population living in urban areas, the percentage of the county population age 65 or older, the fraction of county voters registered Democratic, the percentage of adults with a bachelors degree, and a county-specific constant. Absolute values of *t*-statistics are in parentheses. ** indicates that the coefficient is significantly different from zero at the 0.05 level. * indicates that the coefficient is significantly different from zero at the 0.10 level.

5. Conclusions

Counties in Pennsylvania operating under a home rule charter, which frees the county government from the tax limitations imposed by the state legislature, have higher county government expenditures per capita (about \$55 of which is attributable to their home rule status on average for 2004), especially in the areas of criminal justice and health care. However, rather

than resulting in higher taxes, the expansion of county government is financed primarily 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 significantly higher taxes than do the residents of non-home rule counties. For 2004, home rule and the absence of a binding tax limitation is associated with \$5 to \$7, at most, in additional taxes per capita and an average of \$128

more non-tax revenues received per capita. The five counties treated as home rule counties in this paper are neither the wealthiest nor the most populated counties in Pennsylvania. So, it is unlikely that they receive more grant money because of enhanced political power in the state legislature. Home rule counties, especially Lehigh County, have simply been more aggressive and effective in seeking and obtaining state and federal grants to finance new county programs to satisfy voter demands (Hartzell 2004).

As to the larger question of the effectiveness of tax limitations in restraining the growth of government the evidence from the behavior of Pennsylvania county governments is mixed. Everything else the same, per capita government expenditures are higher in those counties which have freed themselves from the tax limitations imposed by the state legislature by approximately 6 percent; however, the removal of such limitations has not been associated with a significant rise in per capita tax levels. In fact, when the five home rule counties are considered in isolation, taxes per capita are negatively related to their home rule status. Adoption of a home rule charter is not followed by an explosion in the tax burden facing county residents.

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