



ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

*Leaving Distressed Status: Lessons from
Municipalities in Allegheny County*

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*Allegheny Institute Report #05-06
October 2005*

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Key Findings

Pittsburgh sought and was granted financial distressed status under the state's Act 47 Municipalities Financial Recovery Act in 2004. This status brought in a state-appointed recovery team to help put the City back on a strong financial footing. But to learn of what lies ahead of the City, it is instructive to look to municipalities who have exited the Act 47 program under the guidance of a recovery team. Three such municipalities are located in Allegheny County: Wilkinsburg, East Pittsburgh, and North Braddock. These boroughs can offer lessons as to what steps need to be taken by Pittsburgh as they try to climb back to prosperity. Some of these lessons include:

- Selling assets and using the proceeds to help the borough. Wilkinsburg sold one property and East Pittsburgh transferred ownership of several parcels to a development park. In each case the transaction put the property back on the tax rolls and was developed and the boroughs were relieved of the maintenance costs.
- Get help from the Authorities. The Wilkinsburg Parking Authority sold a parking lot for development and leased lots to aid in the Borough's recovery process. The East Pittsburgh Parking Authority also sold a lot and used the proceeds to pay off Borough debt. Pittsburgh has Authorities, Urban Redevelopment, Stadium, and Parking that have assets that could be sold to help the City, but this idea has met with strong resistance.
- Contract out services to the private sector. Wilkinsburg contracts out most road projects and East Pittsburgh contract out its police dispatch and prisoner holding. Both East Pittsburgh and North Braddock contract out for refuse collection. Privatization in Pittsburgh has been met with unyielding resistance from public sector unions.
- Contract out with other governments. Both East Pittsburgh and North Braddock were encouraged to join the Turtle Creek Valley Council of Governments to help with services. East Pittsburgh uses the TCVCOG for public works and billing and is satisfied with the level of service. It was recommended that North Braddock pursue the same option.
- Control public safety costs. Wilkinsburg issued measures to control public safety costs such as employee contributions to health plan premiums as well as controlling abuse of sick leave, overtime, and other paid time off benefits. They also reduced vacation time and increased the wait for longevity pay.

One major difference between Pittsburgh and the recovered municipalities is size. The Department of Community and Economic Development was able to issue grants and loans to give these communities a fresh start. They were unable to do so for Pittsburgh. There are more obstacles facing Pittsburgh—high debt, unfunded pensions, and a strong union mentality—than these smaller boroughs. The average time in the program was eight years. Pittsburgh will have a difficult time, even if they strictly followed the recovery plan, exiting the program in such a quick manner. They could face the possibility of being in distressed status for many years to come.

Introduction

There are eleven criteria for determining if a municipality is in distressed status under Act 47. The criteria range from a municipality maintaining a deficit over a three-year period to missing payroll for thirty days, to a decrease in quantified level of municipal service from the preceding fiscal year. There are ten groups or officials with the authority to seek distressed status. These include the municipality's chief executive, the Department of Community and Economic Development (DCED), a creditor to whom the municipality owes \$10,000 or more, and ten percent of the number of electors of the municipality that voted in the last municipal election.

However, regardless of the conditions present or who filed the petition, one thing is clear—the Financially Distressed Municipalities Act is not meant to be a permanent situation. DCED appoints an overseer whose job is to guide the municipality through changes designed to stabilize its financial outlook and thus exit distressed status. Across the Commonwealth, twenty-one municipalities have entered Act 47 status since its inception in 1987, but only five have exited the program. The Pittsburgh area has had more than its share of municipalities seek protection under Act 47—nine or 43 percent of those who declared are from Allegheny County. Of the five that exited the program, three—Wilkesburg, East Pittsburgh, and North Braddock are from Allegheny County. This paper will focus on these three municipalities and what steps they took to emerge from distressed status and what lessons the City of Pittsburgh can learn from them.

Reasons for Declaring Financial Distress

There are three Allegheny County municipalities that successfully exited Act 47 distress status: Wilkesburg (1998), East Pittsburgh (1999), and North Braddock (2003). Wilkesburg was declared financially distressed in January 1988 and had spent ten years under the auspices of an Act 47 coordinator. DCED officials noted that prior to declaring distress status, the Borough of Wilkesburg met the following criteria:

- Had defaulted on payment of principal or interest on bonds;
- Had missed payroll for 30 days;
- Had accumulated two successive years of deficits equal to 5 percent or more of its revenues;
- Had a decrease in the level of municipal services from the preceding year.

