ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

Testimony on the Future of Cities in Pennsylvania

Submitted by

Eric Montarti, Senior Policy Analyst

May 29, 2013

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd, Suite 208
Pittsburgh, PA 15234
www.alleghenyinstitute.org

Good morning to the members of the Committee and thank you for inviting me here this morning to speak of the future of Pennsylvania's cities, large and small.

My name is Eric Montarti, and I am a Senior Policy Analyst with the Allegheny Institute for Public Policy, a non-profit, non-partisan research and education organization that has been promoting the ideas of limited government and free enterprise and defending the interests of taxpayers since 1995. Our organization is focused on issues related to southwestern Pennsylvania but the topics we research are both influenced by and have an influence on the Commonwealth as a whole.

It is appropriate to begin by noting that the future of Pennsylvania's cities is likely varied for the simple fact that there are a wide variety of characteristics of those cities. Factors such as where the city is located, the prospects for job opportunities and growth, and the performance of its schools are just a handful of influences that impact the future of a city. So too does the financial health of a city, and that's what I'd like to speak to today. First, some commentary on the characteristics and recent trends of the state's cities.

Pennsylvania has over 2,000 local governments, and 56 of them are identified as cities belonging to one of four classes. They range in population size from 1.5 million in Philadelphia to 800 in Parker City and in square mileage from 135 in Philadelphia to less than one in nearby Arnold. Fourteen gained population between the 2000 and 2010 census; in both Census years, population in the Commonwealth's cities accounted for roughly a quarter of the total population of Pennsylvania; while population in the 56 cities fell 1.3 percent between 2000 and 2010 population in the rest of the state grew 5 percent. Eighteen of these cities have adopted home rule charters; thirteen are currently in Act 47 distressed status; two have oversight boards; three have pension systems that have been identified as severely distressed, meaning they have less than 50 percent of the assets set aside needed to pay for accumulated liabilities.

We have four cities in Allegheny County—one large, in fact, the second largest in the state—and three small. Taken together, these four cities represent about 28 percent of the County's population based on the 2010 Census, about the same as it was in 2000. All four lost population between the two Census periods.

Can the issues of pensions, tax-exempt property, and state oversight as they exist in Pittsburgh, McKeesport, Duquesne, and Clairton and how those issues have been addressed and what else needs to be done provide any lessons for the other 52 cities in the Commonwealth?

Let's start with pensions. As we are aware, municipalities, unless they have transferred their pensions to the Pennsylvania Municipal Retirement System, administer their own plans under various state laws. All four cities in Allegheny County have separate plans for police, fire, and non-uniformed personnel. In fact, Duquesne has two police plans and McKeesport has two non-uniformed plans. That's fourteen "city" plans: add in plans covering component units such as authorities providing services related to parking, housing, redevelopment, and other municipal services there are twenty pension plans related to these four cities covering more than 4,000 active employees, more than $700 million in assets and $1 billion in liabilities.

Based on the most recent data from the Public Employee Retirement Commission, only one plan of the twenty—the Clairton police plan—was classified as being severely distressed.

The distress score comes from changes the state made to existing statutes when it passed Act 44 in 2009. That law had special requirements for Pittsburgh, which had very low funding ratios for quite some time. The requirements were for the City to get the funded ratio to a minimum 50 percent funded by year end 2010. That was accomplished through an "infusion of value" which promised a revenue stream of thirty years as an irrevocable promise. One of the architects of the plan noted "this is not a long term solution". So what should the state be doing proactively to preserve pensions for current and future workers at the city level? Most changes that we have seen at the local level here in Allegheny County either proposed or implemented and for either general purpose or special purpose governments is a combination of higher age and/or service requirements, moving to defined contribution plans, and higher contributions. As the state deliberates on what to do with statewide pension plans it probably should be thinking about the multitude of city pension plans as well.

Cities host a lot of property, and the issue of property that is exempt from taxation has been a major issue. A 2009 study by the state's Legislative Budget and Finance Committee found that 37 of the state's 56 cities had at least one of what they classified as a "major tax-exempt institution": either a non-profit general care hospital, a private college or university, a state-related university, or a university belonging to the state system of higher education. Many observers, commentators, and studies over the years have noted the percentage of land or the percentage of value that is tax-exempt and say it is too much and that the presence of tax-exempts and lack of property taxes from those institutions deny critically needed revenue.

