ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

A Blueprint for the New Mayor of Pittsburgh

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Introduction

The City of Pittsburgh will soon have its first new mayor since 1993. After the election, the new mayor will have to get down to establishing his priorities. This includes hiring personnel for the mayor's office and department heads, making appointments to boards, commissions, and authorities, and establishing contact with other levels of government, non-profits, the business community, and other stakeholders.

The mayor is the City's chief executive, and the Home Rule Charter vests all "executive, administrative, and law enforcement powers" in the office.[1] He is also a ceremonial leader, a check on the power of City Council, and, due to the massive change in city-state relations brought about by Act 47 and the state oversight board, a leader who will operate almost entirely under the guidance of the state. This is certainly true for the new mayor's inaugural term, which will last through 2009. The oversight board is in place until 2011, and the Act 47 recovery team will oversee the City until it is determined that the conditions of fiscal distress are eliminated.

To be sure, very few, if any, budget decisions can be made without the involvement of the recovery team and/or the oversight board. Even with that control, the City is projected to spend 8.4 percent more in 2010 than it is this year--not exactly the best course for a City in trouble.[2]

But there are formal powers, outlined in the Charter, as well as the mayor's position to use his "bully pulpit", where the new mayor can have impact and make some dramatic changes to the direction of Pittsburgh. These changes have to happen as soon as possible. If they don't, there is a chance the City will greatly delay the turnaround it needs to escape its distressed status.

The Allegheny Institute has observed the City for a long time. It has seen its missteps, failed policies, bad proposals, faulty reasoning, and wrong trend-lines and made suggestions to reverse them. The previous administration chose to ignore those suggestions.

To be of assistance, we present this report: "A Blueprint for the New Mayor of Pittsburgh". The Blueprint contains twelve action steps that the mayor should take to ensure that Pittsburgh moves to a much leaner and efficient City government acting in the best interests of City taxpayers.

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[1] City of Pittsburgh Home Rule Charter (www.city.pittsburgh.pa.us)

[2] City of Pittsburgh, Office of the Mayor 2006 Budget Presentation to the Intergovernmental Cooperation Authority, September 22, 2005. Projected general fund expenditures of $450 million in 2010 are 8.4% over the 2005 budget amount of $415 million

Action Steps for the New Mayor of Pittsburgh

- **Reduce Debt by Selling City and Authority Assets to Raise Funds Dedicated to Debt Payments**
- **Reform City Authorities Through Appointment of Board Members Who Will Make Needed Changes**
- **Reduce Employee Costs**
- **Focus Attention on the High Cost and Poor Performance of Pittsburgh's Schools**
- **Stop Blaming City Problems on Non-Profits and Commuters**
- **Overturn the Top Down, Government Driven Economic Development Strategy That has Been Counterproductive in Pittsburgh**
- **Outsource Services to Allegheny County Where Applicable and Privatize all Non-Core Functions**
- **Implement the ERASE Recommendations for the Fire Department**
- **Amend the Collection Scheme for the EMS Tax**
- **Look at Other Cities to Benchmark Best Practices**
- **Push for the Inclusion of a Taxpayer Bill of Rights to the City's Home Rule Charter**
- **Counteract Anti-Business and Other Self-Destructive Resolutions from Council**

Action Steps for the New Mayor

1. **Reduce Debt by Selling City and Authority Assets to Raise Funds Dedicated to Debt Payments**

One of the major problems lurking behind all of the state's efforts to right size the City is that there is no substantive plan on the table to deal with the issue of debt that the City must repay. Act 47, since it was designed to help small communities, and not the state's second largest City, has no statutory ability to handle debt. The oversight board mentioned debt in its preliminary report from April of 2004.[3]

To be sure, the debt problem is a massive one. Consider the remarks from the consultative evaluation by the Act 47 recovery team:

> "In 2002, debt service represented 16.3 percent of total operating expenditures…a Standard and Poors report on "Benchmark General Obligation Ratios" identified moderate ratios of debt service to operating expenditures to be around 10 percent, while categorizing ratios over 15 percent as high…although it may be noted that a significant portion of Pittsburgh's overall debt was incurred to fund previously existing pension obligations…the City's overall debt burden is nonetheless now high…While best practice communities will pay off 65 percent or more of principal within ten years, Pittsburgh is scheduled to pay off less rapidly at 55.8 percent in ten years"[4]

But other than offering these stern remarks, the Act 47 team provides no substantive plan to eradicate what amounts to nearly $2,500 in debt for every man, woman, and child in the City of Pittsburgh.[5] The Act 47 recovery plan mentions some options, including refinancing of bonds or having the oversight board act as an issuer of bonds, but both options were scuttled due to the fact that Pittsburgh "has taken advantage of the existence of historically low interest rates…and has refinanced much of its debt already".[6]

What the Allegheny Institute has recommended, and once again recommends, is that the new mayor look to City assets as a way to generate a stream of revenue that would be earmarked for debt retirement. We urge the mayor to take such an inventory of the City's holdings and commit to auctioning off a portion each year.[7] In 2003, the City owned

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[3] Intergovernmental Cooperation Authority for Cities of the Second Class, Preliminary Report, April 12, 2004.

