

***THE INTERGOVERNMENTAL COOPERATION AUTHORITY FOR THE
CITY OF PITTSBURGH***

REPORT AND RECOMMENDATIONS

I. Challenges

A. Current Crisis

The Intergovernmental Cooperation Authority (ICA) confronted the widest spectrum of challenges in responding to the financial crisis that has placed the City of Pittsburgh on the cusp of bankruptcy. The City's cash reserves and fund balance will be exhausted by the end of 2004. While it may be able to operate for a very short time into the new year, it will face disastrous cash shortages shortly thereafter. Instead of the five to fifteen percent of revenues recommended by all financial agencies, the City will begin 2005 with a zero fund balance. Absent immediate corrective action, the cumulative deficit of the City will grow from the current 2004 deficit of over \$34 million to almost \$469 million in 2009 which far exceeds the total City budget.

B. Causes of the Crisis

It is clear that the crisis is the product of decades of decision-making that was not always in the best interests of the City. With a continuous and substantial decline in population, a tax burden was thrust on City residents that placed them among the more heavily taxed residents for any similar city. Irrational business privilege and mercantile taxes with exemptions for the largest businesses in the City were counterproductive to economic development. A recent huge increase in the parking tax was simply another "last resort" attempt to meet the City's fiscal challenges with similar counterproductive effects.

There were 600,000 City residents in 1960 that paid property, wage and other taxes to defray the costs of the City infrastructure and services. Currently, there are 330,000 residents. Each day, however, there are still 600,000 people in Pittsburgh, but 270,000 of them are workers, students and visitors who do not live in the City and pay no City property or wage taxes. Two thirds of the jobs in Pittsburgh are held by over 200,000 nonresidents who do not pay these taxes. They pay an occupation tax of \$10 per year that began four decades ago and has never been raised. City residents also pay the \$10 per year occupation tax in addition to their wage taxes and property taxes. The result is that one third of the workers in Pittsburgh pay \$50 million in wage and occupation taxes to the City on top of their property taxes while two thirds of the workers in Pittsburgh pay \$2 million per year in occupation taxes.

Though the City's declining tax base could no longer support the number of workers it had been paying in the past, the reductions in City expenditures did not begin to mirror the decline in residents and taxpayers. A flawed collective bargaining process and political aspirations were major obstacles to the discovery of efficient operations that the City could afford. The compensation levels of City workers exceeded cost of living increases and some reached unconscionable levels. Pension and medical benefit plans exceeded comparable plans in private industry. Convoluted overtime processes allowed some City workers to be actively employed in non-City positions while earning high comparative incomes for City services. It was abundantly clear, prior to the current financial crisis, that the City undertook obligations destined to place the City in its current financial morass.

In response to these challenges, the City resorted to some cures worse than the disease. With the foreclosure of additional taxing alternatives, the City began to borrow away its future financial stability. Non-callable bonds issued at high interest rates have resulted in their status as junk bonds. Hundreds of millions of dollars in unfunded pension and other obligations have created long term debt challenges that allow for no easy solution and require continuous attention if the City is to be saved from insolvency.

Earlier legislation authorizing a repeal of the personal property tax included a \$4 million annual payment by the City to the Pittsburgh School District. While the School District's student population continues to decline precipitously resulting in the closing of schools, it also continues to collect two-thirds rather than one-half of wage taxes paid by City residents while the City collects only one-third. The inevitable result is that the School District has accumulated surpluses while the City is facing insolvency.

A major disincentive to doing business in the City is the irrational business tax structure. The business privilege and mercantile taxes fall on businesses least able to pay such taxes while forty-five percent of the typically larger businesses in the City are exempt from any business tax. Such a tax structure produces a negative economic environment for innumerable small and medium-sized business in the City and the consequent exodus of those businesses. Confronting a dire need to raise additional revenue with highly limited alternatives, the City resorted to enacting huge increases in the parking tax to a fifty percent level that further discouraged business development and other economic activity in the City while failing to attain projected revenues.

