

Pittsburgh's Budget Crisis

Rebounding from the loss of the steel industry in the 1980s the city of Pittsburgh witnessed economic growth, yet the city is barely surviving with a 1.68 billion dollar debt. Clearly, the city of Pittsburgh is doing something wrong. How can a city that has increasing economic prosperity have a government that is almost broke? Anya Sostek calls this the Pittsburgh paradox. The Pittsburgh paradox can be explained in their declining population, tax structure, and financial mismanagement.

Declining Population

According to the U.S Census Bureau since the 1950s Pittsburgh's population has decreased more than half (Powell, August 11, 2003). Despite the population decreasing in Pittsburgh the needs of the city did not decrease. Public goods such as the police, firefighters, and garbage collection are a necessity and cost the city money. "More than a third of the city of Pittsburgh budget pays for public safety, including firefighters who are protected by a contract clause that doesn't allow the Mayor to close fire stations or lay off firefighters" (Powell, August 11, 2003). Joseph Sabino Mistick, law professor for Duquesne University believes this is a "recipe for failure" because even though Pittsburgh's population has dwindled they still have the same number of roads and parks that must be maintained and "a growing acreage of tax-exempt properties such as hospitals and universities.

Tax Structure

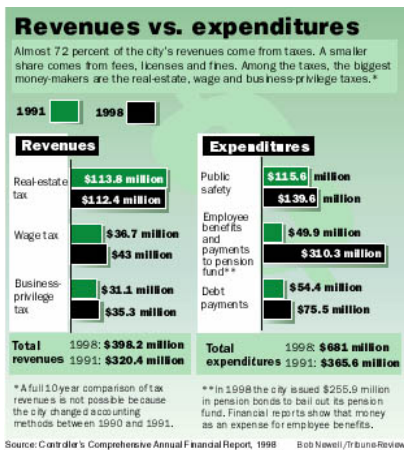
The problems with Pittsburgh's tax structure are abundant. First, nearly half of the 600,000 people who come to work in Pittsburgh live outside of the city and do not pay its income or property taxes. More importantly, what makes Pittsburgh's tax structure even more

insidious is the fact that 45 percent of Pittsburgh companies are exempted by the state of Pittsburgh from paying business taxes. “That group includes 44 of the city’s top 50 corporations, such as Mellon Bank, Heinz and Alcoa.” (Ehrenhalt 30) Also, adding to the state of Pittsburgh’s tax problems is the decline of land use by companies. Even though businesses in Pittsburgh pay property tax it is based on land use. Today, companies use less land than steel companies did and thus the government is receiving less money from property taxes from businesses.

Another hitch in Pittsburgh’s tax structure is “the fact that the non-profit sector, whose hospitals and universities spurred much of the city’s economic renaissance, are exempt from property taxes.” (Ehrenhalt 30) Tax exemption for the non-profit sector has huge implications for the state of Pittsburgh’s revenues. For example, when Duquesne University turned a private apartment building into a dorm, the city lost more \$350,000 a year in property taxes. (Ehrenhalt 30)

Financial mismanagement

Pittsburgh’s financial woes were exacerbated for years by the city allowing debt to grow out of control. By 1998 the debt amounted to almost \$5000 for every person in the city in comparison to the state of Philadelphia, which only had a debt of almost \$800 per person (Copeland, Pittsburgh Tribune Review). Pittsburgh also has had a tradition of spending more than it makes. Since 1989 city expenditures have overspent revenues an average of 17 percent. (Copeland, Pittsburgh Tribune Review).



Moreover, the financial mismanagement of the city of Pittsburgh was reinforced by them using gimmicks to balance their budget like when it sold its water company to itself in 1995 to avoid going broke. The Mayor's budget director admitted that "using one-shot revenue sources to balance the budget comes with a price" (Copeland, Pittsburgh Tribune Review). The price paid in Pittsburgh was that it created a false sense of financial health because "the budget was balanced and the immediate crisis passed, so no one pushed to reform the city's finances" (Copeland, Pittsburgh Tribune Review). Eventually, Pittsburgh ran out of gimmicks and they were faced with the harsh reality of needing to make changes to the tax structure. Unfortunately, Pittsburgh state legislators refused to grant new tax powers until Pittsburgh reduced its expenses. Some of the expenses that Pittsburgh has been criticized for are its overspending on the fire department and development incentives for companies that have failed. For instance, Macy's and Lord & Taylor received more than \$50 million dollars in development incentives from the city and the businesses failed. Finally, at the end of last year Pittsburgh almost declared bankruptcy and the Mayor had the city declared distressed under state law Act 47.

