POLICY BRIEF

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Legislators Weigh In On City Finances

Concern has been mounting over the lack of progress in the City's quest to climb out of its fiscal morass. Council has been luke-warm to the Act 47 coordinator's recommendations and the Mayor has yet to put together a budget that holds 2005 spending at the 2004 level, let alone one that makes real, broadly based cuts. Inaction and rhetoric from the City has prompted local legislators to send the Oversight Board a letter with a blueprint of steps the City needs to take to put its financial house in order.

The letter, signed by five Allegheny County Republican legislators, notes that the Mayor's recent budget proposal increased expenditures by tens of millions of dollars over the 2004 level. Obviously, this is highly questionable for a city that has been declared a distressed community. Pittsburgh's expenditures should be held close to or reduced from this year's level. The large jump in 2005 expenditures was to be funded by a massive-- and unrealistic-- property tax increase.

City officials and their apologists argue that the City needs more revenue from additional sources. However, the legislators maintain that the problems are the City's excessive spending, particularly on the fire department, an extraordinarily high and expensive debt load along with enormous unfunded pension liabilities. The legislators point out that since 1984, Pittsburgh has chosen on several occasions to find ways to avoid paying actuarially prudent amounts into the system.

The legislators' letter calls attention to the fact that the purpose of the Regional Asset District (RAD) tax was to provide the City with new revenue to help fund regional assets and to provide tax relief. No other municipality has requested such a tax or received one. In 1995, the City ill advisedly began diverting a substantial portion of RAD funds (currently up to $62 million) to pay for bonds issued to create the Pittsburgh Development Fund (PDF). This diversion was clearly not in conformity with the intent of the RAD law. Furthermore, the PDF loan portfolio currently has a book value of $55 million and a market value of only $16 million. What's worse, it will take another $76 million to retire the debt over the next 10 years.

Even though the City has received considerable assistance from the state in the past, Pittsburgh has not helped itself by adopting any of the sensible and promising recommendations made by several task forces over the years. For instance, the City has refused to privatize garbage collection or sell its asphalt plant. Nor do they have plans to eliminate the Engineering and Construction Department and have not increased fees for swimming pools and other services. The legislators' letter recommends these steps and calls for privatization of the tow pound and EMS. They also call for a 15 percent across the board spending reductions in the Mayor's office, City Council, and the Controller's office as well as freezing the discretionary spending that each council member receives.

The letter goes on to call for the liquidation of the assets of the Stadium, Parking, and Water Authorities—with the proceeds being used to pay down the City's debt. Furthermore, some of the assets of the URA should be sold.

As far as revenues are concerned, the legislators recommend defeasing the Development Fund bonds, if possible by selling URA assets. This action would return $7.5 million annually to the City's treasury. Moreover, the legislators call for the return of $4 million per year in RAD money to the City that is currently being diverted to the school district. The legislators are open to the idea of a revenue neutral business payroll tax that would accompany the elimination of the mercantile and business privilege tax.

Importantly, they emphasize that there is little or no support in the Legislature to increase the Occupation Privilege Tax to the $145 per year as recommended by the Act 47 coordinators. Moreover, any new taxes that are enacted to provide the City with revenues will have a two-year sunset limit. They could be renewed based on the City's financial status, but they are not to last forever. The legislators are emphatic in their position that the goal of fiscal recovery is to lower taxes and make the City more attractive and competitive.

Without doubt, the letter from the legislators contains many of the key elements of a well thought out approach to fixing the City's financial problems. Cutting spending across the board, privatizing services and departments and selling authority assets to help pay down debt and unfunded pension liabilities are all necessary components of any meaningful financial recovery plan for Pittsburgh.

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