C. An Efficiency Culture

Has the City operated efficiently? The question scarcely survives its statement. Like a number of other Commonwealth and American cities, the City is inefficient, though it is becoming more efficient as it confronts the reality of its crisis. It is the view of the ICA that a new efficiency culture must evolve. The ICA is recommending major budgetary cuts beyond those originally suggested by the Act 47 Recovery team. Major efficiencies must be realized as early as the 2005 budget, but further efficiencies must occur annually thereafter.

The ICA has existed for little more than eight months. It is not possible to implement all of the potential efficiencies for the City in 2005. The statute creating the ICA precludes any interference with existing collective bargaining agreements and further study of additional economies necessarily postpone more reductions until 2006 and thereafter. Recent legislation promising additional revenues to the City from gaming operations will not be realized until late in 2006 and thereafter. Other efficiencies will become realities only if the recommendations in this Report are effected. Through the execution of an Intergovernmental Cooperation Agreement, the ICA has developed a working relationship with the Mayor and other City officials to allow the ICA to perform its duty of continuously approving and monitoring City budgets and discovering new efficiencies annually over the seven-years for which it has been appointed. It is critically important not only to develop an efficiency culture, but to maintain that

culture. New revenue sources should not be an excuse to return to an irrational budget culture that is responsible for the current crisis.

Various Authorities such as the Parking Authority, the Urban Redevelopment Authority and others are being analyzed to determine their levels of operating efficiency and whether they should continue in a modified form. To make that determination, it is essential to conduct detailed analyses of these Authorities. At a minimum, the ICA will insist upon the consolidations of Authority functions to effect maximum efficiency in their operations. Since its inception, the ICA, in close consultation with the Act 47 team, has pursued areas of major expenditure reductions. With the additional assistance of consultations from nationally recognized experts, the ICA has carefully considered the City's pension, soaring health benefits costs and workers' compensation policies and processes to develop a plan to bring these costs to reasonable, competitive levels within the capability of the City. A number of these reductions are included in the current plan. Similarly, an extensive analysis of the Fire Bureau and a continuing analysis of the Police Department promise substantial reductions in those costs with the simultaneous goal of not only maintaining but enhancing essential public safety.

II. *Recommendations*

A. *Reductions in the City Budget*

The primary focus of the ICA is to effect major reductions in City expenditures. The ICA rejected suggestions that the City had already reduced expenditures to an irreducible minimum. The original Act 47 plan submitted in June of 2004 included a mixture of workforce cost reductions and other expenditure reductions along with fee, tax and other revenue increases designed to generate \$43 million in 2005, growing to \$81 million in 2009. That plan included a reduction of 15% across-the-board cuts in the budgets for the Mayor, City Council and the City Controller. The ICA insisted on an additional 10% reduction for a total of 25% in these offices as well as further cuts in the Finance Department, City Information Services and the City Planning Department for 2005. These and other modifications required by the ICA result in a reduction of the original Act 47 baseline of \$11.7 million in 2005, increasing to \$58.1 million in 2009. The projected cumulative amount of additional reductions mandated by the ICA is estimated to be between \$180 and \$200 million through 2009.

In elected offices, alone (City Council and Mayor's office), the reduction in expenditures in one year (2004-2005) exceed \$784,000. The reduction in the budget for the Controller's office in the same year exceeds \$657,000. A reduction in firefighters' salaries is projected at over \$10.7 million for 2005. Further reductions in this department may occur upon analysis of the study of that department commissioned by the ICA.

The ICA and the Act 47 Recovery Team have achieved a consensus on this entire plan. With respect to reductions alone, the 2005-2009 plan as currently stated includes some \$269 million in expenditure reductions over five years. Beyond the stated economies in the plan, the ICA is committed to the discovery and implementation of further reductions. Again, the need for

further analyses necessarily postpones other major reductions that cannot occur until 2006 and thereafter.

B. Further Reductions

(1) **Authorities.** During 2005 it is essential that diligent analyses of the Authorities are pursued to effect greater economies and efficiency cultures. It is, however, clear that there is no further need for the Stadium Authority. The functions of that Authority can and should be performed exclusively by the Sports and Exhibition Authority. ***The ICA, therefore, recommends the abolishment of the Stadium Authority in 2005.*** To determine the efficiency and need for other authorities, liquidation/productivity audits must be conducted of each of these authorities. The ICA has requested the necessary funding for such audits which are essential to determine the future of these Authorities. Pursuant to such audits in 2005, the ICA will make definitive recommendations concerning each of the Authorities for 2006 and thereafter.

