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Legislature Gets Unhelpful Advice

The Allegheny Conference for Community Development (ACCD)--the region's corporate chieftains who have a long history of involvement in public-private initiatives in Pittsburgh--are apparently getting impatient with the ongoing deliberations over the City's financial difficulties. A recent press release from the organization implores the political leadership of the region, the groups appointed to put together a recovery and the General Assembly to act immediately, lest the City's image be tarnished any further.

We are bound to wonder why the sudden urgency. Even though the press statement says that "two years of studies, discussions, and debate" have yet to produce action, we are well aware that the ACCD and its affiliated organizations, including the Pennsylvania Economy League, have long been involved in the study of Pittsburgh's finances. In 1996, the Competitive Pittsburgh Task Force--headed by an ACCD member and staffed by the Economy League--identified serious problems with pensions, public safety costs, and the lack of efficiency in several areas of service delivery. Substantial cost savings were identified, but the process came to naught when the Mayor and Council failed to implement the major cost saving recommendations. More sustained and effective pressure by the ACCD on City officials to follow through with the Competitive Pittsburgh recommendations might have averted the ACCD's present sense of urgency.

Now the ACCD argues that the cuts and tax increases identified recently by the Act 47 recovery team should be implemented immediately. This before the ICA (oversight board) has had a chance to evaluate the appropriate types and amounts of cuts and other savings that must be undertaken. Indeed, the ICA is working at all deliberate speed on a number of fronts to come to grips with the complex problems faced by the City and to design a more holistic, well-crafted and researched plan to address those problems.

For example, the City's annual debt service payments come to \$90 million, a fourth of the budget. If the City had debt loads in line with the per capita amounts in well-run, mid-sized cities, the annual debt service would be \$33 million, resulting in \$57 million less spending per year. The Act 47 plan does not address the debt problem, except to say that it is almost intractable and unavoidable. Some creative thinking will be needed to deal with this problem in order to avoid forcing suburban taxpayers to bail out the City's gross mismanagement of debt.

Then too, the cost of the fire department is at least 40 percent higher than it would be if it were in line with well-run, growing mid-sized cities across the country. That 40 percent represents a potential savings of more than \$30 million per year. The Act 47 plan recommends cuts in this area but not nearly enough. Coming up with a plan to move the fire spending to appropriate levels in a timely manner is complicated and is being studied in great depth in order to devise a definitive, specific and workable plan. This cannot be rushed to accommodate the ACCD's impatience. Moreover, Pittsburgh has about \$700 million in unfunded pension liabilities and

health benefits for retirees. The Act 47 report does not offer any ideas on how to deal with that problem.

Overall, the City spends over 30 percent more and has 30 percent more employees on a per capita basis than well-managed, growing mid-sized cities. The City's problems are extensive and complex. Solutions to date basically advocate cutting some spending and giving the City additional taxing authority. A much better approach is to take a little more time and put together a broader, more comprehensive plan that will achieve the desired results.

It is important to bear in mind that Pittsburgh already collects \$100 million more in taxes than a well-run city its size would take in. In short, the problem is not revenue. And the ICA needs to be very deliberate and careful in making recommendations to the legislature for tax increases or new taxes. Higher taxes could easily be counterproductive, as we have seen with the increased parking tax.

Instead of looking at the ACCD's statements as a call to action, we should view them with a healthy dose of skepticism, and for good reasons. First, the ACCD has masterminded and pushed hard for many of the "solutions" that have yet to accomplish what they were promised to do. From the Regional Asset District to the stadium tax referendum to development funds to "grow the City", the ACCD has not wavered in its commitment to ineffectual attempts to right the City's economic ship—usually on the backs of state and county taxpayers. They should remember that when they start to tell others with such certainty what must be done.

Second, because of their close relationship with the City, the ACCD can't seem come to grips with the fact that the City's problems are the fault of Pittsburgh's elected officials. The City's problems cannot be blamed on the General Assembly which approved the RAD tax, provided \$150 million to build stadiums and another \$170 million for the convention center, as well as authorizing a 40 percent hike in the hotel occupancy tax. Each of these grand schemes was endlessly touted as the catalyst that would jump start growth and prosperity in the City. The ACCD support for these actions was strong and persistent.

To be fair, the ACCD press release did mention the problems of "expensive arbitration rules". It is true that binding arbitration rules are a problem and must be addressed. But that has been known for years. Yet as far as can be determined no City official nor the ACCD lobbied the legislature to reform the overly generous arbitration rules back at a time when it might have averted the current crisis.

Moreover, arbitration for police and fire personnel--governed by Act 111 of 1968--does not have the authority to award no-cut contracts. If it did, City police ranks would not have been thinned last summer while the fire department went untouched. The Mayor agreed to the no layoff clause and healthy compensation increases without the need for binding arbitration and with full knowledge of the City's coming financial plight. That cannot be excused or swept under the rug by pleas for bi-partisanship.

The ACCD in its impatience is just not grasping the intricacy of the issues at hand. These include the fact that it will take time to determine and implement the appropriate cuts by category and that City authorities (Water and Sewer, Stadium, Parking, Redevelopment, and Sports and Exhibition) must play a role in helping the City. For example, an analysis into authority assets in Pittsburgh and in several other mid-sized cities across the country shows that Pittsburgh's authorities have assets far in excess of those in other cities. The Controller's Comprehensive Annual Financial Report shows that Pittsburgh's Redevelopment, Water and Sewer, Parking, and

Stadium authorities had total assets of over \$1.2 billion as of December 2002. That amounts to over \$3,600 per resident. It is an area to be examined, but the ACCD and the Act 47 team make no mention of it. No plan will be complete that does not examine the role the authorities can play.

The ACCD's ignoring of authorities and their role is very interesting in light of the fact that the ACCD is studying government structure reform. Why not start with these Mayor- appointed authorities and support legislation that would impose greater accountability and possibly downsize or eliminate some of them, freeing up assets that could be used to help the City through its current crisis?

Finally, the ACCD does not seem concerned about the issue of the egregious level of Pittsburgh school spending and its enormous impact on local taxes and the consequent loss of people from the City. It is apparent that the per-pupil general fund expenditure of more than \$15,000 needs to be cut. Rolling the spending back to a still very high \$12,500 per student would free up to \$90 million to be used for tax reductions and provide room for the City to capture \$50 million or so while giving Pittsburghers much needed tax relief.

It is obvious that the City needs new approaches and fresh thinking. More taxes should be off the table until the City, its authorities and school district demonstrate a willingness to make dramatic changes in the size and cost of their operations. It is a testament to the power of the special interests in the City that steps in that direction were not taken well before the current crisis became full blown. And still they obstruct and drag their feet. Maybe things have to get a lot worse before they decide to be helpful.

Jake Haulk, Ph.D. President
Frank Gamrat, Ph.D., Senior Research Associate

Eric Montarti, Policy Analyst

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