In addition to these conditions, the Borough, not a home rule community, had levied its legal limit on real estate taxes for general purposes, as well as having levied the maximum amount on resident wages.¹ The Borough had exhausted its taxing capability and was unable to meet its obligations. As a result, the Borough sought Act 47 protection that was granted in January 1988—shortly after the law was enacted in 1987.

¹ Pennsylvania's Home Rule Law states that home rule municipalities are not subject to any limitations on the rate of real estate and wage taxation imposed on residents. Since the Borough of Wilkesburg is not a home rule municipality it is constrained from raising the earned income tax rate and the real estate millages beyond state limitations.

East Pittsburgh Borough entered Act 47 status in 1992 after operating with a deficit in each of the four years preceding the distress determination. The deficits ranged from 4.6 percent to 64 percent. The Borough also had failed to remit taxes withheld on the income of employees. In addition, they had defaulted on an Allegheny County Authority for Improvements in Municipalities loan in 1990 and 1992 as well as a Tax Anticipation Note in 1990. East Pittsburgh ended 1992 with a budget deficit of \$179,000.

North Braddock Borough was declared financially distressed in 1995. Among the reasons given for the declaration:

- The Borough maintained a deficit of 1 percent or more for three consecutive years and for two of those years the deficit equaled 5 percent or more of revenues;
- The Borough failed to make pension payments;
- Failed to remit taxes withheld for employees;
- Levels of service had been reduced from the prior fiscal year.

In 1995 North Braddock Borough faced a deficit of \$767,000 and was granted admittance into the Act 47 program in May of 1995.

Like Wilkinsburg, neither East Pittsburgh nor North Braddock are home rule municipalities and are thus subject to state limitations on the level of taxation they may levy on wages and property.

Steps Taken to Reduce Expenditures

The Act 47 coordinator and the DCED were uniformed in the strategies to aid these three municipalities so that they could regain their financial footing. The basic tenets of the plans were the following: provide loans and grants to cover deficits; temporarily provide increased revenues as a result of raising tax levies above state mandated levels; and reducing expenditures to be less than expected revenues. While the methods were varied based on the strengths of each borough, the formula was the same in each case

Once officially declared distressed, Wilkinsburg had received two loans to cover their deficits and operating costs. The first was classified as an emergency loan (\$387,000) and the second a long-term loan (\$568,000). North Braddock received two loans totaling \$700,000 to cover their deficit, operating costs and for capital improvements. East Pittsburgh Borough received a loan of \$179,000 from DCED to cover their operating costs and to close the budget deficit. These loans were a crucial first step in the recovery process for each municipality. However, in order to leave distress status, the loans had to be paid in full or, in the case of North Braddock, converted to long term debt to be retired within ten years.²

Grants were also used to help each municipality implement the recommendations of the recovery plan, help improve administration and employee productivity while enhancing

² Payment for the note were figured into the Borough's budget and it was determined that they could handle the extra debt.

community and economic development activities that strengthen the tax base of the borough.³ Wilkesburg received grants totaling more than \$250,700 to cover expenses such as legal challenges to the Act 47 process (\$25,000) to zoning ordinance updates (\$82,500) to a housing rehabilitation program (\$125,000).

North Braddock received \$242,000 in grant money to help with ordinance codification (\$15,000), a shared collections coordinator (\$45,000), communications equipment (\$5,000), and a housing strategy (\$40,000). East Pittsburgh also received \$790,000 in grant money for a community revitalization assistance grant (\$500,000), a housing strategy grant (\$95,000) and a shared public works grant (\$150,000). The total amount of loans and grants provided by DCED for these three communities was less than \$3.2 million.

While the loans and grants played a critical role in giving each borough a fresh start by filling immediate needs, the Act 47 coordinators made recommendations that enabled the municipalities to streamline the way government provided services. These recommendations ranged from selling assets to contracting out services to coordinating with other municipalities to charging user fees.

Selling of Assets

It was recommended to both Wilkesburg and East Pittsburgh that they engage in the selling of assets as a step in the recovery process. The sale of assets accomplished at least one of two goals: it either returned property to the tax rolls and/or reduced maintenance expenditures. In Wilkesburg, the Borough sold its senior citizen center to a non-profit organization and sold an old railroad station to a private developer. While the senior citizen center remains off the tax rolls, the Borough is no longer financially responsible for maintenance and day-to-day operations, thus reducing its expenditures. The sale of the railroad station to a private developer added that property to the tax rolls. The developer then transformed the station into a restaurant, which added jobs to the community and increased the wage tax base. The proceeds from each sale were used for capital improvements in the Borough.

