
Restoring the Public Trust in the City of Pittsburgh's Finances

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of the City of Pittsburgh's Financial Problems

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Introduction

I want to thank Council for the opportunity to comment this morning on the City's financial problems. My remarks are based on prior experiences with helping New York City permanently solve its financial problems, and based on studying the City of Pittsburgh's finances for several years.²

In times like these, there is merit in thinking about how fixing certain things can improve the long-run chances that the City will once again prosper and you will benefit personally in terms of how the electorate views you. I shall briefly:

- 1) Identify things Council can do to regain the public's trust in the Mayor and City Council, and
- 2) Identify what the General Assembly can do before a local judge imposes a local commuter tax under Act 47 that will create an economic death spiral for the City.

1. Regaining the Public's Trust:

Amend the Home Rule Charter to Achieve Financial Transparency

You have a very simple problem that has been festering for a very long time. The result is that the public simply no longer trusts the Mayor and yourselves in the way you allocate the monies you annually raise and spend.

Losing the public trust is actually hard to do in Pennsylvania because the public can be kept in the dark for a very long time about what is going on in municipal finance. But once the public catches on that the budget spending and revenue numbers don't quit add up, you will find that regaining the public trust is very difficult, and will require more than simply taxing people who work in the City but don't vote in City elections because they don't live in the City. Philadelphia's commuter tax, and the Philadelphia economy are nothing to celebrate, regardless of what the Governor says. As I speak the City of Philadelphia is struggling with a \$165 million operating deficit, and the School District of Philadelphia is praying that the state will forget that it borrowed \$250 million for operating expenditures.

You may take issue with these observations about the public's trust in you, since they elected you and you are here, and your opponents are not, but certainly the capital market and rating agencies don't trust the Mayor, and they also don't trust you much anymore.

Junk bond status means there's no longer investor confidence in how you raise and spend public monies.

² See my personal home page (Section online papers) for previous commentaries on the City of Pittsburgh's plight.

How can trust be rebuilt so that the City won't have to pay junk bond interest rates, and people won't put their houses and businesses up for sale, and vote with their feet?

The solution to rebuilding trust is both simple but likely painful politically.

To re-establish trust, the City must get its finances in order. To do so in a convincing way requires that the roles of the Mayor, the City Controller, and City Council move into the 21st Century from the late 19th Century, and all abide by national standards of financial conduct. If the rights and responsibilities of these three political stakeholders are not changed fundamentally, then the City will simply lurch here and there, as Philadelphia has, continuing to lose population, businesses, jobs, and economic vitality.

Let me be concrete about what needs to be done, hopefully this May.

The 1974 Home Rule Charter needs to be amended so that it no longer empowers a Mayor to run off and do what he or she wants without Council's public approval. Many of you aspire to replace the Mayor in a few years; however, being Mayor of a City of 285,00 people, that will look more like a bombed out Baghdad than the City of Champions, is hardly a prize.

And, the Home Rule Charter needs to obligate the City Controller to behave like an independent auditor than a part-time Mayor.

Democracy needs to be redefined in Pittsburgh so that lenders and resident taxpayers have confidence and trust that the numbers are honest, and that promises made through budgets are legal and sensible, and become promises kept. This will mean that promises to fill potholes are promises that will be kept.

To make your resource allocation process credible, you need to amend the Home Rule Charter so that it does four fundamental things:

- 1) Defines the City, for financial reporting, auditing and budgeting purposes to include its direct and indirect instrumentalities (e.g. the public authorities and their progeny);
- 2) Creates a truly independent City Controller who audits the books and the City's performance, but does not keep the books, obligates the City to use standard financial reporting practices, standard auditing standards, and adhere to the pronouncements of the Governmental Accounting Standard Board; and enables the City to authorize the writing of its checks rather than the City Controller; and gets the City Controller out of the Pittsburgh Public Schools;
- 3) Obligates the Mayor to take to City Council for approval all contracts, including collective bargaining agreements and personnel matters after public notice and public hearings on such matters; and,

- 4) Obligates the City to provide real public access to its records; “public” means not just residents, but also people like me, non-resident, non-voting taxpayers

There are some other governmental reforms, dealing with public corruption and indirect bribery, that might dramatically improve the public’s trust in the operations of the City of Pittsburgh, but my focus this morning is on what it will take in my judgment to rebuild trust in the City’s finances.

These amendments to the Home Rule Charter could easily be drafted and voted upon in the May, 2004 primary election, and signal to the region, state and nation that routine democracy is possible again in the City of Pittsburgh.

The above four reforms constitute what I call “financial transparency,” and really are the way local government is required to behave in other areas of the country. Interestingly, such areas often are more economically dynamic and prosperous as well.

Once financial transparency is achieved, then one can have meaningful discussions about public service levels (spending) and its finances (taxes and fees). Until one has financial transparency, and solid, reliable information on spending and real revenues that is comparable on a year to year basis, one winds up arguing and deciding financial policy in the dark. Until one accurately sees the financial problem, one can not solve it. Now, I hasten to add that there may well be some pain in seeing clearly what has heretofore been very murky.

2. Agenda for the General Assembly:

Amend Act 47 to Limit the Non-Resident Earned Income Tax Rate to 1/3 of the Resident Earned Income Tax Rate

This past December, Governor Rendell vetoed Senate Bill 940 that would have established a financial review board. Since the votes in the House did not amount to a 2/3 majority, the House and Senate did not attempt to over-ride his veto. Right now, unless something legislatively happens in Harrisburg, the City will be able, some time in late Spring, or early Summer, to ask a local judge to approve a non-resident wage tax on an annual basis.

I do not have much confidence in the economics training of our local judiciary, and worry that a local judge could easily be encouraged to give the City of Pittsburgh precisely the same economic noose that has been strangling the City of Philadelphia’s economy. As undoubtedly each of you understands, under Act 47, a local judge would be well within his authority to impose a 3 or 4% commuter tax.

My suggestion to the General Assembly is to limit the prerogatives of a local judge. In particular, limit the rate of commuter earned income tax to be a fraction of the resident earned income tax. Since commuters spend about 1/3 of their time in the City, I suggest

that the commuter rate be no more than 1/3 the resident rate. Right now that means the commuter tax would be .0033 or .33% or 1/3 of 1%.

If the General Assembly wants to further limit what an Act 47 judge can do, it can require that financial transparency steps outlined above be verifiably in place before an Act 47 judge can impose the so-limited annual non-resident earned income tax.

Keep in mind that by limiting the rate of commuter tax the General Assembly is establishing trust in the region that it will not allow the City to cover its deficits entirely on the backs of the suburbs. It immediately places an upper bound on what an economically unlearned, uninformed, or foolish judge may do. I happen to think that's one of the responsibilities of state lawmakers, and will strengthen the trust relationship between lawmakers outside of the City and their voters. If state lawmakers fail to do this, and Act 47 simply marches forward, then I believe there will be adverse repercussions against them.

It is possible, even likely, that Council will find amending the Home Rule Charter to create financial transparency, strengthen its role, clarify the role of the City Controller, and weaken the role of the Mayor to be very hard things to do.

However, if you do not achieve financial transparency, why should the public begin to trust you again?

To the General Assembly, I simply ask: if you do not limit the rate of commuter tax that a local judge can impose under Act 47, do you really think the voters will blame the judge and not you?