



NEWS RELEASE

For Immediate Release

January 14, 2021

TREASURER TORSSELLA CALLS FOR INVESTORS TO EVALUATE RELIANCE ON FINES AND FEES FOR REVENUE WHEN RATING MUNICIPAL BONDS

This evaluation will help identify true investment risk within the nation's \$4 trillion municipal bond market

Harrisburg, PA – Pennsylvania Treasurer Joe Torsella announced today his call for S&P, Moody's, and Fitch to explicitly evaluate the role of, and reliance on, fees and fines for revenue for municipal bond ratings. If implemented, this added protection would reveal risk and increase transparency of the nation's \$4 trillion municipal bond market.

"One of the most pressing issues of our time is the need to address criminal and civil justice reform," said Torsella. "We have an obligation to scrutinize widespread use of criminal, traffic and civil fees and penalties that can be too heavily relied on to bolster, and sometimes artificially inflate state and local finances. Rating agencies can make a difference with a commitment to identify the truest risk to investors including the reliance on fines and fees when considering its credit rating decisions. When incentives push criminal and civil justice toward becoming a for-profit practice, public servants become pressured to drive revenue, making them into tax collectors rather than administrators of justice to their friends and neighbors. These practices undermine the public's trust, and while offering temporary financial relief can cause detrimental damage to any work done toward positive police-community relations."

In letters submitted to the three rating agencies, Torsella along with co-signers including Rebecca Rhynhart the City Controller of Philadelphia and State Rep. Donna Bullock, Chairwoman, Pennsylvania Legislative Black Caucus, outlines the growing evidence against the increased use of fees and fines across the nation and the poor outcomes of such practices. According to [Governing](#), as of 2019, nearly 600 cities nationwide depended on fines and fees for more than 10% of their revenue – with some municipalities exceeding 40% total revenue from fines and fees.

"It is important at this time in history for local governments to operate through the lens of social and economic justice and authentically stand for the Black Lives Matter movement," said

Rebecca Rhynhart, City Controller of Philadelphia. "This means using our voices to stand up and push for change in all of society's institutions. The three rating agencies can make a positive statement in this movement by increasing transparency around reliance on these fees and fines in rating agency reports; and understanding the disproportionate and negative impact these fines and fees have on communities of color throughout our country."

Criminal justice debt totals \$50 billion across the country and 60% of that debt is disproportionately owed by Black and Latinos. Unpaid traffic citations and court fees can cause extended probation for individuals, incarceration, loss of driving privileges, and interference with voting rights. Ultimately, the costs of unpaid fines and fees can cost more than the revenue they are meant to bring in.

"There are tens of thousands of low-income Philadelphians who have turned their lives around since they were involved with the criminal justice system," said Ryan Allen Hancock, Chair, Board of Directors, Philadelphia Lawyers for Social Equity (PLSE). "The fees and costs that were assigned to their cases often a decade or more ago - which would have been completely waived in the civil courts - amount to tens of millions of dollars. The courts will never see those fees paid. Carrying them as an asset is not just false: they are leg irons that keep the individuals and their families chained in poverty."

PLSE just completed a [study](#) of costs and fees imposed in criminal proceedings that date back to 2013 or earlier. The study examined unpaid fees and costs in the total amount of \$1,007,251 for 605 of its low-income clients, for an average amount of \$1665, concluding that not a single client had income to repay the debt.

Nearly every state has added new criminal and civil court fees over the last decade, including for services and fees that are constitutionally required. While S&P does consider an entity's role "in encouraging the transparency and comparability of relevant financial information," the entity's potential reliance on fines and fees is currently not part of the credit rating decision. Adding this consideration to the ratings agencies' methodologies can help increase transparency, governance, and red-flag monitoring of the expansive municipal bond market.

Media contact:

Mike Connolly, Treasury, 717-787-2991 or mconnolly@patreasury.gov

###

PENNSYLVANIA TREASURY DEPARTMENT
JOE TORSELLA, STATE TREASURER

www.patreasury.gov | [Facebook](#) | [Twitter](#)

The Pennsylvania Treasury is an independent department of state government led by the state treasurer, who is elected every four years. The department's primary duty is to safeguard and manage the state's public funds. It

invests state money to generate income on behalf of the citizens of Pennsylvania, reviews and processes payments for state government custodian of more than \$100 billion in state funds. Key Treasury programs include Unclaimed Property, PA 529 College Savings Program and the Board of Finance and Revenue. To learn more visit patreasury.gov.