(2) **Consolidation and Privatization.** Consolidation of functions between the City and Allegheny County have already begun with the 911 consolidation in October. The current plan includes the merger of City and County purchasing functions and the transfer of arson investigation to the County. Together these consolidations will reduce City expenditures by more than \$734,000. Other consolidations are under study such as the integration of City and County detectives. The ICA has commissioned a study of the City police department which includes an analysis of such consolidations that will allow implementation in 2006 and thereafter. The merger of such functions should not occur simply for the sake of consolidation. Rather, they should and must occur if they can provide significant cost reductions while enhancing the quality of such services to citizens. The ICA will continuously pursue such consolidation efforts with the City and the County to achieve greater efficiencies in 2006 and thereafter.

Privatization of current City functions also promise more efficiency and cost reductions. The plan includes outsourcing of fleet maintenance and custodial services as well as competitive bids for animal control services. The ICA will study the complete or partial privatization of other functions including garbage collection that has been incorporated in the Act 47 Plan. In fact, Public Works initiative 04 of the Act 47 Plan states that “over the next three to five years, the City shall implement a managed competition pilot program to evaluate the cost effectiveness of contracting out [municipal solid waste services] and to create a more competitive service delivery. No later than January of 2005 10% of MSW services will be competitively bid while the next phase targeted to begin no later than January 2, 2007 will include one-third of the City’s households.

(3) **Pension, Health Benefits and Workers Compensation.** The ICA commissioned studies on the soaring costs of pension and health benefits and workers compensation expenditures, all of which exceed such costs in comparable cities. Huge proportions of these future City obligations are unfunded. Together with unfunded obligations on bonds issued by the City, they constitute the principal threat to the long-term financial stability for the City. It is clear that these costs can and must be reduced. The current plan

already includes a redesign of health benefits including a 15% employee contribution that will save \$58.5 million over five years. It is important to note that the ICA has insisted on reductions in any costs which can be legally reduced for 2005. The ICA is committed to a continuous reduction in these costs to the fullest extent possible in 2006 and thereafter.

(4) ***Debt Service Obligations.*** The long-term debt obligations of the City suggest no easy solution. Any increases in City budgets through 2009 are due in considerable measure to the necessity of meeting these obligations. These obligations must be met, but it is incumbent upon the City to develop efficient methods to reduce these obligations annually to the fullest extent possible. The ICA is committed to the allocation of future savings to reduce the City's long-term debt.

(5) ***Continuous ICA Reviews and Approvals.*** It is critically important to note that the ICA must approve budgets annually. Moreover, it must monitor expenditures throughout any budgetary year through independent audits of City expenditures to ascertain that the City operations are precisely in accordance with ICA-approved City budgets. Under its statute and the agreement between the ICA and the City, the ICA will interrupt payments of new revenue to the City should the City fail to stay within approved budgets. The ICA expects the 2006 budget to look significantly different as the results of the police and fire study currently being conducted are implemented.

C. New Revenue

(1) ***Recent Legislation–RAD Funds.*** Recent State gaming legislation provides revenue to cover debt service on bonds for the Pittsburgh Development Fund issued by the Urban Redevelopment Authority. Currently, these debt payments are made through a portion of the City's share of the Regional Asset District (RAD) funds. Using gaming receipts for this purpose will allow the City to receive an additional \$7.6 million annually in RAD funds for the City's general operations. None of these funds will be available, however, until the latter part of 2006 when half of that annual sum will become available for the first time.

(2) ***Recent Legislation–Gaming Funds.*** The recent State gaming legislation provides that the City will begin receiving a minimum of \$10 million in annual gaming revenue. These funds, however, will not be available until 2007.

(3) ***Increases in City Fees.*** The original Act 47 Recovery Plan recommended an increase in fees for certain City services amounting to \$4 million. The ICA agrees with this recommendation as part of the five-year plan.