[4] Public Financial Management, Municipalities Financial Recovery Act, Consultative Evaluation for the City of Pittsburgh, December 8, 2003

[5] City of Pittsburgh Controller, Comprehensive Annual Financial Report for the year ended December 31, 2004. Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita of $2,454

[6] Public Financial Management and Eckert Seamans Cherin and Mellott, LLC, Municipalities Financial Recovery Act, Recovery Plan, June 11, 2004

[7] Allegheny Institute for Public Policy "A Market Solution for the City's Deficit Woes" *Policy Brief, Volume 3, Number 19;* "Time for the Stadium Authority to Help the City" *Policy Brief, Volume 4, Number 25* Also see the section in this report on Benchmarking for comparable info about assets of the authorities.

close to 9,000 pieces of property with an assessed value close to $657 million. Not counting the parcels that serve clear municipal purposes, the City owned $88 million of property tied to such uses as vacant land, single- and two-family homes, retail, warehouses, and the like. If the City could follow through on committing to auctioning off half of these parcels, it would be found money that could be used to work away at the debt. And that's not counting any real estate tax dollars that would arise as a result.

Liquidating assets is a viable step to help lower the debt burden. All dollars raised by this action must be dedicated to debt service.

2. **Reform City Authorities through Appointment of Board Members who will make Needed Changes**

The authorities are insulated from public scrutiny due to the fact that their members are appointed and exist as legal entities separate from the City government. While the mayor makes appointments to numerous authorities, the plan of action has to focus on the "big four": the Parking, Stadium, Water and Sewer, and Urban Redevelopment Authorities[8]. They need to play a part in the City's recovery.

For instance, they should be a big part of the plan to inventory and auction assets. If there is resistance to the plan, the mayor can act quickly in some regards. The board of the Parking Authority can be replaced at once under the provisions of the Parking Authority law.[9] Appointments to the other boards can be made as terms expire, but resistant members should be served with a request for a resignation from the board.[10]

In their place, the mayor should appoint members who can see that the existence of these authorities and their insular nature is contrary to the principles of a limited, efficient City government. As such, those appointments should be people who would vow to dissolve the authorities and have their duties assumed by other authorities or by the private sector. This is particularly true in the case of the Stadium Authority--which owns no stadiums--and could have its remaining assets (mostly land between the new stadiums) taken over by the Sports and Exhibition Authority. There is simply no justification for the Stadium

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[8] The mayor appoints four of the seven members of the Water and Sewer Authority and all five members to the boards of Parking, Stadium, and Urban Redevelopment. He also appoints all members of the Housing Authority, three to the Sports and Exhibition Authority, and three to the Allegheny County Sanitary Authority (ALCOSAN). See Comprehensive Annual Financial Report.

[9] Parking Authority Law: 53 Pennsylvania Consolidated Statutes; Public Auditorium Authorities Law: 53 Pennsylvania Statutes; Urban Redevelopment Law: 35 Pennsylvania Statutes; Municipal Authorities Law

[10] There has been some resistance: see Tim McNulty "City Agencies Can't Cut Deficit" Pittsburgh Post-Gazette, January 9, 2004; a report of the Legislative Budget and Finance Committee "Study of the Pittsburgh Development Fund", May 2004 and a follow up on June 30, 2004 never answered the question of whether the PDF assets could be sold off to the private market, thus giving fuel to the defenders of the City and the Urban Redevelopment Authority; a recent report by the accounting firm McCrory and McDowell on the Stadium Authority and the Sports and Exhibition Authority also downplayed eliminating the Stadium Authority

Authority's continued existence. In fact, it was supposed to dissolve once Three Rivers Stadium was demolished. Its continuation is a purely political situation.[11]
The Parking Authority is another prime target, and an opportunity to realign responsibilities. The City could handle parking enforcement and the private sector could provide facilities.[12]

Numerous private companies provide drinking water and other levels of government or the Housing Authority could take over the duties of redeveloping properties that are in need of significant rehabilitation.

3. Reduce Employee Costs

It should come as no surprise that the City's expenditures on personnel had a lot to do with landing it in dire financial straits. It is also obvious that dramatic changes to the City's workforce and compensation packages must be key elements in the mayor's plan for the City's long-term financial recovery. Predictably, the Act 47 coordinator's recommended changes to staffing levels, benefits, and employee contributions were met with vociferous opposition.

The workforce has been handsomely rewarded over the years with pay increases and "extras" that surpass the private sector, inflation and state-level employees. Consider the recent history taken from the Act 47 report:

- Wage increases for the largest bargaining units (police, fire, white collar employees, and most blue collar employees) substantially exceeded inflation and state employee wage increases from 1999 to 2004. The average compounded increase of 20.3% in Pittsburgh was greater than the 13.6% wage hike for Pennsylvania's AFSCME members and the 15.9% rise in the Consumer Price Index.

- The City's health benefit package was described as "highly generous". Employees make no contributions for the lowest cost health care option and vision and dental insurance are fully funded by the City. Pittsburgh fully funds lifetime retiree medical coverage for firefighters and spouses, and pays a hefty share of medical care coverage for police retirees. In comparison with other bargaining units, firefighters and Teamsters (refuse operations) enjoyed better benefits, including a $5 co-pay for primary care physician visits as opposed to $10 for all other City employees, and $15 for Pennsylvania and national averages.

- In 2003, over $26 million was paid by the City to fund a variety of other supplemental programs--premiums, paid leave, longevity pay, and the like, all of which greatly inflate costs. Then too, there is an additional $20 million per year

[11] Allegheny Institute *Policy Brief, Volume 5, Number 31;* "Terminate the Stadium Authority"; *Policy Brief, Volume 1, Number 39* "Pittsburgh's Stadium Saga: More Byzantine than Ever" for detail on the interaction between the City Stadium Authority and the City-County Sports and Exhibition Authority
[12] Allegheny Institute *Policy Brief, Volume 4, Number 38* "Parking Authority: Time Expired"

in outlays for workers' compensation obligations, a figure that amounts to nearly 20 times what some comparable cities spend on a per capita basis.

