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Humbug: Coal to the Coalition for More Taxes

Monday, December 21st marked the demise of the proposed tuition tax, also known as the "Post Secondary Education Privilege Tax" and the "Fair Share Tax", as the City and the Pittsburgh college and university community reached an accord in which the Mayor and Council agreed to table the tax. But what has arisen in its stead brings a new set of very troubling concerns.

The colleges, along with a non-profit health insurer, have pledged higher voluntary contributions to the City. That coalition, which also includes at least one major Pittsburgh corporation (Duquesne Light) and possibly others, will then work with the City to secure "significant legislation in Harrisburg that allows the city to have a revenue stream that will protect the city going forward and fund [its pension] obligation into the future".

According to the University of Pittsburgh's Chancellor, speaking at a joint press conference, Pittsburgh's pension difficulties are the product of unwise financial decisions in the past. He went on to say that "the responsibility for dealing with [legacy costs] now is ours". Presumably, when using the term "ours" he was referring to the coalition of non-profits and the corporate community.

How does the coalition expect to make a case to the state legislature when there is plenty of evidence that the City will resist any remedial changes to the status quo, no matter how minimal?

Remember that in early 2008 the Chancellor had just wrapped up his work as chair of the "Citizens Advisory Committee of the Efficiency and Effectiveness of City-County Government". In the introduction to that report, signed by the Chancellor, he wrote that "our recommendations…begin with the expressed hope that the City and County will intensify ongoing efforts to pursue cooperative ventures". In other words to begin eliminating forthwith duplicated services and save the City—and perhaps the County—some money.

Now, twenty months after the report was released, it is hard to find any proponent of a City-County merger that can be satisfied with progress on that front. And just as well, for as we have pointed out in several *Policy Briefs*, the government merger is a bad idea and politically a non-starter. However, we can say with confidence that no duplicative services—Parks and Public Works jump to mind here—have been merged or even seriously discussed about being consolidated. Nor have the City and County executed a formal cooperation compact as the report called for. Thus, it is very surprising to see the Chancellor embrace the task of solving the legacy cost problem while the report recommendations that he spent a lot of time producing almost two years ago show no signs of being implemented by the City.

Even more surprising has to be the involvement and comments of Duquesne Light's CEO. In an April 2009 newspaper article noting the slow progress on the City-County merger, the CEO of that company stated that solving the City's pension problem was "the critical step in this process". At Monday's news conference he said "this is a problem that the state has to deal with."

Excuse us for informing the CEO, but the state spent a tremendous amount of legislative time this past summer and autumn crafting a plan that would have created a step toward municipal pension reform for the City and other municipalities in the state. That legislation was largely gutted when the City asked to be removed from the legislation in order to go it alone and pursue the lease/sale of its parking garages. The Mayor asked for "a chance to solve this locally". Opening up the bill to get Pittsburgh out allowed for a slew of amendments that scuttled the reform package. Now the coalition expects to send a delegation to the Capitol to ask for help for the pension problem the Mayor just asked to solve without state intervention. Don't be surprised when they get a cold shoulder.

If the coalition tries to make a case that a larger populace—the region or even the Commonwealth—must help by paying higher taxes, that too is likely to get a chilly reception. The universities should not, and in good conscience cannot, move from celebrating their hard work against the tuition tax to helping the City lobby Harrisburg for some other tax, most likely to be one imposed on people who cannot vote for the City's elected officials.

What has to be done is a strict control on the growth of the City's spending in coming years (a cut of 5% per operating department would immediately save $10.5 million) and reforms to pensions and benefits that involve moving immediately to a 401k type system for all new employees. Even stronger, hiring freezes need to be implemented to slow the accumulation of future liabilities. Finally, the City needs to see if it can save money by contracting with the County or the private sector to provide services.

If the City is unwilling to do any of these things, which is where the evidence points, then the only constituency that should be targeted for higher taxes is the City's own residents who continue to elect the City's leaders. They have, either explicitly or implicitly, given blessing to the level of services and the pay and benefits for public sector employees and should have to pay the bill.

It is important to bear in mind that over the past two decades Harrisburg has provided several new revenue sources to Pittsburgh. The RAD tax, the Business Improvement District tax, casino gaming dollars, a shift of the school district wage tax to the City, the payroll preparation tax, the $52 per worker services tax—not to mention the hundreds of millions in state funds to help build sports stadiums and a new convention center. All of these structures are tax exempt facilities with a combined value well in excess of a billion dollars. At the City's current millage rate, those facilities if taxable would produce over $10 million in revenue. The irony could not be more complete: going after college students so sports teams can get heavily subsidized rent.

The coalition, no matter how well meaning, is engaged in other round of enabling the City in its addiction to spending and poor financial management. The problem is a lack of political will to take on powerful special interests. Why would the City change when it can count on the kindness of well-meaning, but sadly misguided, friends to bail them out one more time?

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