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After Act 47 for Pittsburgh

By Colin McNickle

While Pittsburgh officially has shed its status as a financially distressed city and taken significant steps to remedy past shortcomings, it must continue to act diligently to prevent it from faltering anew, say researchers at the Allegheny Institute for Public Policy.

It was just over 14 years ago, in December 2003, that Pittsburgh was granted "distressed" status by the state under Act 47. That followed layoffs, a credit rating reduced to junk status and regular systemic operating deficits.

A series of recovery initiatives, with nearly 390 action items, including a number of tax increases, were implemented. The commonwealth lifted that distressed designation on Feb. 12.

But as Eric Montarti and Jake Haulk ask (*in Policy Brief Vol. 18, No. 8*), "Will the city stick to the steps taken to improve financially and avoid slipping back into distressed status?"

It was in 2004 that the General Assembly granted Pittsburgh revised taxing authority. A payroll preparation tax replaced the mercantile tax and led to the phasing out of the business privilege tax. The occupational privilege tax, now known as the local services tax, was increased from $10 to $52 annually.

Additionally, the city was allowed to capture a larger share of the earned income tax (reducing the share to Pittsburgh Public Schools) and increased the deed transfer and real estate taxes (the former recently increased for a second time).

An oft-proposed "commuter tax" was barred by the Legislature, at least as long as the city remained under state oversight.

The tax reform law also reduced the maximum allowable parking tax in steps, from 50 percent to 37.5 percent; the city then applied part of those proceeds to its pension plans' shortfall. To date, the funded ratio has been increased to more than 60 percent from a perilously low ratio nearly half that.

Those and other moves led state overseers to determine the city qualified to begin to stand on its own two feet. Financial projections for fiscal year 2018 through 2022 suggest there will be operating budget surpluses each year, $10 million alone for fiscal 2018.

Moving forward, Pittsburgh also plans to adhere to a number of guidelines, such as limiting debt service to 12 percent of general fund expenditures, limiting debt principal to 3.5 percent of the city's total assessed property value and refraining from offering any city-initiated pension sweeteners.

That said, both revenues and expenditures have grown faster than Pittsburgh's cumulative inflation rate of 40 percent over the "distressed" period, 62 and 44 percent, respectively.

"Meanwhile, city employee headcount fell 15 percent from January 2004 to January 2017, but with population also declining, the employee-count per 1,000 residents fell only 7 percent," say Montarti, a senior policy analyst, and Haulk, president of the Pittsburgh think tank.

Still, the researchers remind that a 2016 survey of how well cities are run ranked Pittsburgh 144th out of 150 cities for financial stability and 117th for per capita spending.

"If Pittsburgh once stood 'on the precipice of full-blown crisis,' as described in the first recovery plan, hopefully it won't return to that position," Montarti and Haulk say. "That's not only a responsibility for the current elected and appointed leaders but their successors" -- if not perhaps as a continuing role for the commonwealth as well.

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