A major part of the reason for the high costs is the way employees see the disability system. A research firm that has studied Pittsburgh's compensation system noted that high costs could come from "a work culture that view[s] work-related disability as a benefit rather than a liability".[13] The Allegheny Institute dissected the workers' compensation problem in a 1996 report--and it was bad back then. The per-employee compensation costs in Pittsburgh ($4,195) outstripped costs in every other major Pennsylvania city and major industries (coal and steel) in the state.[14]

To be sure, there needs to be a fix in store for the City's workers' compensation system, which has not gotten better: the 2006 budget sets aside $24 million in expenditures for 3,700 employees, or over $6,400 per employee. That is an outrageous level of compensation, and cries out for a solution.

Simply put, these benefits and restrictions on workforce flexibility (staffing minimums, outsourcing, and no layoff clauses) are symptomatic of the problems with Pittsburgh's approach to governing: Make ill-advised decisions now in hopes that something or someone will bail them out when the consequences must be dealt with. It is part and parcel of the City's mismanagement. Sadly, too many City workers and City politicians seem to believe the purpose of the City is to provide jobs with lavish benefits rather than being the provider of necessary, core government services to citizens and taxpayers at the lowest possible cost.

There needs to be a break with that mindset, and that calls for some stiff remedies: subsequent contract negotiations cannot contain new overtime or premium pay benefits, improvements in existing benefits, new paid or unpaid leave, additional pay for time not worked, or clauses that shield workers from layoffs.[15]

The 2006 budget proposal mentions several suggestions that provide a starting point, such as a wage freeze, an average 15 percent employee contribution toward health care premiums, a reform of workers' compensation, and a cap on retiree benefits.[16]

Personnel expenditures weigh like a millstone around the City's neck. This is an area that the new mayor is going to have to attack aggressively.

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[13] Industrial Medical Consultants, Inc. report on workers' compensation

[14] Allegheny Institute Report 90-08 "Addressing the City of Pittsburgh's Workers' Compensation Crisis". The report showed that among City departments, the Bureau of Environmental Services (refuse) had compensation costs well above other departments on a per-employee level.

[15] Public Financial Management and Eckert Seamans Cherin and Mellott, LLC, Municipalities Financial Recovery Act, Recovery Plan, June 11, 2004; specifically, "Standards for Negotiation of Collective Bargaining Agreements and Changes in Compensation for Non-Represented City Employees"

[16] City of Pittsburgh, Mayor Tom Murphy's 2006 Budget Presentation to the Intergovernmental Cooperation Authority, September 22, 2005

4. **Focus attention on the High Cost and Poor Performance of Pittsburgh's Schools**

Here is the situation crippling the City School District and, by extension, the City itself: the District's enrollment has declined by almost 6,000 students (14%) since 1997, dropping to the current level of 32,661 with forecasts calling for a further steep decline over the rest of the decade. Incredibly, the District's general fund spending has climbed from $391 million to $530 million over the period 1997 to 2005. The District's general fund spending per-pupil stands at $16,230, a number that greatly exceeds the spending of many wealthy districts, many comparable cities, and the state average. In order to fund the massive spending increase, the District raised the real estate tax rate 23 percent and the earned income tax rate by nearly 7 percent in 2000. These rate hikes have pushed tax revenues up by almost 40 percent.[17]

Despite the spending, there are still a large percentage of students who are below proficient in both math and reading as measured by the 2004 PSSA test. In the fifth grade, 38 percent of the students in math and 37 percent in reading did not achieve the proficient level. At the eighth grade level, 42 percent of students did not achieve proficiency in math and 31 percent fell short in reading.

The percentage of all eleventh grade students who scored below proficiency in math has varied little from 50.4 percent in 2002 to 50.8 percent in 2004. For eleventh graders who scored below the proficient level of reading, there has been small improvement as the percentage decreased from 41 percent in 2002 to 39 percent in 2004. However, at this juncture in their education, it is a travesty that only 50 percent and 61 percent of these soon-to-be graduates achieved at least proficient skills in math and reading respectively.

The data for African-American students is even worse. Eleventh grade African Americans students scoring below proficient in math was a staggering 82.5 percent in 2004--virtually the same as the 82.7 percent in 2002. The results are slightly better on the reading part of the test with 72.1 percent scoring below proficiency in 2004.[18]

District officials believe they are doing a good job. Sure, there are problems with achievement, but they think they can rectify them. They also believe that they are governing the schools in a fiscally conservative manner. They even felt they were being punished when the state decided to allocate a portion of its earned income tax to help the City with its budget problems.[19]

So what can the new mayor do? Though we disagreed with the proposal to have mayoral appointments to the board, he can use his bully pulpit to call for reforms.[20] These would

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[17] Allegheny Institute *Policy Brief, Volume 2, Number 15* "Pittsburgh's $18,500 Student"; *Volume 2, Number 41* "Pittsburgh School Taxes: A Different Look"; *Volume 3, Number 49* "School Tax Jump Crippling Pittsburgh"; Pittsburgh Public Schools, General Fund Budgets, 2002-03, 2003-04, 2004-05

[18] Allegheny Institute *Policy Brief, Volume 4, Number 35* "Time to Really Fix Pittsburgh Schools"

[19] Allegheny Institute *Policy Brief*, *Volume 4, Number 40* "Fiscal Prudence, School Board Style"

[20] Allegheny Institute *Policy Brief*, *Volume 2, Number 39* "Appointed School Board Members: A Non-Starter". Having an appointed school board was also recommended by the Mayor's Commission on

include giving parents who want one, an $8,000 voucher for each student and let them send their children to the school of their choice. Not only would education improve, but also costs would go down. The second reform would be to enter into contracts with a number of private companies and non-profit organizations who would run the various schools, offering a variety of educational approaches for parents to choose from. These companies and non-profits would be held accountable both by the Department of Education and by parents who would be free to move their children if the schools do not deliver a quality product.