The Wilkesburg Parking Authority also sold an asset to aid the Borough. It sold one of its lots to a private developer who built a pharmacy on the site. Again, property and wages were added to Borough tax rolls. Finally the Authority entered into an agreement to lease parking lots to local churches and for a weekly farmer's market. These actions have enabled Wilkesburg to increase its revenues without having to increase taxes.

East Pittsburgh has the advantage of hosting RIDC's Keystone Commons industrial park. While the site was more of an asset when it was the home of Westinghouse, RIDC has been able to find new uses for the sprawling complex and return some tax revenues to the Borough. RIDC purchased a parking lot owned by the Borough's parking authority, which has been dissolved, and the proceeds from the sale were used to pay off debt

³ Department of Community and Economic Development. "Evaluation Report on Borough of Wilkesburg. 1988-1998". August 18, 1998. Page 1.

relating to the emergency loan. It also entered into a lease for another parking lot with RIDC that is providing East Pittsburgh with an annual revenue stream as well as decreasing the costs associated with its management. Finally the Borough transferred ownership of several parcels to RIDC for development. Each transaction either added property to the tax rolls or provided more revenues to the municipality.

Contracting Out Services

The Act 47 team had recommended outsourcing services to each municipality. This recommendation was followed in all three. Wilkesburg contracts for all road projects other than general street cleaning, maintenance, and repair; snow removal and ice control; building property maintenance; and other minor maintenance activities. The recovery coordinator also recommended that the Borough study the feasibility of purchasing fire service from the City of Pittsburgh.

In East Pittsburgh, the coordinators advised the Borough to work extensively with the Turtle Creek Valley Council of Governments (TCVCOG). As a result of this collaboration, East Pittsburgh has subcontracted its public works needs as well as using TCVCOG help with billing for sewage, refuse, and occupation taxes. The membership fees for TCVCOG were paid for by a grant from DCED. However, as East Pittsburgh graduated from Act 47, it assumed the payment of these fees. It was noted in the exit report hearing that the East Pittsburgh council was satisfied with the level of service provided by TCVCOG.

Other functions that were contracted out were police dispatch and prisoner holding—each assumed by Turtle Creek Borough. East Pittsburgh moved from its municipal office building, a former school, into a private facility with a favorable rental agreement. Even though they lost rental income from its tenants, the reduction in overhead expenses more than offset the loss in revenue.⁴ Finally, even though the Borough had already contracted out refuse collection, it rebid the contract and was able to reduce costs.

It was noted in North Braddock's exit report that "throughout the three years prior to the distress determination the borough had taken steps to reduce expenditures on discretionary line items, subcontract services that could be provided at a lesser cost and work to reduce personnel costs at all levels."⁵ However, it was still recommended by the recovery team that North Braddock follow East Pittsburgh's lead and subcontract its public works services to the TCVCOG. One of the changes that the Borough had made prior to entering Act 47 status was to replace full-time police officers with part-time officers. Even though this resulted in savings to the municipality, the recovery team still recommended that North Braddock contract its police with another municipality or explore the option of creating a regional police department with other boroughs. And

⁴ The Borough demolished the old school but maintained ownership of the land as well as the adjacent gymnasium. They may build either a new municipal building or a community center on the site.

⁵ Municipalities Financial Recovery Act Evaluation Report: Borough of North Braddock. May 8, 2002. Page 14.

even though refuse service had already been contracted out, it was suggested that the service be rebid in an effort to save even more money.

Reductions and Changes Made to Labor

Labor costs are often the largest items on any municipal budget. The three boroughs that successfully exited Act 47 had to make changes to its labor structure. Wilkinsburg used temporary summer employees to supplement the Department of Public Services, for which grants were used to pay for the youth workers. Wilkinsburg also made changes to its collective bargaining units. The exit report notes “(t)he Borough has been successful in exerting and regaining its management rights through the collective bargaining process by implementing cost containment provisions over the life of the recovery plan period.”⁶ These changes include a consistency among the three bargaining groups regarding health care insurance co-payments and premium costs and capping Borough health care costs to retirees.⁷ The exit plan also notes that the municipality implemented measures that were designed to reduce workers’ compensation claims and costs.⁸

Other personnel measures were directed at public safety employees such as having full time police and firefighters contributing toward their health plan premiums (1 percent of wages). The Borough also negotiated that all salary increases are to be equal to the increase to the CPI or 4 percent, whichever is lesser. Wilkinsburg then implemented a policy for its police department directed toward the abuse of sick leave and other paid time off benefits. Regarding paid leave, it had to be scheduled so that the Borough did not incur overtime costs and reduced vacation time for officers who earned more than six weeks annually. Finally they were able to increase the waiting time for longevity pay by one year (from seven years to eight).