D. The Need for Additional New Revenue

Notwithstanding huge budget reductions, increased fees for 2005 and the promise of additional gaming revenues thereafter, there is a compelling need for additional revenue to ascertain that the City budget is not only balanced for 2005 but in perpetuity. Moreover, it is

essential not only to maintain but to enhance the economic vitality of the City and the corresponding quality of life. To meet these long-range challenges, it is not enough to simply reduce costs and add revenues. The City must confront a tax structure that is counterproductive.

(1) ***The Irrational Tax Structure–Business Taxes.*** The City will continue to lose population and businesses under its existing irrational tax structure combining a business privilege tax and mercantile tax. *All* of these business taxes currently fall on smaller merchants, neighborhood shops, grocery stores, restaurants and other businesses. *None* of the business taxes fall on major corporations such as banks, utilities, manufacturers and financial institutions. Beyond simple fairness that requires all business to share in the payment of these taxes, the effect of the current tax structure will insure the continuing economic decline of the City as more businesses leave. Another invidious tax that is counterproductive to the economic vitality of the City is the mercantile tax. The only solution that will retain existing businesses and induce more businesses, more jobs and more taxpayers in the City is the outright repeal of these taxes, including the repeal of the School mercantile tax. The recent increase in the parking tax to fifty percent is another demonstrably counterproductive measure that must be substantially reduced to make the City more inviting to businesses, workers and visitors.

While the current tax structure is irrational with respect to any viable economic future for the City, it currently produces \$49 million annually in much needed City revenue. It must be replaced by a fair structure without the same or similar counterproductive defects. Any new business tax must be levied fairly on all businesses within the City. The extent of the levy must also be carefully designed not only to be fair but to encourage the retention of existing businesses and the creation of new businesses.

(2) ***Substitution of a Payroll Tax on All For-Profit Businesses.*** After careful analysis and consultation with all affected parties, it is the recommendation of the ICA that a new tax on gross payrolls on all for-profit businesses should be enacted. The total amount of gross payroll for such businesses in the City can only be estimated since no agency records such data. Moreover, the tax would fall on for-profit payroll earned in the City, regardless of the location of the business, rather than on payroll paid by businesses in the City. The Pennsylvania Economy League has provided a comprehensive analysis using census data, City data, State Department of Labor and Industry data as analyzed by the Carnegie-Mellon Center for Economic Development. The ICA has concluded that the most reasonable estimate of for-profit gross payroll is \$7.50 billion.

To assure the retention of existing for-profit business while enhancing the economic climate for new businesses, the ICA recommends a payroll tax on all for-profit payrolls earned in the City at the rate of 0.55 percent. This will produce an estimated \$41,250,000 in new revenue each year. The new payroll tax at a rate of 0.55 will have the effect of reducing overall business taxes in the City. The reduction, however, will benefit the small and medium-size businesses that have been leaving the City. Many of those businesses will pay only half of the business taxes they currently pay, inviting their return to the City and the creation of new businesses in the City. The former exempt businesses which are typically larger businesses will pay a business tax for the first time at a fair and reasonable rate. Had those exempt

businesses been assessed the current BPT that group would have paid over \$40 Million in taxes this year alone. The ICA rejected suggestions for a higher rate on the ground that any higher rate would place the retention of businesses in jeopardy. The recommendation is not simply one of dealing with the immediate crisis. Its major thrust is to assure an enhanced business environment for a City that has been losing business employers and the taxpayers they employ.

(3) ***Deed Transfer Tax.*** The ICA agrees with the Act 47 recommendation to increase the current 1.5 percent Deed Transfer Tax by 0.5 percent that will generate just over \$3 million annually.

(4) ***The Parking Tax.*** The increase in the parking tax to a 50 percent level has clearly demonstrated its negative effects. This increase alone deters customers for various businesses within the City. It has negative connotations for employers whose workers were suddenly confronted with a huge increase in their daily parking expenditure. The increase currently produces revenues of approximately \$13 million annually. While it would be desirable to reduce this increase immediately, other major cost reductions cannot become effective until 2006 and thereafter. The ICA, therefore, recommends a continuous reduction of the parking rate beginning in 2006. The rate for 2005 would continue at 50 percent to be lowered to 45 percent in 2006, 37.5 percent in 2007, and 35 percent in subsequent years. This will affect a decline in revenue of \$2,456,893 in 2006 rising to a decline of \$9,733,848 in 2008 when the rate is reduced to 35 percent.