There needs to be an emphasis on competition and meaningful choice for the parents who care about the education of their children, performance pay for teachers, and attention to cost-cutting, performance improvement methods that are constantly beaten back by the teachers' union. Instead, the A+ Schools group chose to focus on before- and after-school programs.

In addition, City foundations could fund a scholarship program that would allow children to attend schools organized on the "No Excuses" philosophy. This philosophy emphasizes discipline in the classroom, gives principals the latitude to hire and fire teachers, and stresses the fact that children will master the material taught. In a No Excuses school, each child is expected to learn and progress educationally. No excuses from students, teachers or principals are acceptable. Frequent testing to provide feedback is mandatory.[21]

More of the "business as usual" approach to the Pittsburgh schools will make no real difference to parents, taxpayers, or the children who need to be educated. We have seen too many education-speak, politically correct, rock-no-boats approaches to have any confidence that more of the same will result in any measurable improvement. In the meantime, the school board, administrators and teachers can pat themselves on the back for their well-intentioned effort. Then, sometime in the future, another group can be formed to study ways to waste more time and money.

5. Stop Blaming City Problems on Non-Profits and Commuters

During the debate over City finances, City officials, defenders of the status quo, and even some City residents contended that the only money that the City extracted from the commuting workforce is the $10 occupational privilege tax.[22] In addition, they said that

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Pittsburgh Public Schools. Pittsburgh had an appointed board from 1911 to 1976, when voters decided to move to an elected board instead.

[21] Allegheny Institute *Policy Brief, Volume 2, Number 50* "Pittsburgh Schools Need a 'No Excuses' Approach"

[22] Charles McCollester "Injustice and Resistance" Pittsburgh Post-Gazette, March 6, 2003; Pittsburgh in the 21st Century; Intergovernmental Cooperation Authority Report, November 12, 2004; Brian O'Neill "Pittsburgh Creates One More Pseudo-Budget for a Pseudo-city" Pittsburgh Post-Gazette, October 3, 2004; Gene Ricciardi "The $50 Million Question" Pittsburgh Post-Gazette, July 18, 2004; Brian O'Neill "In City-Suburbs Tug-of-War, Everyone Loses" Pittsburgh Post-Gazette, January 15, 2004; Jeffery Cohan "Murphy Says Racism in Suburbs Bars Merger" Pittsburgh Post-Gazette, December 4, 2003; Tim McNulty "Building

the City had too much tax-exempt property, particularly property owned by universities and hospitals based in the City.[23]

We demonstrated in two reports that both of these assertions were untrue. First, commuters provide approximately 60 percent of the workforce for firms in the City. In turn, these businesses pay taxes to Pittsburgh--real estate, the new payroll tax, earned income, and the business privilege tax.

Commuters and visitors pay a very conservative estimate of 75 percent of parking, amusement, and RAD taxes collected by the City. All told, the presence of commuters and visitors were responsible, directly and indirectly, for $108 million in 2001.[24] This contribution represented a substantial share of the public safety and public works costs incurred by the City that same year.

Second, it is important to keep in mind that the much-maligned non-profits such as the universities, which are exempt from property taxes, provide thousands of City residents with employment, which in turn supplies the City with wage tax revenue as well as the income to pay property and other taxes to the City. Much of the payroll of City residents at these institutions is derived from state tax support and tuition payments from non-Pittsburgh students.

Moreover, it has been the policy of the current administration to build publicly funded facilities to attract visitors in order to create jobs. Now, these facilities have apparently become liabilities since they are exempt from property taxes. And, it is interesting that the RAD tax, which largely goes to support "regional assets" that are located in the City, was supposed to have taken care of the tax exempt problem by having County residents pay the lion's share of the cost of sustaining the City's cultural and recreational amenities.

More important, our analysis on tax-exempt property from 1993 to 2003 showed that the share of exempt property as a percentage of all property value barely budged over the decade. Interestingly, while neither the value of exempt property held by non-profits nor the public sector increased faster than the growth rate of taxable market value, the majority of the growth was for properties dedicated to sports and convention facilities.[25]

Trades Back City Fiscal Relief Plan" Pittsburgh Post-Gazette, November 4, 2003; Brian O'Neill "Lifeguards are Letting Pennsylvania's Cities Drown" Pittsburgh Post-Gazette, July 3, 2003

[23] "Mayor Challenges Status of Duquesne Apartment Building" Pittsburgh Post-Gazette, November 24, 2004; Nancy Welsh "City to Look at Service Fees for Some Non-Profit Groups" Pittsburgh Post-Gazette, October 1, 2003; Brian O'Neill "Legislature Should Lead on Thorny Tax-Exempt Property Reform" Pittsburgh Post-Gazette, June 15, 2003; John Craig "Just the (Tax) Facts" Pittsburgh Post-Gazette, May 11, 2003; Tim McNulty "City to Ask Hospitals, Universities to Pay for Municipal Services" Pittsburgh Post-Gazette, February 24, 2000; Tim McNulty "Tax-Exempt Properties are Killing City Financially, Controller Says" Pittsburgh Post-Gazette, January 13, 2000; for additional citations, see Allegheny Institute Report #03-01

[24] Allegheny Institute *Policy Brief, Volume 2, Number 60* "Commuters and Visitors Benefit City Finances"

[25] Allegheny Institute Report 03-01 "Tax-Exempt Property in the City of Pittsburgh: 1993-2003"

Though the argument that "commuters only pay $10 a year" and the City has "too much exempt property" have been dismantled, it would not be a surprise if things get worse for the City that similar arguments will be heard once more. "Commuters only pay $1 a week for all the services they use" sounds like a predictable refrain.