East Pittsburgh Borough also made cuts to personnel—they reduced the size of government by eliminating four of nine council members. The chief of police retired and the Mayor assumed his administrative duties, while the remaining officers handled job related obligations. By working closely with the TCVCOG, the Borough was able to reduce its reliance on internal personnel that led to a decrease in costs relating to workers’ compensation insurance.

Regarding police, the Act 47 recovery team noted that spending levels were within acceptable levels in comparison to similar municipalities. However, they recommended that East Pittsburgh should explore the option of creating a regional police agency with neighboring municipalities.

As mentioned above, North Braddock had already undertaken some personnel reductions prior to entering Act 47 status such as employing a part-time police force as well as reducing the public works department by not filling vacancies. The Act 47 team

⁶ Municipalities Financial Recovery Act Evaluation Report: Borough of Wilkinsburg. August 18, 1998. Page 42.

⁷ Ibid. Page 42.

⁸ Ibid. Page 36.

suggested that North Braddock explore agreements with other governments such as the TCVCOG and Allegheny County to contract out services and reduce the reliance on internal personnel. They also recommended that the Borough join the regional 9-1-1 call center instead of handling calls internally.

Other Steps Taken to Reduce Expenditures

The Act 47 recovery team made suggestions unique to each municipality based on the perceived strengths and weaknesses. In Wilkesburg, user fees were instituted to cover the cost of services such as refuse, building inspection, permits, and various certifications. These fees were not, as of the exit report, covering 100 percent of the costs, but it was recommended that they be raised to do so. Despite the cuts made to expenses, Wilkesburg's expenditures increased during the recovery period by 28 percent (from \$6.1 to \$7.8 million). The main reasons were public safety costs and increases to refuse and recycling collections. Regarding the latter, the Borough was encouraged to increase the annual municipal service fee to recover these increased costs.

In North Braddock the number of streetlights was reduced by 135 saving the borough approximately \$30,000 annually. The Borough also increased the amount of user fees to cover the cost of providing services related to refuse collection and building code enforcement. It was also recommended, but not implemented at the time of the exit report, that they consolidate the number of volunteer fire companies and to review and possibly move to a lower indemnity plan for borough employees.

Changes to Revenues

Increase to the Wage Tax

One of the main reasons for filing Act 47 distress status is that a municipality's tax base has eroded and its revenues have not been able to keep pace with expenses. Act 47 does allow communities, whose real estate and wage tax rates are constrained by state limitations, exceed those limitations with the approval of the courts. The tax that will more than likely will be increased is the wage tax. The wage tax includes both residents and those that work in the municipality but who live elsewhere—commuters. The caveat to raising the wage tax rate on commuters is that the rate on residents must be higher.

For example, Wilkesburg received permission to increase its wage tax from 1 percent to 1.25 percent on residents and 1.20 on non-residents. In North Braddock the rate on residents rose to 1.6 percent and to 1.4 percent for commuters. It is worth noting that non-residents are able to deduct the percentage they pay to their home municipality from the rate in the municipality in which they work. Therefore if a worker in North Braddock pays 1 percent to their home municipality, they are only required to pay 0.4 percent to North Braddock.

In Wilkinsburg the increase to the wage tax garnered an extra \$400,000 per year from commuters (\$180,000) and residents (\$220,000). The higher rate on commuters was in effect from 1988 until 1995 when it was reduced to its pre-Act 47 level of 1 percent. The higher rate on residents was reduced in 1997. For North Braddock the increase was rolled back for non-residents in 1998 and for residents in 1999. While in place North Braddock collected an additional \$600,000 (\$353,000 from residents and \$264,000 from non-residents).

East Pittsburgh also took advantage of the increased rate to the wage tax on residents and non-residents. However, due to the ineffectiveness of the Borough's collector they were having trouble with delinquencies. The increase to the wage tax garnered an additional \$25,000 per year before it was reduced after four years (1992-1996) on commuters and after five years on residents (1992-1997). At the time of the exit hearing (1999), the Act 47 coordinators noted that progress was being made regarding delinquencies, but the problems have not been corrected to their satisfaction. It was suggested that the Borough work with the school district's delinquent tax collector to resolve remaining problems.