(5) ***Occupation Privilege Tax.*** While the City resident population has declined precipitously, over 200,000 non-residents earn their living in the City every day. Pittsburgh has one of the highest daily infusions of nonresident workers of any American city, none of whom pay City wage or property taxes. They constitute two-thirds of the workforce. The other third of the workforce are residents who pay wage and property taxes that the nonresidents do not pay. The nonresidents pay a trivial occupation tax of \$10 per year that has not been increased since its inception more than four decades ago. Resident workers, however, also pay this occupation tax in addition to their wage and property taxes. The current exemption of that tax applies to anyone earning over \$1000 annually.

The City is the lifeblood of the resident and nonresident workers who earn their living in the City. In wage and occupation taxes alone paid to the City, City residents who make up only one third of the workforce pay \$50 million annually while nonresident workers pay \$2 million in occupation taxes annually. If resident workers were not subsidizing the City, it would be impossible to maintain the infrastructure, police, fire and other necessary services for 200,000 nonresident workers paying only \$10 per year. The City is the hub of this region. It is important to understand that regional hub cities must be supported by the nonresident workers in those cities. Compared to other regional hub cities, the current occupation privilege tax of \$10 is so trivial as to be embarrassing. In other regions, nonresident workers pay their regional hub cities a percentage of their income. On an income of \$40,000 per year, consider some illustrations of what these nonresident workers pay to the cities where they earn their wages:

Philadelphia, Pa.	3.97% of income = \$1,588
Lexington, Ky.	2.25% of income = \$900
Toledo, Oh.	2.25% of income = \$900
Cincinnati, Oh.	2.10% of income = \$840
Cleveland, Oh.	2.00% of income = \$800
Detroit, Mich.	1.50% of income = \$600
Louisville, Ky.	1.45% of income = \$580

Since these taxes are based on income, nonresident workers with much higher incomes would be subject to much greater payments. In Pittsburgh, however, if a nonresident worker earns \$40,000 or \$400,000 per year, he or she pays \$10 to the City for all of the safety, infrastructure and other services provided by the City. This is not only unfair to the resident taxpayers who defray necessary City costs, it is unconscionable.

The ICA recommends legislation that would allow an increase in the occupation privilege tax for all workers in the City earning at least \$12,000 annually to \$12 per month to be collected quarterly and to be adjusted every third year based on a cost of living index. The current exemption level is only \$1000. The twelve-fold increase in the exemption level assures those who earn less than \$12,000 annually will no longer pay any such tax, even the \$10 per year tax. At this level, non-resident workers at \$144 per year will pay a small fraction of the tax paid by non-residents working in other major regional hub cities. Moreover, for the thousands of non-residents who park their cars in the City each day, the recommended reduction in the parking tax, alone, will compensate for this increase in the occupation privilege tax.

The new occupation privilege tax to be paid by both residents and nonresidents and will produce estimated net revenue in the amount of \$32,666,711 in 2005.

(6) *Nonprofit Contributions.* The nonprofit entities of Pittsburgh provide major benefits to citizens of the entire region. The City is renowned for its colleges, universities and hospitals as well as many other nonprofit agencies. The collective economic impact of the nonprofit community is more than substantial. At the same time, the citizens of Pittsburgh and this region are unusually generous in their support of the nonprofits and their missions. Though occupying more than thirty percent of the property in the City, the nonprofits pay no property taxes or business taxes though they use the City infrastructure and other City services. The ICA does not recommend any change in the law that would permit the nonprofits to be taxed. Rather, we appeal to the nonprofits for their voluntary support of the City, in lieu of taxes, particularly at this critical juncture in the City's financial history. There have been numerous discussions concerning how the nonprofits might provide this support. It may be possible for the hospitals to assist the City in defraying the costs of providing Emergency Medical Services. It may be possible for the colleges and universities to provide support for City parks or other City functions that would reduce City expenditures accordingly. The nonprofit community may make direct payments in lieu of taxes to the City. Whatever the form of support to the City, the ICA recommends that the nonprofit community make a collective contribution the City each year that will provide the City with either direct payments or services reducing City expenditures in an amount equal to at least \$6 million annually. Such a contribution will manifest the genuine

concern of the nonprofit community in sharing the burdens of defraying the costs of essential City services.