Payments in lieu of taxes, state reimbursements for exemptions, and direct taxation of non-profits have been floated over the years. In Pittsburgh, for example, a group of non-profits contributed to a Public Service Fund in recent years; in 2009 the City proposed a host of taxes and/or fees that would have affected hospital stays, water use, and tuition payments for the City's non-profits. More recently a proposal to extend the City's payroll preparation tax to large non-profits was raised. And a lawsuit has been initiated against a large non-profit.

It is important to examine the trends over time, and the best set of data in that regard exists for the City of Pittsburgh. In 2003, Pittsburgh's taxable value was $13.5 billion, its exempt value $6.6 billion, roughly a two to one ratio or exempt value representing 33 percent of total value. In 2013, with the County producing a reassessment of all property values, the City's taxable value stands around $20 billion, its exempt value around $8.6 billion. That puts the ratio of taxable to exempt at around $2.33 to $1, the percentage of the total to 30 percent.

To be sure, if there are things that a non-profit is doing or property that it is holding that is not serving the non-profit mission than those things ought to be taxed. In fact, they might already be taxed—as these efforts to raise money from non-profits occur the public is treated to debates of the benefits non-profits deliver and the taxes they do pay versus the failure to pay a fair share for the municipal services that are consumed. The General Assembly could do a lot for the future of all Pennsylvania cities by bringing clarity to this issue.

Lastly, the state is quite involved in the direct oversight of finances of three of the cities in Allegheny County. Clairton has been in Act 47 status since 1988, Duquesne since 1991, and Pittsburgh since 2004. Additionally, the Intergovernmental Cooperation Authority, a separate oversight board, exists in Pittsburgh.

Getting out of state watch is ultimately the decision of the Department of Community and Economic Development Secretary, and no city has ever been removed from Act 47 status. Pittsburgh requested removal in 2007 and was denied, and again petitioned in 2012 and a verdict is pending. Obviously the state wants to see its cities get out from supervision and avoid the specter of Chapter 9 bankruptcy. Then too, the state probably does not want cities to be lingering for a seemingly unending period of time, either. If Act 47 goes away in Pittsburgh, there will still be oversight, and we recently made suggestions on what the state can do to improve the statute governing the oversight board should it become a stand-alone overseer.

Here are the good things already in place: Act 11, the law that created the oversight board, already grants it the specific power to make recommendations to the City and the General Assembly on consolidation and merger of services with the County, nearby municipalities, or Pittsburgh schools; consolidation of public safety services within the City; appropriate staffing levels for City departments; and twenty nine other areas ranging from collective bargaining to tax exempt properties. There are plenty of places to focus and the oversight board has, over the years, commissioned reports on fire, building inspection, workers' compensation, and police among many other areas.

In addition, the law has more stringent requirements for arbitration awards for police and fire personnel including the requirement that the arbitration panel take into consideration the condition of Pittsburgh's finances, inflation, and work force and compensation levels in comparable municipalities before arriving at an arbitration award or settlement. The oversight board must sign off on the City's annual operating and capital budgets and five-year financial forecasts and can ask the state to withhold money if the City is in non-compliance.

It would be an opportune time to establish specific targets/goals/mileposts for what the state wants and expects the City of Pittsburgh to look like in five years in several key areas including per capita municipal spending, per capita debt, pension funded ratio, and staffing per 1,000 residents. The City must also be compelled to explore outsourcing, competitive bidding and consolidation of functions to dramatically lower expenses and employee count. Getting specific on goals, mileposts, metrics, or whatever the terminology may be and a specified time frame for achievement sends a clear message to the City what it is expected to accomplish and allows all parties to see how well things are progressing toward the five year objectives. This line of thinking might be extended to Act 47 guidelines.

Again I would like to thank you for the invitation this morning and look forward to any questions you might have.

References:

Pennsylvania Department of Community and Economic Development:
City Government in PA Handbook
Home Rule in Pennsylvania
List of Act 47 Municipalities

Legislative Budget and Finance Committee:
Tax-Exempt Property and Municipal Fiscal Status

Pennsylvania Public Employee Retirement Commission:
2013 Status Report
Act 205 Distress Scores

Statutes:
Act 47 of 1987
Act 111 of 1968
Act 11 of 2004
Act 44 of 2009

U.S. Census Bureau

Allegheny Institute Reports and Policy Briefs