Steps being taken to resolve the Issue

The Act 47 team is comprised of a Pittsburgh law firm, consulting firm, and a Public financial management group which wields great power because whatever recommendations they make the city must accept. The Act 47 law also requires a commuter tax be implemented by the city. Act 47 focused primarily on reorganizing city services.

City Service Recommendations

- ❖ Firefighters face a 17 percent salary cut, staff reductions and station closures.
- ❖ Cities no longer subject to binding arbitration and can make changes to future labor contracts
- ❖ All city employees face a two-year wage freeze
- ❖ Employees will have to contribute 15% to their health premiums
- ❖ Elimination of retiree health benefits

Act 47 also made recommendation for a 40 million-tax package, but the tax package will need to be approved by the legislature in November. If the tax package is not approved Act 47 will turn to “Plan B: use its power to levy a commuter tax to keep the city afloat. Under that scenario, Pittsburgh resident might also face increased income and property taxes.” (Ehrenhalt 32)

Tax Package

- ❖ Replace current business tax with a payroll tax. Payroll tax requires all businesses in the city to pay a specified amount per employee.
- ❖ Raise the occupational privilege tax from \$10 to \$120 in order to get money from workers who live outside the city.

Conclusion

The Pittsburgh Post-Gazette has described the changes and recommendations Act 47 has called for as “Recovery Plan has Pain for Everyone.” (Ehrenhalt 33) I think the article would have been appropriately titled “Recovery Plan has Pain for People and Not Enough for Businesses.” In my mind Act 47 is placing the main burden of reducing the city’s debt on the shoulder of the people instead of businesses. Yes, the fire department needs to downsize their staff and close stations, but this must be done carefully. Providing fire services to a city is important and these services should not be cut overzealously if it puts the city at risk. Furthermore, a 17 percent pay cut is way too high for any individual to have to bear. Hypothetically if you made \$45,000 and you received a 17 percent pay cut you would make \$37,350. I could not afford to lose almost \$8,000 from my budget living in San Francisco. Act 47 could have come up with alternative ways to reduce spending for the fire department.

I also disagree with some of the recommendations Act 47 had for city employees. I agree with making employees contribute 15 percent to their health premium because currently they contribute nothing, however, if this is going to happen you cannot implement a two-year wage freeze at the same time. The city employee’s expenses have gone up with them having to pay some of their health care and they will need more money to be able to pay this expense.

Even more egregious is the fact that Act 47 wants to eliminate retiree health benefit. Health care for retired people is crucial because the elderly typically have health problems.

Another thing that is problematic about the recommendations of Act 47 is that the legislation gets to vote on the tax package. The tax package targets both businesses and the workers. If the legislature approved the tax package businesses would have to pay a payroll tax. A payroll tax would require that businesses pay a specified amount per employee. I'm very skeptical of legislature and think most of the times they are going to protect the interest of the businesses. If the Pittsburgh legislature had been concerned about having businesses share in the burden of reducing the city's deficit they would have done something to the tax structure in the 1980s. Forty five percent of the businesses in Pittsburgh pay no business taxes including big corporations such as Mellon Bank, Heinz and Alcoa. The city of Pittsburgh and its legislature have never made any effort to change the property tax rules. Steel industry has declined and businesses take up less space. Why would Pittsburgh have a property tax that favors business and hurts the city government? It makes no sense except it strengthens my argument that government sometimes falls prey to serving the interest of business instead of people. I wouldn't be surprised if the Pittsburgh legislature approved the occupational tax privilege because this tax is directed at workers. Workers who work outside of the city who currently pay \$10 would pay \$120. I agree that workers who live outside the city should pay more because the amount they have paid on this tax has not been raised since the 1950's. However, if the legislation only goes along with tax changes that affect the common people and not the businesses it will be a sham. In conclusion, I'm glad that Pittsburgh is reorganizing the city services and tax structure, but I hope like Mayor Murphy has stated that the changes in the tax structure will be fair for everyone and "at the end of the day, logic will prevail." (Ehrenhalt 32)

References

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