The new mayor would be wise to head this hyperbole off at the pass. The assertions are untrue, do damage to City-suburban relations, and distract the City from doing what it must do to solve its problems.

6. Overturn the Top Down, Government Driven Economic Development Strategy that has been Counterproductive in Pittsburgh

Perhaps no policy has been more misdirected than the way the City handles economic development. Attempting to "grow a City" through retail and entertainment venues while not addressing the core issues of high taxes, unions, and regulations was doomed to fail. Everyone knew this. But the current economic development strategy squandered time, political capital, and precious resources in the attempt to achieve growth.

Examples abound: the City used a portion of its allocated RAD tax revenue--originally designed to lower the burden on municipal taxpayers--and created the Pittsburgh Development Fund. Subsidizing retail projects like Lazarus, and the Southside Works merely shifts spending around the city and county while creating unfair competition for existing taxpaying retailers. The Lazarus and the subsidized Lord and Taylor department stores are now shuttered. PNC Park took taxpaying property off of the rolls and replaced it with even more subsidized development.

We doubt that we will see any admission of fault on the part of the planners or a realization that additional large-scale retail projects will have a difficult time competing with other locations. Given the propensity for policymakers and bureaucrats to "do something" in the name of Downtown progress, it is likely that they will mobilize already limited resources as soon as the next probable development opportunity presents itself. That being said, there are some lessons for the new mayor.

First, don't try to pick economic winners. More often than not, such actions work only to create subsidized competition with established businesses, which threatens the long-term viability of the City's economy. Not surprisingly, one of the unintended consequences of the City's use of tax incentives to attract retail is that other communities are now following suit. The list of new developments in the County that have received favorable tax treatment is long and growing. Most of these developments offer amenities that cannot be matched by Downtown's shopping district: free parking, an enclosed environment, convenience, etc.

Second, don't focus on retail. Trying to redevelop Downtown by attracting low-wage jobs with no multiplier effect on the local economy is a dead-end strategy. A much better

strategy would be to capitalize on the City's advantages in finance, law, education, culture, and corporate headquarters.[26]

If the new administration wants to look for a successful plan for growth, it needs look no further than some of its own successful neighborhoods. These would be neighborhoods that have long promoted and encouraged businesses, provided incentives for homeowners, and offer community level gathering places. They offer walkable blocks and an environment in which residents feel connected and are often seen socializing with one another. This is the type of atmosphere that urban scholar Jane Jacobs sees as vital to the success of any city. Pittsburgh should learn the lessons offered by its thriving neighborhoods and apply them to the City as a whole.

Pittsburgh has to sell itself as a place with a good quality of life for families—safe, clean and having good neighborhood schools. Build on strengths, and be true to that message.

7. **Outsource services to Allegheny County where Applicable and Privatize all Non-Core Functions**

The idea of merging the City of Pittsburgh with Allegheny County has surfaced in light of the financial troubles plaguing the City. Proponents claim that by merging the two entities, duplicative services can be consolidated resulting in a leaner, more cost effective government. While we share the belief that streamlining government to lower costs and taxes is needed, a city-county merger is not the way to achieve the desired outcomes.

However, the evidence from mergers--such as Louisville, Indianapolis, and Philadelphia-- do not create optimism that cost savings will occur. In fact, neither the Metro Louisville nor the UniGov consolidation promised to save money. Both cities hoped their merger would accomplish two things: promote economic development and improve their image.

Mergers rarely result in a lowering of costs. The largest obstacle would be merging city and county departments that carry out the same function, but are represented by different unions with differing pay scales and benefit packages. Often the result is an equalization of pay rates, raising the rates of lower paid workers, causing costs to increase.

Sharing service delivery, which can lead to reduced government spending, ought to be the immediate goal for the City of Pittsburgh and Allegheny County. It can result in substantial savings for taxpayers, if done correctly. Why not take the very simple step of having the City contract with the County to provide a number of services such as parks maintenance, purchasing, fleet management, tax collection, payroll, etc? As stated by one analysis "a sustained joint purchasing effort could save the City and County between $9 and $15 million annually within three years".[27]

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[26] Allegheny Institute Policy Brief *Volume 3, Number 38* "A Critical Mess"

[27] Pennsylvania Economy League "City of Pittsburgh's Fiscal Structure: 2003 With some 2004 Material". A problem identified by that report is that the County and City have similar low cost functions, while the high cost functions (City fire, refuse, and building inspection and County human services, jail, and property

The City and County should be working together to reach agreements that will save the City money without adding costs to County taxpayers. Merging governments is not required to accomplish that. In fact, the City's Home Rule Charter, section 204(i), calls on the mayor to "promote intergovernmental relations generally and specifically" by "initiating and cooperating in working relationships with other governments, public and quasi-public agencies for the promotion of public services, economic development, and cultural activities of mutual benefit to all concerned".[28]

Or the city could simply take the cost-saving route of privatizing functions that could be provided by the private sector. The Allegheny Institute produced a report in 1996 which identified potential savings in the range of $14 to $35 million in that year's expenditures if the City had examined options for refuse, fleet management, emergency medical services, and the like.[29]

The City has slowly waded into the privatization arena in the past few years, beginning with bidding management of its vehicle maintenance garage in 2003.[30] The 2006 budget proposal calls for bidding a small portion of refuse collection in the City's southern neighborhoods, and it is possible that emergency medical services could be privatized.[31]

Other city-county mergers provide no evidence that a merger here is an answer to the area's problems. The City will begin to reverse the decades long trend of population loss and weak economic performance only after leaders take the necessary steps to cut the size of government, decrease taxes, and create a more welcoming environment for business.[32]

8. Implement the ERASE Recommendations for the Fire Department

Unfortunately, the recently agreed to labor contract with firefighters has made it virtually impossible to realize any significant savings beyond the limited amount achieved in the 2005 budget. The contract is in place for an unconscionable five-year period and contains minimum staffing requirements, which will produce ongoing massive overtime payments. And by virtue of the Oversight Board's failure to pursue its lawsuit to have the contract set aside, there is now little possibility that meaningful changes will occur.