(7) *Annual City Payment to the School District.* The Pittsburgh School District budget is larger than the City budget. While enrollments have continuously declined, expenditures have continuously risen. When the tax base of the City was relatively strong, a decision was made to provide the School District with two-thirds of the three percent earned income tax paid by City residents. Moreover, when legislation was enacted to repeal the personal property tax, part of that legislation required the City to assist the School District's loss of tax revenue by paying \$4 million annually to the School District. Notwithstanding major decreases in student population and the closing of schools, the School District continues to receive two-thirds of the wage taxes paid by residents. It also continues to receive a \$4 million annual payment from the City. A 2003 analysis led by prominent educators and other citizens concluded that the Pittsburgh School District had accumulated a fund balance more than twice as much as necessary. While that balance has been reduced since the issuance of that report, it is clear that the City can no longer sustain an annual payment of \$4 million to the School District. The ICA, therefore, recommends a legislative amendment to eliminate the obligation of the City to pay the School District \$4 million annually. The Act 47 team joins this recommendation.

While the School District has volunteered to defray half the expenditure for school crossing guards for a limited time, the ICA plan includes a permanent contribution from the School District to defray half that cost.

III. *The Future—2005 and Thereafter*

The ICA plan immediately relieves the City of its current financial crisis. On October 29, 2004, Standard and Poors announced that Pittsburgh General Obligations bonds were given a BB rating and placed on "Credit Watch." The announcement stated that in the absence of approval of a recovery plan, Pittsburgh's financial condition would be extremely precarious and would result in lowering the rating. However, should the recovery plan and tax package be approved, the city's financial prospects would brighten and its rating could improve.

It is not enough to relieve the City of its current financial crisis. It is even more important that the plan provides the opportunity for more businesses and more jobs in the City that will enhance the opportunity to not only prevent further population decline but to increase the number of City residents who will pay City taxes. The ICA plan will assist the City to become a vibrant economic regional hub City insuring a higher quality of life. The plan requires contributions from every segment of our society.

- ! The City, its elected officials and workers, will operate the City with huge reductions in expenditures and a continuous development of a high efficiency culture that will not only provide services at lower costs to taxpayers, but will provide enhanced services at lower costs. The City workforce will continue to decline over the next five years as further efficiencies and reductions will place

the City in the position of becoming one of the more efficient major cities in the United States.

- ! Businesses which have paid no business taxes will now pay their fair share of such taxes while the onerous burdens on smaller and medium-size businesses that have been paying all of the business taxes will be more than substantially reduced.
- ! While non-resident workers in the City will begin to contribute decent amounts to maintain their regional hub City, it should not be forgotten that this increase will also be borne by residents who work in the City. Though the average salary of City residents is considerably lower than the average salary of non-residents who work in the City, residents have shouldered major tax burdens for many years. Even they will contribute to the overall solution since they will pay the higher occupation tax along with non-residents. The major change is that non-resident workers will begin to make a decent contribution though it will constitute only a fraction of amounts that non-residents in other major cities pay to the cities where they work. Moreover, the increase in the occupation privilege tax for non-residents who park their cars in the City will be offset by continuous annual reductions in the parking tax.
- ! Nonprofit entities that have been exempted from paying any property or payroll taxes will make an annual contribution to the City either in direct payments or other forms amounting to \$6 million annually. While such a contribution constitutes only a small fraction of what such institutions would pay in property or business taxes, such support of the City in which they operate will manifest their desire to assure the success of the City in perpetuity.
- ! The School District which currently reaps the benefit of two-thirds of the wage tax as well as a \$4 million annual payment from the City each year will surrender the \$4 million payment and defray half of the costs of school guards. This change will help to redress the imbalance between revenues to the City and revenues to the School District.

IV. *Precluding a Return to Former Practices*

The major solution to the current crisis in the ICA plan is the immediate and future major reductions in City expenditures. New revenues constitute a supplementary dimension of this plan. Concerns have been raised that the City will return to former spending patterns and new revenues provided to the City will not be used efficiently. How can all of the contributors to this plan be assured that the City will not return to the same practices that led to the current crisis? How can the contributors to this plan be assured that new City revenues will be carefully and efficiently used to assure financial stability and the continuous reduction of City debt?

