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The Dark Side of Distressed Status for Pittsburgh

Now that distressed status has been declared for Pittsburgh, it is a virtual certainty that Governor Rendell will veto the Pittsburgh Oversight legislation passed overwhelmingly by both the House and Senate. Such a veto will be extremely problematic for the Governor. If he carries through on the veto, one of two things will happen: either the General Assembly will override the veto—although that seems doubtful—or the Governor's administration will then be in complete charge of solving the City's problems.

As we have noted before, there are several shortcomings to distressed status being used in Pittsburgh. Under the Distressed Municipalities Act the City is not eligible for state loans and grants as were the other Allegheny County communities that were declared distressed. Nor can the appointed coordinator force the reopening of unfavorable contracts, which are the major reason the City is unable and unwilling to solve its budget problems. Finally, the only additional tax the coordinator can recommend levying on non-residents is the earned income tax. And therein lies several major problems.

If the City decides to tax non-resident workers, it must levy the same rate on its own citizens. Let's say the coordinator recommends a 1.5 percent rate to be imposed on all citizens as well as non-resident workers. Further assume that the City Council approves the increase and a Common Pleas judge grants a one-year levy (such a tax must be approved by a judge every year).

This levy will create immediate inequities depending on where the non-resident worker lives. Residents of several of the 17 home rule communities (besides Pittsburgh) in the County already pay 1.5 percent to their local municipality and school district and would, therefore, owe nothing to the City because any earned income tax paid to the home community will be deducted from taxes owed to the City. Residents of Monroeville, Penn Hills, McKeesport, and Whitehall, for example, who work in Pittsburgh, would pay nothing to the City. Many other home rule communities have rates close to 1.5 percent and their residents would pay as little as 0.2 percent to the City—Mt. Lebanon, Upper St. Clair, Bethel Park and O'Hara are prominent examples.

Indeed, home rule municipalities not at 1.5 percent might well decide to raise their earned income tax to 1.5 percent and roll back property tax rates to offset the income tax increase. Here again the City would be deprived of additional revenues from residents of these communities who work in the City. Meanwhile, residents of non-home rule communities would be forced to pay the additional 0.5 percent to the City since by law their maximum levy is set by the state at one percent.

Thus, we would have the spectacle of some workers hit hard while others would pay nothing to the City. We might even see a rush in many communities to initiate the home rule process to block the City's tax grab.

How high would the City be willing to raise the income tax on its own residents to try to capture some taxes from non-resident workers? More importantly, how far would a coordinator push for higher levies and how long would a judge continue to approve such requests? The damage to the City in terms of forcing its own population to leave and driving businesses out of the City would far outweigh whatever additional funds were raised from non-residents.

Beyond this initial inequity in a non-resident wage tax, the City faces a major dilemma. The added tax on non-residents can only be used as long as the City remains in distressed status. That means eventually Pittsburgh will be forced to come to grips with its spending problems, unless it wants to remain distressed forever. If the City were to undertake the steps needed to cut its massive overspending on public safety, sell assets, adopt privatization in a serious way, and merge functions where possible with the County to reduce expenditures, it might work its way out of distressed status. But as long as it is reliant on the non-resident wage tax, it will never come out of distressed status.

The obvious question is: Why does the City need to be declared distressed if it already has the power to take the necessary steps to solve its own problems? If the City uses distressed status to collect income from non-resident workers, it will be a short-term cover for its failures to address the problems that must be addressed whether or not distressed status is in place. In other words, the City, by asking for distressed status, is saying, "we know we should make major changes but cannot bring ourselves to make them and we need an appointed administrator to do it for us." In short, non-residents will be asked to pay the generous salaries and benefits of City employees with no layoff contracts who have refused to make any concessions that would help Pittsburgh through its fiscal crisis. What a shameful travesty.

The tragedy of the Governor's veto and the use of distressed status is that the legislature will have no incentive to provide the City any other assistance. It is reasonable to assume that the Governor is hoping that by imposing taxes on non-residents he can prod the legislature into providing new taxing authority for the City, but everyone will know that it was the Rendell Administration that declared the City distressed and raised taxes.

It is almost a certainty that the Rendell Administration's strategy for the City will fail and the General Assembly will be called upon to rescue Pittsburgh from even worse problems caused by the deepening divide between the City and the suburbs.

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