POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

November 11, 2003 **Volume 3, Number 50**

Will Pittsburgh Be Awarded Distressed Status?

The Mayor of Pittsburgh has filed a request with the Commonwealth's Department of Community and Economic Development (DCED) to have the City designated a distressed municipality. In a previous *Policy Brief (Volume 3, Number 46)* we outlined the major details of that process and whether it would be a viable option for policymakers to pursue. For several reasons, it was concluded that Act 47 was not a good option.

Nevertheless, the Mayor is pushing ahead for distressed status designation under Act 47 in hopes that it will deliver the additional taxing power and leverage over the unions that he has thus far been unable to achieve. A major component of determining whether a municipality is distressed is an investigation by DCED. A few observations show that distressed status has not been achieved.

(1) The City plans to spend more than it did last year: According to published reports, the City plans to spend $396 million in 2004, which is $10 million (2.5%) more than it budgeted for fiscal 2003. In all likelihood, much of this spending increase arises from the boost in payroll and health insurance payments required by the collective bargaining agreements entered into by the City. Regardless, the Mayor's plan to increase expenditures in 2004 shows that the City has failed in its attempt to rein in spending. A municipality in actual distress would have already reduced spending plans below the previous year's budget. It is important to note that the proposed budget includes no plans for privatizations, asset sales or other actions that could enhance revenues or reduce expenditures.

(2) The City has room to raise tax revenues: General fund revenues in the proposed 2004 budget are flat, not decreasing, which would be an indication of distress. More important, as a home rule municipality, Pittsburgh has the ability to raise real estate taxes and earned income taxes on residents beyond the normal statutory limits set by the state. Indeed, Pittsburgh had a two percent wage tax until about a dozen years ago.

(3) Home Rule has an impact on Act 47: Consider too that of the five Act 47 distressed Allegheny County communities, only Clairton has a home rule charter and that was adopted after the community was designated as distressed. Thus, none of Allegheny County's distressed municipalities had the ability to increase tax rates above the state imposed limits at the time it was granted distressed status. Moreover, all of these municipalities were truly distressed economically as indicated by the enormous loss of jobs and tax base resulting from mill closings.

In sum, the City does not meet the standards of distress that other Allegheny County communities demonstrated to receive the distressed designation. Said another way, Pittsburgh--through better control of spending or tax increases on residents and property-- could solve its own problems.

A major question: how will DCED evaluate whether the City qualifies as a distressed community? Assuming politics can be kept to a minimum, there is a very high probability that distressed status will not be granted.

Even if the City is given distressed status, there are serious questions about how much it would help the City.

(1) Pittsburgh does not qualify for state grants or loans under Act 47: There is explicit language in the legislation that prohibits Pittsburgh, Philadelphia and all counties from receiving state grants and loans under the program. This has been repeated often by officials at DCED as one major stumbling block to approving distressed status for the City.

(2) Act 47 does nothing about existing union contracts: It was recently argued in a local editorial that Act 47 "frightens" unions because it cuts into their bargaining powers. The fact is that Act 47 does not permit the forced reopening of current contracts. Only during the next round of negotiations can the City's unions be forced to make concessions. That is years away in the case of some unions.

(3) There is no guarantee that any commuter taxes would be forthcoming: Act 47 mentions only one tax -- earned income (wage)-- that can be raised on non-residents. For that to happen, the state appointed coordinator must recommend a tax hike that applies to both residents and non-residents. A judge must approve the tax hike. In order to avoid paying twice, non-residents would only pay the difference between what they pay in wage taxes to their home community and the new Act 47 rate in the City.

Bear in mind that a City-friendly coordinator cannot recommend any new taxes such as a retail alcohol tax, a payroll-preparation tax, or a boost to the occupation privilege tax. All of these would require new state legislation, which the General Assembly has been reluctant to approve.

The 2004 budget numbers show that Pittsburgh has a spending problem, not a revenue problem. And while we have clearly made the case that Act 47 is not necessary, we hope that the DCED investigation will be thorough, informative, and, most important, independent and free of political interference.

Jake Haulk, Ph.D. President **Eric Montarti, Policy Analyst**

For more information about this and other topics, please visit our website:
www.alleghenyinstitute.org