



# PATRICK DOWD

MEMBER OF COUNCIL, CITY OF PITTSBURGH



June 8, 2009

Dear Messieurs Kaplan and Roberts and Citizens of Pittsburgh:

I cannot support the amended Act 47 Plan as presented to City Council and the public on May 20, 2009.

This Plan fails on a number of accounts.

- **The Act 47 team calls for further tax and fee increases on City residents and businesses.** Despite the history of a contentious and lengthy three-year tax debate to win legislative approval for broader based taxing authority (e.g. the payroll tax and municipal services tax), the Plan reverts back to the narrow definition of the City's tax base by calling for tax and fee increases on local businesses only.
- **This Plan provides no mandate to cap legacy liabilities such as pension and debt.** In fact, this Plan opens the door to higher cost long-term pension bonds to fill gaps created by recent market declines. This is recommended without mandates to cap rising pension expenses. To further burden our residents and business with added liabilities is senseless. I question the timing of this recommendation particularly in light of the failed debt restructuring done in 2006 for the City and in 2007 and 2008 by the PWSA.
- **This Plan fails to require strict performance measures and other cost control actions** as were included in the 2004 Act 47 Plan and which the Act 47 team has failed to enforce. What's worse, the Act 47 team acknowledges that after five years of oversight, the City is still unable to "produce a full suite of timely management, budget, accounting and personnel reports." (Act 47 team, April 8, 2008)
- Finally, and most importantly, **this Plan fails to resolve the City's structural imbalance: annual revenues are not sufficient to meet annual expenses.** The stated purpose of this Plan is to provide the City with a "blueprint to complete its financial recovery." The failure to achieve this blueprint is best exemplified by the City's debt service payments, which, in 2014, 2015, 2016, and 2017, rise once again to \$87 million resulting in annual operation deficits of \$24 million.

The original intent in entering Act 47 for the City of Pittsburgh was first, to win a broader based taxing authority and thereby lessen the burden of taxes for services on City residents and businesses; second, to provide constraints on rising costs such as employee wages and benefits; third, to mandate the continuance of performance measures to control the cost of essential City services such as public works and public safety, thereby providing a baseline to measure the savings possible through outsourcing and shared service efforts. In short, the objective of the Plan was to broaden the tax base and "right size" services.

The amended Act 47 Plan reflects the failures of oversight. Because of a lack of diligence in implementation, one third of the new initiatives are carry-overs from the original 2004 Plan. Moreover, many of the most significant initiatives in the original 2004 Plan were in place by 2005, including the merger of the City and County's 911 Call Centers and the privatization of fleet maintenance. Most importantly, under the auspices of the Act 47 team, \$125 million in additional debt was added to years 2012 through 2017. A 2006 bond restructuring created seven additional years of high debt payments. Without it, the City's debt payments would have

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declined steadily to \$40 million by 2018. Instead, annual debt payments will be \$90 million today until 2018.

Since Pittsburgh entered Act 47 supervision, the City has generated year end surpluses. This in itself is positive. However, the increasing size of surplus revenue is a serious concern, particularly given that the Act 47 Plan calls for tax increases. Either the City is over-budgeting expenses or does not account for the real cost of services delivered. Regardless, City residents and business appear to be over-taxed for the services they are actually receiving. The residents and businesses of the City deserve an honest budget, one that reflects the services they are, in fact, receiving.

The Plan sets the course for our budgetary and fiscal program for the next five years. As it stands this Plan lacks a strategic and cohesive program to tackle legacy costs, measure and contain operating costs against services required and delivered, and do so without raising taxes. To throw surpluses at uncapped pension liabilities, to allow the continuation of debt restructuring to further burden the budget, and to do all this without a vision for economic growth is short-sighted and fails the intent of Pittsburgh's entrance into Act 47. This is not a Plan to restore financial health and sovereignty to Pittsburgh. It is, rather, another 5 years – with a near-certain 5-year extension beyond that – in which financial distress is prolonged and self governance surrendered. Our current and potentially indefinite status as a distressed City will hobble our efforts at regional dialogue and intergovernmental cooperation with the county and neighboring municipalities.

The Plan should be modified to embrace the following principles:

- ✓ No new taxes or fees placed solely on City residents and businesses,
- ✓ Cap legacy costs,
- ✓ No pension bonds or debt restructuring which increase the annual debt service,
- ✓ Establish operating efficiencies through the implementation of rigorous performance measures,
- ✓ A strategic policy on operating surpluses, and
- ✓ Intergovernmental cooperation beginning with functional consolidation of services between the City and neighboring municipalities as well as the County.

I cannot support this amended Act 47 Plan because it perpetuates the very problems that have long caused the City's financial distress. The Plan returns to the narrow definition of the City's tax base and calls for tax and fee increases on local residents and businesses. Simultaneously, the Plan asks them to accept service cuts and expenditure reductions. The Act 47 team misunderstands that old saying: it is "do more with less," not "pay more for less." The Plan also fails to cap the long-term liabilities or to mandate the rigorous use of performance measures, thereby ensuring that Pittsburgh's future generations will face exactly these same problems. Most importantly, the Plan likely returns the City to distressed municipality status in 2014. The goal of this Plan is to give Pittsburgh an "exit strategy" for its status as a distressed municipality, but because the structural imbalances continue well beyond 2013, the Plan fails to meet that goal.

Sincerely,

Patrick Dowd  
Member of Council

cc: Mayor Ravenstahl; Members of Council; Michael Lamb, Controller