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Pittsburgh's 2020 budget

Summary: The City of Pittsburgh's preliminary 2020 operating and capital budgets were released at the end of September and will soon be presented to City Council. Operating expenditures will top $600 million and capital expenditures will top $100 million. A voter-approved property tax levy and a second step increase to the deed transfer tax will go into effect in January.

The operating budget expects revenues of $607.6 million and expenditures of $605.5 million, a positive result of $2.1 million. The city expects to close 2020 with a $69 million fund balance.

Taxes account for $495.4 million (82 percent) of revenues, with the city's major levies on property, wages, payroll preparation and parking all expected to grow and total $386.8 million. The remaining $112.2 million (18 percent) of revenues comes from licenses, permits, fines and intergovernmental revenue. Total revenues are to grow 3.6 percent over this year.

The city's proposed operating expenditures include $358.9 million (60 percent) for operating departments; $105.3 million (17 percent) for pension/other post-employment benefits; $67.6 million (11 percent) for health benefits; $17.4 million (3 percent) for workers' compensation and $56 million (9 percent) for debt service. From this year the latter two categories are expected to decrease but, overall, there could be a 5.4 percent increase in spending. In 2015 the city spent $495 million, meaning spending will have increased 22 percent.

This week Pittsburgh voters approved a home rule charter amendment question that will create a 0.5 mill special purpose property tax millage for parks and a parks trust fund. Close to $10 million would be raised from that millage rate (that amount is not currently included in the 2020 budgeted revenues).

Approval means changes to the charter and the city code. When voters approved a 0.25 mill special library property tax in 2011 council passed an ordinance to levy the tax, which is currently contained in Chapter 263 of the code.

The deed transfer tax is set to increase from 2.5 percent to 3 percent. Budgeted tax revenue is $43.7 million, or $8.2 million more than 2019 projected collections. The previous 0.5 percent increase in 2018 brought in $7.3 million more than 2017. Combined with state and school district transfer taxes, the total rate in the city will be 5 percent. The ordinance that raised the tax calls for a study on the impacts of the increase—in 2029. The tax on a transfer of a $100,000 property would increase by $1,000 as a result of the 1 percent hike.

Next year includes an extra biweekly pay period and will have an impact on salaries and wages, which are expected to grow from $234.5 million to $254.2 million (8 percent). According to the Budget Office, the extra pay period accounts for about half of the increase; the remainder is a result of contractual and scheduled pay increases. All other subclass categories—benefits, professional services, supplies, etc.—are expected to grow from $340.3 million to $351.2 million (3.2 percent).

The preliminary capital budget is $109.1 million. These expenditures are funded by $50 million (46 percent) in bonds; the $14.5 million (13 percent) transfer from the operating budget; $13.3 million (12 percent) in federal community development block grants and $31.1 million (29 percent) from other federal, state, authority and foundation sources.

Capital spending includes $54.6 million (50 percent) for engineering and construction such as street resurfacing, flood control and bridges; $28.5 million (26 percent) for facility improvement including parks; $6.4 million (6 percent) for neighborhood and community development and the remaining $19.4 million (18 percent) for public safety, vehicles and other projects.

With 2020's budget marking the start of a new decade it is an appropriate time to examine the city's five-year operating forecast through 2024. These were required during the Act 47 years and are part of the city's budget process due to a 2017 ordinance now in Chapter 219 of the city code. One of the four exit factors required for a municipality to leave distressed status is five years of positive operating results.

The ordinance requires the use of generally accepted procedures for revenues and expenditures to produce an operating result and fund balance. The Office of Management and Budget, Council Budget Office and City Controller jointly review the forecasts and the controller certifies the revenues.

A minimum projected fund balance of 10 percent is also required. This is calculated by dividing the ending fund balance by total expenditures. The optimum fund balance goal is 16.7 percent. There is no language on what would occur if the percentage should fall below or reach above these levels.

As can be seen from the table below, both revenues and expenditures are projected to grow with the former outpacing the latter 10.5 percent to 9.6 percent. The fund balance percentage stays above the minimum level but it decreases each year in the forecast. As of now, if 2020 population settles at 300,000 and stays there per capita expenditures would rise from $2,018 to $2,213. Further declines in population would increase per capita spending levels. In our most recent update with the Benchmark City (*Policy Brief Vol. 19, No. 25*) Pittsburgh spent 51 percent more per capita than the Benchmark.

2020-24 Operating Forecast ($, millions)

Item	2020	2021	2022	2023	2024
Total Revenues (TR)	607.6	623.5	639.4	654.7	671.2
Total Expenditures (TE)	605.5	613.7	630.2	648.9	663.9
Operating Result (TR - TE)	2.1	9.8	9.2	5.8	7.3
Beginning Fund Balance	81.3	69	69.7	70	66.8
Transfers Out	14.5	9	9	9	6
Ending Fund Balance	69	69.8	70	66.8	68.1
Ending Fund Balance/Expenditures (%)	11.4	11.37	11.1	10.29	10.26

To push the fund balance percentage higher would require either more revenues or reduced expenditures. Since taxes are increasing next year there should be emphasis on the spending side of the ledger. By finding $5 million in spending reductions for 2021 the ending fund balance would grow and the fund balance percentage would be over 12 percent. Similar actions in future years would likewise boost the fund balance percentage and move the city closer to its optimum goal.

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