However, if there was an opportunity to make changes it is clear that Pittsburgh can achieve ample fire protection with significantly fewer firefighters, fewer fire stations, and

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assessment) are not similar. This means that merger of these services is not appropriate; therefore, the efforts need to be placed on making them more cost-effective.

[28] City of Pittsburgh Home Rule Charter

[29] Allegheny Institute Report 96-02 "Designing Comprehensive Privatization Programs for Cities: Pittsburgh"

[30] Rich Lord "Privatized Fleet Maintenance Garage Saving City Less than Expected" Pittsburgh Post-Gazette, July 4, 2005. Original savings estimate was 43 million, but settled closer to $1.8 million after company "examined City vehicles and agreed to take on union contract"

[31] Rich Lord "City may try to Privatize Trash, EMS" Pittsburgh Post-Gazette, September 3, 2005; 2006 Budget Proposal

[32] Allegheny Institute *Policy Brief Volume 5, Number 24* "City-County Merger Unnecessary and Undesirable"

a change in the work turns by personnel. We have long known this to be the case. Now, a recently released report confirms our findings and provides detailed analysis of how the savings can be achieved.

Prepared for the City's oversight board by Emergency Response and Safety Education Enterprises (ERASE), the report deals with a variety of issues related to fire staffing, response times, apparatus used by the department, and other topics. The most important section of the study contains the recommendations for staffing and station locations. Specifically, the report calls for eliminating 288 jobs by attrition and closing 13 existing stations while constructing three new ones in more optimal locations.[33]

These findings and recommendations are not new or surprising given the previous body of research that exists. Going back to 1996, the Competitive Pittsburgh Task Force found that Pittsburgh exceeded similarly sized cities in terms of fire stations, engine and truck companies, and staffing, while having a shorter workweek than that of its peers. Likewise, our own research on per capita staffing (all uniformed and civilian employees) and per capita expenditures in Pittsburgh's fire bureau exceeded nearly every other city we examined across the country.[34]

All of this is powerful evidence that the size--and costs--of the fire bureau need to be cut back. With an employee count that exceeds other cities (on a per-1000 person rate), Pittsburgh's costs are higher than in other places. Moreover, the average salary for a firefighter with five years experience was nearly $7,000 higher in Pittsburgh than the average of four other regional hub cities. In fact, if Pittsburgh had cut its 2004 fire expenditures back to the rate of other hub cities (Salt Lake, Charlotte, Columbus, and Omaha), the nearly $81 million in expenditures could have been reduced by almost $30 million.

Also important are the study's recommendations on overtime, which, for the majority of 2004, amounted to over $18,000 per day. It is not surprising that this pattern of overtime in the fire department is also found in the Pittsburgh Schools, and various other agencies such as the Port Authority. Unfortunately, we keep uncovering the presence of high overtime costs among Pittsburgh's governmental units.

The report suggests the use of "floaters" in order to cut down on overtime costs. Current work arrangements in the City's fire bureau is a 10/14 shift, which involves a rotation of four 10 hour day shifts, followed by four days off, followed by four 14 hour night shifts and then four days off. The report advocates a rearrangement to a 24-hour shift followed by 48 hours off with the use of "floating" personnel to avoid having to pay over time.

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[33] Allegheny Institute *Policy Brief Volume 5, Number 3* "Cooling Down Fire Bureau Spending"; ERASE Enterprises "Bureau of Fire Management Study for the City of Pittsburgh, PA" prepared for the Intergovernmental Cooperation Authority for Cities of the Second Class, December 21, 2004

[34] The Allegheny Institute released three studies in 2004 that looked at other cities. "A Benchmark City for Pittsburgh to Emulate" (04-05), "Pittsburgh's Finances: A Comparison with Northern and Rust Belt Cities" (04-04) and "Pittsburgh Finances: A Comparison of Peer Group Cities" (04-01)

This change would account for roughly $2.6 million of the projected $19.2 million total savings.

The 2006 budget proposal notes that the approved fire contract "provides for reopener in 2007 [and] the City will take advantage of the reopener to seek further reductions in the Fire Bureau budget such as changes to the work schedule".[35] The new mayor should go further than that by imploring the Oversight Board, the Act 47 Coordinator and City officials move forward quickly to adopt the report's recommendations.

Let's be clear. There is no long-term, sustainable solution to Pittsburgh's excessive spending that does not involve major cuts in the fire department. This has been known for years but Council and successive mayors have been unwilling to deal with the developing problem. The new mayor would be wise to break that tradition.

9. Change the collection scheme for the EMS Tax

Evidently, the ink was hardly dry on the legislation approving new taxes for Pittsburgh before City officials began to look for ways to grab the most revenue possible from the new taxes. The newly released procedures for remitting the payroll tax and the new Emergency Municipal Services tax exhibit the disdain for taxpayers that has characterized the City for too long.

We offer a modest change for the new mayor to enforce in the remittance rules that will undo the worst aspects of the new rules.