Regional Asset District Tax

The revenue stream that aided these municipalities the most came via the Regional Asset District Tax (RAD). The RAD tax was a 1 percent increase in the sales tax in Allegheny County with one half of the proceeds going to the County's municipalities. Municipalities began realizing this new revenue stream in 1994. Revenue from the RAD tax enables these boroughs' to reduce the wage tax to pre-distressed levels.

The RAD money allowed Wilkinsburg to reduce its wage tax to its pre-Act 47 level as well as lower its property tax millage by 2.5 mills.⁹ The RAD revenues were predicted to not only be reliable, but to grow over time—the Borough received \$530,000 in 1997, up from less than \$117,000 in 1995. As a result of the RAD revenues and growth due to rising property values and income levels, Wilkinsburg's revenues increased at a faster rate than expenditures during its time in distressed status (36 vs. 28 percent). The Borough had a budget surplus in 8 of the 11 years in distressed status, thus making it eligible for graduation from Act 47 status.

East Pittsburgh and North Braddock also benefited from the county's RAD tax. It provided each of them with a steady and predictable tax stream. East Pittsburgh received more than \$30,000 in 1995 and \$48,200 in 1998. North Braddock received \$129,000 in 1995 and \$290,000 in 2001 from the RAD tax.

Other Revenue Changes

Even though they received these new revenues, they were not enough to bring these municipalities out of Act 47 status alone. East Pittsburgh also entered into an agreement with the RIDC development that allowed the Borough to collect permit fees of at least

⁹ As required in the legislation that created the 1 percent sales tax, municipalities were required to reduce their property tax millages to offset the new revenues from the tax.

\$12,000 annually as well as providing additional revenues through development at that complex. These new revenue streams enabled East Pittsburgh to cover the loss of revenues from the repeal of the Act 47 increases to the wage tax.

The biggest change in North Braddock came from the collection of delinquent taxes. As a result of cuts to services made by the Borough prior to entering Act 47, they were unable to hire a person to go after delinquencies. With loans from DCED, they were able to do so and increased revenues through delinquent collections. As noted in the exit report “A key to the borough’s ability to correct fiscal problems contributing to the fiscal distress designation was the change in tax collection policies which produced revenue far in excess of any projections detailed in the recovery plan.”¹⁰ Collections from delinquent garbage and sewage fees reached \$750,000 and they collected another \$389,000 from delinquent property taxes. However, these collections are expected to decline as the number of delinquencies had decreased, but it is expected to help increase annual tax revenues.

In addition to collecting delinquent taxes, North Braddock also increased revenues through a quarterly sewage surcharge. This has enabled the Borough to address capital needs. This type of surcharge was also implemented in East Pittsburgh. Although East Pittsburgh is not using the additional revenues for capital costs, they are using it as a user fee. The Borough enacted a 25 percent surcharge to cover collection line maintenance costs.

Exiting Act 47 Distressed Status

The reasons for having distressed status removed vary across the three municipalities. Wilkesburg was able to eliminate its accrued deficits and retire its obligations that had been issued to finance the Borough’s budget deficit. Likewise both East Pittsburgh and North Braddock eliminated their accrued deficits, had a positive operating balance for at least one year and successfully paid, or was close to paying, the loans tied to these deficits. The Act 47 recovery team in each case determined that the conditions that led to the earlier determination of financial distress were no longer present.

Lessons Pittsburgh Can Learn From These Municipalities

Pittsburgh’s distressed status is unique and offers its own challenges. Even though not specifically excluded from the Financially Distressed Municipalities Act, the DCED is not financially equipped to help a city as large as Pittsburgh in the same manner that it aided other boroughs with loans and grants. The total accumulated deficit of Wilkesburg, East Pittsburgh and North Braddock was \$1.5 million at the time of their filing for distressed status. Pittsburgh’s deficit was \$ 34.3 million in FY 2004. The DCED was able to provide loans and grants to the three boroughs totaling less than \$3.1 million. DCED does not have the funds to loan Pittsburgh to give it the fresh start it did smaller municipalities. Even though the argument can be made that Pittsburgh is too big

¹⁰ Supra, Note 5 Page 14.

and should not have been allowed into the Act 47 program, the DCED and the Governor officially admitted them in 2004.

