

POLICY BRIEF

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A Dose of Reality for City Council

There is a resolution pending in City Council that calls for the Secretary of the Department of Community and Economic Development to remove the City of Pittsburgh from Act 47 distressed status. As we shall show, it is much too early for that to happen.

It is possible, under Section 253 “Termination of Status” for a distressed municipality to petition the Secretary of the Department of Community and Economic Development (DCED) to determine if the conditions that led to distress are no longer present. The determination has to include some findings of fact, such as the coordinator’s reports stating that termination is appropriate, that deficits have been eliminated, and that audits show that the municipality has operated for a year under a positive fund balance. Certainly, in light of the ongoing level of high rates of overtime spending, and the rollback of the assessments to 2002 levels, it is not clear the City will be able to operate in the black this year.

Not surprisingly, newspaper reports show that the primary reason for calling for the rescission of the status is that the unions are unhappy with the terms of Act 47 and the concessions that they have had to make. At least two union officials stated that “the only thing we got out of Act 47 was the \$52 tax on people who work in the City”.

Nowhere in Act 47 does it say that the distressed status can be removed if it becomes burdensome for unions to negotiate or that new taxes are not at the level desired by the City Council. Indeed, Act 47 anticipates that unions will be annoyed and provides the coordinator the power to reject contracts if they do not conform to the budget plan.

The resolution’s language stating the City has “complied with both the Act 47 and ICA financial plans” is disingenuous: Recall that just recently the Council violated the Act 47 plan by failing to merge purchasing services with the County, refused to pass a greater share of health care costs to employees, transferred funds to Council’s account, and planned to reopen more pools than recommended.

Let’s revisit some of the facts about Act 47 in Pittsburgh. First, the law was not designed for a City of 330,000 people, thus rendering its applicability to Pittsburgh questionable in the first place. In that sense, the whole process has had an element of misuse and political manipulation attached. But the City wanted it and now they have it and must learn to accept its consequences. It is a perfect illustration of the childishness of City Councils over the years. Behave irresponsibly, create a crisis, look to someone else to bail them out and then complain about those who are trying to help if there is any pain involved.

Second, the Act 47 law only outlines changes to taxes on earned income and real estate, so the union official’s complaining about only getting a \$52 Emergency and Municipal Services tax

from the Act 47 team was misplaced. In fact, it was the state legislature that granted the new EMS tax.

Third, the union officials missed the fact that the City overhaul process also created a new payroll tax on local businesses. The disingenuousness continues in failing to recognize that \$4 million in RAD dollars previously allocated to the Pittsburgh schools has been redirected to the City coffers. Moreover, a quarter percent of the earned income tax now going to the school district will be captured by the City in a couple of years. Thank the state legislature for that one as well.

Fourth, if the implication is that the Act 47 process in Pittsburgh did not produce a commuter tax, it should be noted that the tax increase would also have fallen on already heavily taxed City residents. Besides, the legislature ruled out such a tax because of the serious inequities it could have produced among the County's municipalities because of the ability of home rule communities to prevent their citizens from paying income taxes to the City. Another consideration is that once a municipality in Act 47 adopts a commuter tax, it becomes very difficult to emerge from distressed status. Since the commuter tax must be suspended upon leaving distressed status, a municipality dependent on the tax would be hard-pressed to wean itself off the commuter revenue.

Fifth, the negotiated contracts with the unions are not complete in that the most important—the one between the City and the fire union—is to be reopened in 2007 with the possibility of wage and benefit reductions, if needed, to balance the City budget. How convenient it is that the push to rescind the distressed status is coming now.

To be sure, having only the oversight board in place by removing the Act 47 coordinator would make the whole situation less confusing. Then too, given the politically controlled and toothless ICA oversight board, the City Council would be much more likely to get its way on budget matters without fear of interference. Furthermore, the labor unions never really wanted Act 47. They just wanted the increased tax revenues that might be captured through a commuter levy or other new tax. But to their chagrin, the intent of Act 47 is to “ensure fiscal integrity of municipalities”, not cater to public sector unions.

There might well come a day when Act 47 is lifted. Until then, DCED and Council have to follow the law, or at least they should. In Pennsylvania, who can be sure? In any event, distressed status for Pittsburgh should not be removed simply because the City's unions and their supporters on Council want it to go away.

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