

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

April 25, 2008

Volume 8, Number 26

Steps to Take Before Merging

The Citizen Advisory Committee's report recommending the merger of Pittsburgh's and Allegheny County's governments has reignited debate over an old and recurring issue. Their basic rationale is that City and County governments must become more cost efficient if they wish to stem the decades' old population slide and energize the anemic pace of economic growth. One wonders whether or not talk of merging governments would be on anyone's agenda if the City were enjoying strong growth, population gains, and a financially sound government. In such circumstances, it is highly likely the County's economic growth would be far more robust and population loss would be minimal or non-existent. Moreover, the County's government would probably not be using one time funding sources to balance its books and future budgets would not have large deficits looming as currently foreseen by the Controller.

Then too, the Committee's report does not spell out how merging the two governments would result in any substantial savings, leaving the reader to speculate about the benefits of taking such a dramatic and complicated step. However, their recommendation that the City and County make all haste in eliminating duplicated services is a good one the City and County should make serious efforts to carry out.

As we have noted in previous *Policy Briefs* there are many questions that must be answered about the structure and operations of a combined government before it will receive the approval of the legislature to be placed before the voters. Even assuming that all the questions can be adequately answered and a feasible plan is developed that will have a good chance of achieving the benefits supporters claim it will, the merger is still a ways off in the future. Moreover, even a good "plan" will face major opposition in the City and the other municipalities making it a steep uphill fight to win voter approval.

Ironically, as long as there is serious talk about and support for merging the two governments emanating from elected officials and powerful civic organizations, the City can take the position that it does not need to work to eliminate duplicative services since that will all happen anyway as part of the governmental merger. Could that thinking have been a key ingredient leading the Mayor to change his position from opposition to support of the merger?

Still, assuming there is any real desire among City officials to improve the long term financial future during the protracted period awaiting development of a government merger plan, those officials might want to consider implementing some of the many solutions the Allegheny Institute has proposed in recent years to help alleviate the City's financial distress.

In brief summary form we offer some suggestions here. Bear in mind that substantial savings will have to entail employment count reductions, the single best and fastest way to reduce future retiree costs since there will be fewer of them.

- I) Begin selling off some of the millions of dollars worth of assets held by the City and its Authorities with the proceeds to be placed in escrow to pay down debt. This has been talked about but never tried in a serious manner.
- II) Enter into contracts with the County to provide parks maintenance and other public works activities where the County can provide the functions at a lower cost. Accurate accounting of the City's true cost would be required to include benefits, capital and workers compensation costs to determine if the County offer is better. Act immediately to privatize garbage collection. Pittsburgh is virtually alone among municipalities in still using government employees to provide this function.
- III) Place a referendum on the ballot to amend the Home Rule Charter to include a stringent government spending growth cap that will tie the hands of Council and the Mayor and force them to make the hard decisions they seem unwilling to make on their own.
- IV) County and City officials should go to Harrisburg and seek reform of Act 111, the law that requires binding arbitration for public safety employees. This act, as written, gives far too much power to the unions in contract settlements. Our neighboring states have long since made sensible reforms to their binding arbitration laws such as requiring the financial health of the municipality to be taken into account by the arbitrators. As it now stands the only relief a municipality can get from Act 111 is to be placed in financially distressed status and come under Act 47 supervision.

There are other suggestions but these will provide an idea of the range of options open to the City if it ever decides to get serious about addressing its per capita overspending and high tax burden compared to other similar size cities. Something that has not occurred absent Act 47 oversight and even then it has been very grudging, contentious and inadequate.

A Role for the State

In light of the claims by some that Pittsburgh's fiscal future is very bleak and that a merger is needed to prevent collapse of the City's finances, together with the obstinacy of City government to take the actions necessary to right their own ship, perhaps it is time the Commonwealth took a different approach to the City's financial situation. This is especially important in light of the City's ongoing expectation that the state will step in eventually and bail Pittsburgh out of its pension and debt problems.

Sadly, given the unwillingness of the government and electorate to deal forcefully with Pittsburgh's problems, it might well become necessary for the state to step in financially at some point. So, rather than waiting for that day or simply trying to cajole the City to take steps necessary to regain long term financial health, maybe its time the state bribed them to do it, that is to say, offer some positive incentive for doing the right thing.

Here is one idea. The Commonwealth could offer to contribute 50 cents into a special fund for every dollar the City permanently trims from its budget outlays through payroll expenditures cuts,

benefit payments not included. That fund would accumulate for three years and then could be drawn on incrementally by the City to pay down debt or reduce unfunded pension liabilities. Any return to higher payroll outlays would cause the balance of the fund to revert to the state coffers. The program would be reviewed annually after three years to determine whether or not to continue. Funding could be derived from gaming revenues or so-called community development programs.

To head off the argument that all municipalities would want in on the program, it could be limited to cities with both an Intergovernmental Cooperation Authority (ICA) Board and in Act 47 distressed status.

The combination of immediate expenditure reductions and the accrual of state funds should provide room for some tax relief for the City's beleaguered taxpayers, something that must happen if Pittsburgh is to become more attractive to business and jobs. The central idea is to motivate taxpayers to put pressure on elected officials to make the necessary cuts in order to qualify for the state dollars.

A variation of this idea would be to have the General Assembly amend the section of the Gaming Act of 2004 that requires \$10 million to go the ICA to be released to the City for certain purposes including debt reduction. Since this revenue is likely to be treated by the City as a pure supplement to revenue, it will probably be used in its entirety as an addition rather than a replacement for funds. In other words, total spending will rise by the amount of the \$10 million instead of using some or all of the gaming money to reduce taxes.

Thus, a useful legislative amendment to the Gaming Act would be to permit the ICA to release the \$10 million only after the City cuts taxes by at least \$5 million, but preferably by the full \$10 million.

Either of these two proposals would be far easier to implement than the drawn out process of merging the City and County governments. And either would almost certainly have a better chance of actually achieving the desired result of improving the City's long-term fiscal situation. Obviously, something different needs to be tried.

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