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Could Pittsburgh Be Following Detroit to Bankruptcy?

While Pittsburgh has some similarities with the problems in Detroit (albeit nowhere near the same magnitude) and there is cause for concern about Pittsburgh's financial wellbeing, there is little chance that on its present course the City will face bankruptcy. That is not to say that it can be allowed to return to the spendthrift, reckless behavior that had the City headed toward financial collapse and brought it to the point of being placed under two state financial overseeing groups—the ICA board and the Act 47 financial coordinator team—a decade ago.

There was period in 2009 when the legacy cost issue reared its head and prompted renewed speculation of a possible bankruptcy. See our *Policy Brief Vol.9 no. 51* for a full discussion of that period and an explanation of some of the technicalities involved in a Pennsylvania municipality seeking to file for bankruptcy.

Without question Pittsburgh has made significant progress under state oversight and under legislative edict to lower spending, reduce debt levels, cut employment and address the City's massively underfunded pensions. Still, there is no denying that fairly large problems remain and there must be no backsliding that would aggravate them. Based on the Allegheny Institute's work in constructing a benchmark city to compare Pittsburgh's financial performance indicators, it is clear that the City government continues to spend more per capita, taxes more per capita, and has more employees per 1,000 residents than a composite of similarly sized and situated cities from across the country.

Moreover, Pittsburgh' s debt per resident remains very high compared to the typical, well run city despite having dropped significantly from the 2004-05 level when it exceeded $2,000 per citizen. Then too, even though the pension funding level has been raised above 50 percent, as required by the state to avoid having the state takeover management of the pension plans, it is still far below the 80 percent level where it needs to be and its rate of return calculation assumption for the investment portfolio is by all accounts too generous. By pledging parking tax revenues for decades to shore up the pensions, the City averted a takeover and a period of dangerously low funding of the pensions.

Finally, it must be noted that Pittsburgh's public schools are, by and large, a major obstacle to population growth in the City. This is especially true for the 30 to 50 age group, the age group having families and raising school age children. The last census showed continued decline in that group while the college and the 20 to 25 age groups expanded. The desire to be attractive to young people has paid off but the City cannot thrive when parents in high percentages abandon the City because of poor schools.

In certain respects Pittsburgh appears to have some of the problems Detroit faces. However, Pittsburgh has a number of factors going for it that Detroit does not have. First, the City of Pittsburgh has a much smaller population than Detroit and has far less deep seated and widespread social problems including markedly lower crime rates. Pittsburgh has a large, strong, and recession resistant employment base in medicine, post-secondary education, government and the financial sector. Pittsburgh weathered the 2008-10 recession well because of its favorable industry structure and the fact that the absence of a construction boom in the years prior to the recession reduced the need for a major correction.

Pittsburgh is also very fortunate in having a disproportionately large charitable foundation community that supports education, welfare, and cultural activities in the City. And for a city its size it has an unsurpassed aggregation of top quality museums, performing arts, music, cultural amenities and major league sports.

The City's small population compared to its home County and the metropolitan region means it derives enormous benefits from its hub status in terms of commuters, visitors, attendees at cultural and sports events. An excellent symbiotic relationship exists between the City and the region.

In short, with continued oversight from the ICA board and Act 47, and a commitment by the City's government to avoid the fiscal and management mistakes of the past, the City will be able to stay far away from the need to file bankruptcy. Quite unlike the situation in Detroit which was allowed by the state to descend into a hopeless morass.

Nonetheless, there are danger signs posted in the City that it cannot afford to ignore—and the oversight teams should not permit it to ignore. A growing, dynamic Pittsburgh will require a major overhaul of the k-12 education system. The current failed system is depriving far too many young people of a decent chance at a good, productive and satisfying life. And until that system is substantially reformed, parents of child rearing age and children will become increasingly hard to find in Pittsburgh. In the long term, that is probably the biggest negative in the outlook and can be left unaddressed much longer.

The other cautionary warning is that the Pittsburgh government must move away from the heavily statist mentality with regard to business and the economy that has for so long dominated its decision and policy making processes. And it must begin to reduce the number of employees per 1,000 residents and bring itself into alignment with other well managed and prospering cities in this key measure of management and financial efficiency.

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