The term of the ICA is seven years. While the immediate challenge is to affect a budget that the ICA will approve in 2005, each City budget for the ensuing years must also be approved

by the ICA. Moreover, each budget, starting with the 2005 budget, will be carefully monitored by the ICA with independent quarterly audits and any other analyses that are essential to ascertain that the City is operating not only within the overall budget but within budget categories. In these efforts, it is the obligation of the ICA to continuously work with the Mayor, Council and other City officials to discover further efficiencies.

What can the ICA do if the City fails to operate within approved budgets? The ICA has the statutory authority, confirmed by the Intergovernmental Cooperation Agreement to which the City has agreed, to interrupt the receipt of any new revenues if the City fails to operate within ICA approved budgets. It is the expectation of the ICA that the cooperation it is developing with City leaders will make the use of that authority unnecessary. It is, however, important to emphasize that the ICA not only has such authority but would be legally obliged to exercise it should there be any unapproved departure from any approved budget.

V. *Resident Taxes*

Beyond the increase in the occupation privilege tax that all City workers, residents and non-residents, will pay, the ICA strongly recommends against any further increase in taxes on City residents who are already shouldering a tax burden that is above average for similar cities. Any increase the current tax burdens on City residents would be totally counterproductive, insuring further flight from the City.

VI. *Summary of ICA Recommendations*

! **Major Reductions in City Expenditures.** Through the consensus achieved by the ICA and the Act 47 Recovery team, current reductions in City expenditures over five years (2005-2009) amount to over \$269 million. Moreover, further reductions will occur in 2006 through 2009 under ICA reviews of each annual budget.

! **The Budget Gap—Solutions.** Notwithstanding major increases in across-the-board budget cuts, deficits remain. Those deficits and the elimination of the business privilege and mercantile taxes, present a gap of \$77.5 million to balance the budget for 2005. The following solutions close the gap:

(1) **Payroll Tax.** To restructure the irrational business taxes currently shouldered essentially by small and medium-sized businesses, a payroll tax of 0.55 is necessary that will produce an estimated \$41,250,000 in 2005. While this replacement tax lowers the current overall business tax in the City, it will provide a much more desirable economic climate for businesses that otherwise find it difficult to remain in the City.

(2) **Occupation Privilege Tax.** The proposed increase in the Occupation Privilege Tax (OPT) to \$12 per month or 40 cents per day is high only when compared to the trivial \$10 per year paid since the mid-sixties. It is a fraction of payments required of

nonresident in other regional hub cities. The exemption is elevated to \$12,000. A significant portion of this increase will be offset by the recommended decreases in parking taxes for workers who park in the City. The OPT will produce a net estimated \$32,666,611 in 2005.

(3) **Annual Payment.** The elimination of the \$4 million annual payment by the City to the School District partially cures the imbalance in tax revenues currently allocated to the City and the School District.

(4) **Debt Issuance by the ICA.** The ICA requests that the General Assembly provide the ICA with the same statutory powers for the issuance of debt as provided to PICA in its oversight capacity for the City of Philadelphia, and to further provide a funding source to the ICA for the repayment of any debt issuance and general operations of the ICA. The ICA respectfully requests the addition of these provisions to its powers to insure proper infrastructure maintenance, and orderly and prudent debt issuance in order to protect and promote public well being.

(5) **Regional Approach.** The ICA recommends that Allegheny County and the adjacent counties be given the authority to implement an Occupational Privilege Tax and a Payroll Employment Tax in order to level the playing field from a tax perspective in the region.

(6) **The Arts.** The ICA seeks legislation to allow the school district to impose a 2% earned Income Tax on visiting athletes. The proceeds of the tax, estimated to be \$1.6 million would be granted by the School district to the City. The City would, in turn, eliminate the amusement tax on not for profits. The differential, an amount estimated to be \$300,000, would be deposited into a trust for the purposes of supporting the Arts.

These measures leave a modest positive balance of \$416,948 for 2005.