The new Emergency Services Tax was intended to exempt workers who make less than $12,000 per year. Under the City's rules, everyone working in the City will have $52 deducted from their pay in January. Then it will be up to any worker who makes less than $12,000 to file for a refund in 2006. The refund request will require W-2s and a federal tax return. Obviously, there will be many who will not be able or willing to go through the hassle of proving they did not make $12,000 in 2005, which means the City will have collected far more taxes than they were actually entitled to.

That problem is easily remedied. Employers will know with almost virtual certainty which employees will make $12,000 a year. The employer should withhold $52 only from those employees on track to make $12,000 or more during the year. They would be required to review, at midyear, to determine if any employee has moved from a pace of less than $12,000 to a yearly rate exceeding $12,000. For any employee whose status has been upgraded, the company would then withhold the $52. The same rule would apply to any new hire during the year.

[35] City of Pittsburgh, Mayor Tom Murphy's 2006 Budget Presentation to the Intergovernmental Cooperation Authority, September 22, 2005

This is a good time to make a statement that Pittsburgh has turned over a new leaf with regard to tax collections and its attitude toward taxpayers.[36]

10. Look at other Cities to Benchmark Best Practices

If Pittsburgh were performing in a manner comparable to a well-governed American city, what would its finances look like? How would it be organized with respect to authorities? What would its pension plans and workers' compensation program look like? And how many employees would it have?[37]

A 2004 Allegheny Institute report tackled these questions by constructing what we term a "Benchmark City"--a composite of four geographically dispersed, mid-sized hub cities. These cities (Charlotte, Columbus, Omaha, and Salt Lake City) act as centers of commerce and employment, entertainment, education, and recreation. Their performances on all variables related to finance, staffing, taxes, and so forth were averaged to create a composite used as the Benchmark City to evaluate Pittsburgh's performance.

As in past studies of comparative city performance, we began with general finances (spending and taxes). On these indicators, Pittsburgh was not competitive with the Benchmark City. Its per capita spending was $386 more in 2004, and, subsequently, taxes were far out of line with the average. Pittsburgh also levies a greater number of taxes than other cities.

Taking a wide-ranging approach by examining important factors other than city taxes and spending that impact a city's ability to retain or attract residents and businesses is part and parcel of the type of benchmarking the new administration will want to undertake. One of these factors is the number and scope of municipal authorities, the un-elected government entities that provide services related to housing, recreation, water, etc. Compared to the cities in the Benchmark composite, Pittsburgh has far more authorities. Typically, the cities making up the Benchmark have only two or three authorities and they tend to be much smaller than Pittsburgh's.

Pittsburgh's authorities hold more than $4,500 in assets per resident while authorities in the Benchmark City held a quarter of that amount at just over $800 per capita. Pittsburgh's Urban Redevelopment Authority and Water and Sewer Authority hold assets in excess of $500 million each and account for about 70 percent of the total for all authorities. Pittsburgh authority employment also far exceeds that of authorities in the Benchmark City as well--2.6 employees per 1000 residents in Pittsburgh versus 1 per

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[36] Allegheny Institute Policy Brief Volume 5, Number 2 "Note to Pittsburgh Tax Collectors"; Act 222 of 2004; City of Pittsburgh Finance Department "Frequently Asked Questions--Emergency and Municipal Services Tax" www.city.pittsburgh.pa.us; Megan McCloskey "Those Exempt from Tax Still Pay Up Front" Pittsburgh Tribune-Review, December 23, 2004; Tim McNulty "City Wants New $52 Tax Paid Now" Pittsburgh Post-Gazette, January 6, 2005

[37] The Allegheny Institute released three studies in 2004 that looked at other cities. "A Benchmark City for Pittsburgh to Emulate" (04-05), "Pittsburgh's Finances: A Comparison with Northern and Rust Belt Cities" (04-04) and "Pittsburgh Finances: A Comparison of Peer Group Cities" (04-01)

1000 in the Benchmark. The large asset holdings by Pittsburgh's authorities mean they must play a major role in solving Pittsburgh's financial problems.

Other key areas of city-to-city comparison include pension liabilities and workers' compensation programs. To function in a successful and sustainable manner, cities need to have well-funded pension systems and the lowest possible expenditures for workers' compensation claims. Unfortunately, neither of these conditions hold in Pittsburgh. Its pension system was only 51 percent funded at the beginning of 2002 (and is lower today), while Benchmark City pensions were 89 percent funded. Workers' compensation costs were extremely high in Pittsburgh with recent claim payments amounting to $60 per capita, while claims payouts in the Benchmark City stood at only $13.50 per capita, about a fourth of the Pittsburgh level.

The new mayor should strive to make benchmarking the City's performance an integral part of evaluating the policy choices of the administration.

11. Push for the inclusion of a Taxpayer Bill of Rights to the City's Home Rule Charter

Here is a truly groundbreaking measure for which the new mayor could advocate. The Allegheny County Home Rule Charter has a similar taxpayer list of protections that has undoubtedly protected against tax increases via a change in the County millage rate.

