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Common Sense for Mayoral Candidates: Taxes and Spending

Prior to 2004, the City's tax and spending plans were almost entirely under the direction of successive City Councils and Mayoral administrations. The City, like all home rule municipalities, had to abide by state law regarding what they could tax and rate limits on certain taxes. Beyond that they had almost complete control over the budget.

Since 2004, with a Recovery Team and a state oversight board in place, much of the direction and control over budgetary matters has had a heavy dose of state intervention. There is an Act 47 Recovery Plan, an amended menu of tax types and rates, and annual presentation to the state oversight board whose approval for the budget and five year financial forecast is required.

Two questions arise: first, "when will the City get its budgetary independence back" and second "can they handle the freedom"? Presumably, the state will not relinquish its role until it is convinced that the City can manage its affairs in a fiscally prudent way that stays away from the behavior that caused the financial crisis in the first place.

As of now, there is a statutory end date for the oversight board (2011) while Act 47 is open-ended. The removal of "distressed status" will occur at the discretion of the Secretary of Community and Economic Development. Recall that City Council petitioned the Secretary for removal in 2007. The decision then was to continue the "distressed status", but with an adjustment to the Recovery Plan to focus more on legacy costs. By now it is abundantly clear that the City's tenure under Act 47 is not typical, and not at all similar to other municipalities that are in or have been removed from distressed status. There is a distinct possibility that the City could be in some type of oversight for a long time.

If future Mayors are to operate under the state's watchful eye, perhaps a change from the pre-2004 standard operating practices is in order. That is to say the City needs to stop allowing expenditures to grow willy-nilly while lamenting there is never enough tax revenue to fund the City's spending needs.

Common Sense Recommendation for Mayoral Candidates

#2: Get a Taxpayer Bill of Rights Amendment to the City's Charter

Having moved from local control to state oversight to envisioning a day when local control might someday return, the common sense thing for Mayoral candidates to do is to ask voters in the City to support a referendum to place a Taxpayer Bill of Rights into the City's Home Rule Charter. The Charter has been amended at least sixteen times since its inception in 1974, many of those amendments dealing with Council and the Mayor's office. There is precedent for the people amending their charter, but this would not tinker around the edges and would instead aim directly at the core of City government.

What would be the features of a good Taxpayer Bill of Rights? It would have to contain several elements: extraordinarily large super-majority thresholds (or better still a voter referendum) for raising taxes or implementing new ones authorized by the state, holding expenditures to a rate determined by inflation and population change, and a regular examination of City functions to see if the City, the private or non-profit sector, or another government should be performing them. For instance:

- A unanimous vote of the seated members of Council (or voter referendum) to change the tax rates under the direct control of a City of the Second Class or to levy new taxes authorized for Cities of the Second Class by the General Assembly
- Per capita general fund expenditures shall not increase for three years and thereafter no more than one percentage point less than the year-over-year change in the Consumer Price Index for the Pittsburgh metro area. This provision shall be in place for not less than ten years before any amendment can be made
- Departments, agencies, authorities, and functions shall undergo periodic Sunset review to assess whether the City or its related entities should consider continuing the function
- All City departments shall be subject to zero based budgeting rather than receiving automatic incremental increases

Consider how these charter provisions could affect two events coming during the next Mayoral term.

First, it could reduce the City's projected spending. The current five-year financial forecast shows that the City will spend \$437 million this year. With 311,000 people, that translates to \$1,408 per capita. By 2013, expenditures are currently projected to grow to \$457 million, a five percent increase. Those out-years could be revised upward in coming forecasts but if the City continues to lose population at a rate of one percent per year and stands at 300,000 in 2013, per capita general fund spending would have grown eight percent from this year (\$1,408 in 2009 to \$1,526 in 2013).

Assuming the City held to a one percent increase in per capita spending each year, per person spending in 2013 would be \$1,464 instead of \$1,526. At \$1,464 per person, the City's budget would be \$439 million instead of \$457 million, a difference of \$19 million. Cumulative savings from 2009 through 2013 at a one percent annual per capita growth versus current projected spending would be \$46 million. That money could be returned

to City taxpayers, eliminate some nuisance taxes or fees, or provide a reduction in one of the City's major taxes.

Second, it could control increases in existing taxes and the implementation of new ones. The tax changes from the state reform package effectively end next year with the elimination of the business privilege tax and the reduction to the parking tax to 35 percent.

Now assume that down the road the City wanted to increase its real estate tax rate or its wage tax rate. Right now, it takes a simple majority (5 of 9 members) to raise those taxes. With a Taxpayer Bill of Rights in place, it would take all members to make the change happen. Or the Council could opt to put the question on the ballot for the voters to decide. This provides an extra layer of protection for City taxpayers by ensuring that a simple majority cannot run an increase through Council.

Using the charter amendment process to imbed in the City's constitution a taxpayer and business friendly environment would send a clear signal to the world that the City's has abandoned its reckless ways that led to the appointment of two state imposed financial watchdogs. A citizen approved amendment to the Charter would also be a grass-roots approach that would stand in stark contrast to the top-down governance that has characterized the City for decades.

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