But since they are in the Act 47 program, what lessons can they learn from those that have graduated? The first lesson that can be offered is the sale of assets. Wilkinsburg and East Pittsburgh each sold assets for development. The sale of assets accomplishes two goals—it returns properties to the tax rolls and no longer requires the city to spend money to maintain them. Pittsburgh and its authorities own many properties. The Urban Redevelopment Authority has, and continues to, purchase prime locations in the Fifth and Forbes retail corridor.¹¹ The Pittsburgh Stadium Authority owns acreage between the two sports stadiums on the North Side that could be sold to private developers with proceeds used to reduced debt while returning them to the tax rolls. The idea that the City or its authorities could sell some assets and use the proceeds to help the City out of its financial crisis has met with powerful resistance.

Another useful tactic used by graduates is privatization of services. Wilkinsburg contracts out most of its road maintenance while East Pittsburgh contracts out police dispatch and prisoner holding. Pittsburgh, as has been recommended by one task force after another, could contract out its refuse collection. It is worth noting that the City is trying to privatize vehicle fleet maintenance. The major impediment to privatization is the heavy union influence on Pittsburgh's policy makers.

Yet another idea incorporated by the formerly distressed municipalities was that of intergovernmental cooperation. For example, East Pittsburgh joined the Turtle Creek Valley Council of Government to provide public works service and billing for sewage and other services. Cooperation between Pittsburgh and Allegheny County has been slow in developing. The City could contract with the County to provide purchasing, tax billing, and other services. It was recommended by the Act 47 team in Wilkinsburg that Wilkinsburg should inquire about purchasing fire services from the City. This could be an opportunity for the City to sell some services to surrounding municipalities to increase revenue streams.

Regarding revenues, the City was successful in petitioning the state Legislature to increase the statewide occupation privilege tax—now called the emergency municipal services tax—from \$10 to \$52.¹² They also gained permission to impose a payroll tax on employers in the city, in exchange for a reduction and phase out of the business privilege and the elimination of mercantile taxes. These two new revenue streams offer the city one advantage over an increase to the wages of commuters—they are permanent. At the same time, the legislation creating the payroll tax precludes the imposition of a commuter wage tax.

One important difference between Pittsburgh and the above boroughs is that Pittsburgh is a home rule community, while the others are not. As mentioned above, municipalities in

¹¹ "URA To Buy Forbes Avenue Building." Pittsburgh Post-Gazette. September 14, 2005. <http://www.post-gazette.com/pg/05257/571070.stm>

¹² All municipalities across the Commonwealth are eligible to gain from this change.

the Commonwealth are constrained in their taxing abilities by state law—specifically regarding property and earned income tax rates. However, if a municipality becomes a home rule community, they are exempted from these restrictions. Therefore Pittsburgh, as a home rule community, can raise the rates of taxation on its residents and property owners beyond the state ceilings to garner more revenues—an option not available to the other boroughs. However, this was not a course of action the City opted to take, instead using the threat of the higher commuter rate to influence the Legislature’s decision to increase the emergency municipal services tax and approve the payroll tax.

Conclusion

By observing the actions taken by those municipalities who have graduated from Act 47 distressed status, Pittsburgh and its oversight boards can chart a course that will lead to the removal of their own distressed status. However, two issues make Pittsburgh’s case unique: they are a home rule community and have the authority to increase tax rates on their residents and property owners beyond state limits; and they are much larger than any other borough that had previously filed for Act 47 status. Of the three Allegheny County boroughs that had exited the Act 47 program, Wilkinsburg, East Pittsburgh, and North Braddock, were not home rule communities and had raised their rates up to the state limit.

While the increased wage taxes provided some needed revenues for these municipalities, they also relied on grants and loans from the Department of Community and Economic Development to pay off deficits and provide initial operating revenues. Pittsburgh’s budget deficit was too large and the state could not lend them enough money at the levels necessary to balance their budget.

The key to righting the financial situation of the boroughs that were successful in leaving distressed status was spending cuts. This was achieved through the sale of assets, contracting out services, intergovernmental cooperation, and controlling labor costs. Does Pittsburgh have the political will to cut its costs to reflect its shrinking population? Or will they continue to let the unions dictate wages and benefits as well as thwart any attempts at contracting with the private sector or the county? Being in the Act 47 program may afford City officials the perfect opportunity to hide behind the state and effectively deal with its unions to control labor costs and allow for privatization.

The average time spent in distressed status for the three graduates was a little more than 8 years—with Wilkinsburg being in the program for 10 years. Even if Pittsburgh follows the Act 47 recovery plan to the letter, it could very well find itself in distressed status for much longer than that.

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