Here is some suggested language for what could be a City of Pittsburgh Taxpayer Bill of Rights:

The home rule government of the City of Pittsburgh will protect taxpayers by:

- limiting taxing powers by requiring a vote of two-thirds of the seated members of City Council to change the rates of taxes under the statutory control of the City;
- requiring that general fund expenditures shall increase no more than the rate of inflation in the previous calendar year as measured by the Pittsburgh area Consumer Price Index;
- requiring that any surplus tax collection above and beyond the amount necessary to meet general fund expenditures shall be returned to the taxpayers of the City of Pittsburgh;
- requiring that each City department, agency, authority, and function is subject to periodic sunset review to determine the necessity of continuing said department, agency, authority, or function;
- requiring that the City of Pittsburgh shall explore every possible method, including, but not limited to, privatization, outsourcing, competitive bidding, to ensure that the lowest cost method for delivering services shall be utilized. City council is prohibited from forfeiting this right in the course of negotiating union contracts;
- requiring that zero-based budgeting be adopted so as to end the ratcheting up of expenses over previous year levels

12. Counteract Anti-Business and other Self-Destructive Resolutions from Council

City Council, through its ability to make non-binding resolutions, has produced some interesting proclamations in the past few years. In 2003, a non-binding resolution was passed in response to union concerns that developers of the South Side Works were using non-union workers on a project. Worse still, the resolution bought into union accusations that the workers were illegal immigrants, even though this was not clear. But the message was clear: non-union labor would not be welcome in Pittsburgh.[38]

More recently, they passed a resolution addressing the ongoing Teamster strike against parking lot operators, the resolution supports the efforts of the workers while implying that operators have a "secondary agenda" and are engaging in "union busting". Ironically, these accusations even included the Pittsburgh Public Parking Authority, a City-created entity whose Board of Directors are appointed by the Mayor.[39]

This latest resolution, which passed unanimously, came on the heels of an appearance of workers and union officials in Council chambers. There was a clear quid pro quo: newspaper reports noted that union support in the future would depend on passage of the resolution.

The resolutions confirmed what was already known: union labor holds the cards in Pittsburgh politics. Construction jobs must be union labor. Parking lot operators can't negotiate or hold firm without being accused of trying to create low-paying jobs. And any attempts at public sector reform, whether downsizing the fire department, privatizing garbage collection or fleet management, are resisted and the taxpayers pay the bill. Until they have had enough and head for the exits.

Rather than ignoring these resolutions, the new mayor needs to recognize that these actions have significant impact on the way people perceive Pittsburgh, its labor climate, and the way it ought to be governed. As such, the mayor needs to be able to respond to these symbolic measures when they are not in the best interests of the City.

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[38] Allegheny Institute *Policy Brief, Volume 3, Number 11* "Pittsburgh Wears the Union Label"
[39] Allegheny Institute *Policy Brief, Volume 5, Number 36* "Clueless in Pittsburgh"

Conclusion

Clearly, the new mayor will have a very tough road ahead of him. These twelve action steps--though not easy or politically popular measures--are required to position the City to emerge from state oversight and make sure it does not go back into it. The mayor has to embrace the mission and the message that Pittsburgh's new government will be focused, efficient, competitive, and cost-effective. It has to happen now.

Appendix:
City Taxes in the Recovery/Oversight Era, 2003-2010[40]

Here is a snapshot of the changes to the City's tax structure that will occur this decade. This will be the tax system that will exist through the first term of the new mayor.

Tax	2003	2004	2005	2006	2007	2008	2009	2010
Real Estate (mills)	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Earned Income (%)	1	1	1	1	1.1	1.2	1.25	1.25
Realty Transfer (%)	1.5	1.5	2	2	2	2	2	2
OPT/EMS ($)	10	10	52	52	52	52	52	52
Business Privilege (mills)	6	6	2	2	1	1	1	0
Mercantile, retail (mills)	2	2	0	0	0	0	0	0
Mercantile, wholesale (mills)	1	1	0	0	0	0	0	0
Payroll (%)	0	0	0.55	0.55	0.55	0.55	0.55	0.55
Parking (%)	31.5	50	50	50	45	40	37.5	35
Amusement (%)	5	5	5	5	5	5	5	5

The City of Pittsburgh had local statutory control over four taxes prior to the relief efforts from the Commonwealth--as a home rule community, there were no limits on the rates of real estate and earned income taxes. The parking tax and realty transfer tax likewise have no statutory limit. The rates on business privilege, mercantile, and occupation privilege were established by the state. The creation of the additional 0.5 percent sales tax under the Regional Asset District came along with a mandate that the City reduce its amusement tax rate from 10 to 5 percent.

The state legislation on the bailout for the City has a mandated phase-out timetable for the business privilege tax (which can be accelerated if payroll tax collection exceeds a floor), and mandated decreases in the parking tax rate. A separate piece of legislation shifts a share of the school's earned income tax to the City.

With an explicit prohibition on an Act 47 commuter tax on earned income (the earned income tax on residents would have to rise commensurately), the only major taxes not covered by a piece of recent state legislation are the real estate tax and the real estate transfer tax. Depending on the results of the Allegheny County reassessment (planned for 2006, 2009, and each year thereafter) the real estate millage will change to stay in compliance with windfall provisions.

[40] Act 222 of 2004 of the Pennsylvania General Assembly; Act 187 of 2004 of the Pennsylvania General Assembly; City of Pittsburgh Finance Department, Tax Rate Table (www.city.pittsburgh.pa.us); Comprehensive Annual Financial Report; Pennsylvania Economy League "City of Pittsburgh Financial Structure"

City Employment, 1994-2004

Year	Budgeted Positions	Year-to-Year Change
1994	4984	
1995	4451	-533
1996	4319	-132
1997	4304	-15
1998	4285	-19
1999	4234	-51
2000	4365	131
2001	4359	-6
2002	4305	-54
2003	4337	32
2004	3700	-637

The Comprehensive Annual Financial Report provides the headcount for regular budgeted positions for the City. The 2003-2004 change as a result of the City's entrance into a period of recovery represents the biggest year-to-year change in employment in the past decade.

Prior to that, the second largest year-over-year decrease in City employment (1994 to 1995), came when the City entered into an agreement with the Water and Sewer Authority that turned significant control of the City's water system over to the Authority. On January 1 of 1995, City water department employees became employees of the Authority.