VII. Conclusion

Myriad proposals to meet the challenges of the City's financial crisis have been discussed, debated and analyzed. The acceleration of the economic development portion of gambling revenue to replace the RAD funds used to support debt service on the Pittsburgh Development Fund, the acceleration of the 2% or \$10 Million portion of the gambling revenue expected in 2007; the reduction of one half percent of the School Earned Income Tax and corresponding increase in the City E.I.T. phased in over 5 years adding roughly \$4.3 Million each year to the City revenues are examples of other measures that may be considered by the General Assembly. There are suggestions that City expenditures can be trimmed beyond the \$269 million reduction over five years. It is the position of both the ICA and the Act 47 team that they can and will be trimmed further, but not for 2005 as explained in this Report. There are suggestions that the business (payroll) tax could be higher. The ICA and the Act 47 team have agreed that the proposed level of 0.55 will assure the critical retention of existing businesses and invited new businesses to enter the City through the elimination of the business privilege and mercantile taxes. There have been suggestions that the occupation privilege tax increase is too high. The ICA and the Act 47 team believe that it is relatively modest for the reasons suggested

earlier. There must be recognition that the hundreds of thousands of non-residents who rely upon their regional hub City must support that hub, at least to the extent recommended in this plan. The elimination of the \$4 million annual payment from the City to the School District simply reflects the need to redress the current unfair allocation of tax revenues between City and the School District. The \$6 million contribution from nonprofit institutions is a fair and reasonable contribution in lieu of any property or payroll taxes.

The total and expeditious acceptance of this plan will insure the future of the City of Pittsburgh as a financially stable and economically vibrant regional hub City. It is critically important that the necessary legislation to affect this plan is enacted in November of 2004. It is essential to act now to preserve and enhance the quintessential regional hub of Western Pennsylvania.

Both the ICA and the Act 47 team recognize that there will be objections to any plan. If our Commonwealth leaders conclude that there is a more effective solution to the challenge, we would welcome any reasonable solution that meets both the immediate challenge for 2005 and the long range challenge for 2006 and thereafter. The plan recommended in this Report confronts reality. Both the ICA and Act 47 team were challenged with the necessity of developing immediate solutions to a crisis that has developed over decades. With the complete cooperation of the Act 47 team and the agreement of the City to operate within current and budget levels approved by the ICA, the ICA presents this plan. We have total confidence in our legislators and Governor. We believe that they will simply not permit the second largest City in the Commonwealth, this regional hub and historic City of Pittsburgh, to enter 2005 with anything less than a splendid future of economic vitality and a continuous enhancement of the quality of life.

Respectfully submitted,

THE INTERGOVERNMENTAL COOPERATION
AUTHORITY FOR THE CITY OF PITTSBURGH

William K. Lieberman, Chairman

John E. Murray, Jr., Vice Chairman

David O'Loughlin

James C. Roddey

James L. Smith, III

APPENDIX A

COMBINATIONS	Projected revenue	Incremental Changes	Budget Gap
SCENARIO A			
School District RAD termination	\$ 4,000,000.00		\$(77,500,000.00)
Payroll Employment Tax (1) 0.55%	\$41,250,000.00		
OPT (2) \$12 per month	\$32,700,000.00		
	\$77,950,000.00		\$ 450,000.00
SCENARIO B			
School District RAD termination	\$ 4,000,000.00		\$(77,500,000.00)
Payroll Employment Tax 0.75%	\$56,250,000.00		
OPT \$7 per month	\$17,700,000.00		
	\$77,950,000.00		\$ 450,000.00
SCENARIO C			
School District RAD termination	\$ 4,000,000.00		\$(77,500,000.00)
Payroll Employment Tax 0.65%	\$48,750,000.00		
OPT \$1 per week (52)	\$10,550,000.00		
	\$63,300,000.00		\$(14,200,000.00)
SCENARIO D			
School District RAD termination	\$ 4,000,000.00		\$(77,500,000.00)
Payroll Employment Tax 0.85%	\$60,000,000.00		
OPT \$6 per month	\$11,870,000.00		
	\$75,870,000.00		\$ (1,630,000.00)

ASSUMPTIONS

- (1) based on 7.5 billion gross
- (2) \$12,000 exemption;
- (2) 85% collection rate; net new

