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Pittsburgh: Financial and economic changes 2013 to 2018

Summary: In several respects the financial situation in Pittsburgh made significant and important positive strides over the period 2013-2018. However, there are still substantial concerns about the city's economic and financial structure. Debt outstanding is down but retirement benefit problems remain. Revenue gains and spending increases have outpaced employment gains. However, spending and revenues per resident are far higher than comparable cities and getting worse.

Audited numbers for 2019 will not be available for several months. An update of this report through 2019 will be forthcoming when the audited data are made available.

The Comprehensive Annual Financial Report (CAFR) for 2018 provides detailed statistics for spending and revenues and the balance sheet entries from 2009 to 2018 as well as estimates of the number of workers (resident and non-resident) on payrolls in the city. The Bureau of Labor Statistics (BLS) provides city labor force and number of residents employed figures back to 1990.

Employment and Labor Force

First, a look at labor force and employment data. Note that the average monthly labor force in 2000 was 156,650 and in 2018 stood at 156,476, virtually the same level after 18 years. In 2012, the labor force reached 160,000 but has since retreated, falling to 158,861 in 2013 and sliding further through 2018. The non-existent growth in labor force is consistent with a flat, to slightly lower, population. Nationally, the labor force climbed 4.3 percent over the 2013-2018 period.

The number of employed city residents stood at 149,662 in 2000, the highest level of the 2000s until 2018. After 2000, employment of residents was quite weak in the 11 years before 2012 when a recovery period began and by 2013 the count had risen to 148,111. Over the following five years, resident employment crept slowly upward until 2018 when it rose to 149,994 (up 1.3 percent over the five years) and surpassed the 2000 level in 2018 for the first time during the 18-year period.

Nationally, household employment climbed 8.2 percent between 2013 and 2018, over six times faster than Pittsburgh. Better news for the city is that the improving trend continued in 2019. The city's unemployment rate fell to 4.2 percent in 2018, its lowest level since 1990, and through October 2019 had fallen further to 4.0 percent.

Payroll employment data that count all the jobs in the city whether held by residents or non-residents is, and has been, much larger than the number of residents working. Indeed, there are twice as many payroll jobs in the city than city residents with jobs. According to Pittsburgh CAFRs covering the 2000s, there were 325,318 jobs in the city in 2000. That count fell for a number of years and in 2004 had dipped to 301,671. Jobs began to grow slowly and reached 307,678 in 2013 and rose further to 311,881 (a 4,100-job increase, or 1.4 percent).

It must be noted here that unlike the BLS household survey data for employed city residents there are no BLS payroll data for the city. The job counts reported in the CAFRs are based on figures constructed by the city controller's office. That methodology is not explained in the CAFR. If the CAFR numbers are reasonably accurate, the city's job total remains well below the 2000 level, unlike the residents-working count that in 2018 surpassed the 2000 number. Moreover, the CAFR measure is quite volatile year-to-year. Nonetheless, by either measure, there was some modest employment progress from 2013 to 2018.

Finally, it is important to bear in mind the city's population fell by almost 30,000 between 2000 and 2010 to stand at 305,000. This after 60 years of nearly continuous losses since 1950 when the population peaked at 676,806. With a 2010 Census population of around 305,000 the city has 16,000 fewer residents than the 321,000 in 1900—simply stunning.

Finances

As far city finances are concerned, they have improved somewhat between 2013 and 2018 with revenue gains outpacing spending growth by a five-year cumulative total of $239 million—measured on an accrual accounting basis in the table showing Changes in Net Position. From 2013 to 2018 revenue from taxes—measured on an accrual basis—grew from $399 million to $489.2 million, a 22.6 percent increase. All tax categories were up, with greater than 15 percent gains in all except the local services (11.8 percent) and Miscellaneous (6.7 percent). Still, the local service tax revenue, paid by those working within the city, rose much faster than the jobs reported in the CAFR grew (1.4 percent). Better collections perhaps or underestimation of employment? In any event, tax revenues per resident climbed from $1,299 in 2013 to $1,624 in 2018, a jump of 25 percent as population fell by 4,000 to just over 301,000, according to the Census Bureau inter census estimate.

It is important to bear in mind how Pittsburgh compares to other cities. To that end, the Allegheny Institute has constructed a benchmark city – a composite of Omaha, Charlotte, Salt Lake City and Columbus—to contrast Pittsburgh's performance with others. For

2018, Pittsburgh's per resident tax revenues were 70 percent higher than the benchmark city average (see *Policy Brief, Vol. 19, No. 25*). In 2013, taxes per resident were 57 percent higher than the benchmark.

The two largest sources of tax revenue, real estate and earned income, accounted for over 40 percent of the $90 million rise in tax revenue. The biggest percentage increase occurred in the deed transfer tax that climbed $16 million, an increase of 78.5 percent. An increase in the tax rate in 2018 played a significant role. Payroll preparation and parking taxes accounted for another $21 million pickup in revenue. The RAD tax and amusement tax posted a 20 percent plus gain over the five years.

Note that the 20 percent increases in earned income tax and the payroll preparation tax are much greater than the 1.4 percent estimated rise in the number of workers in the city. This gap points to significant gains in wages and salaries and proprietor incomes.

Meantime, revenues from government programs—fees, charges, licenses, etc.—were essentially unchanged over the five years, rising from $140 million to $143 million. Adding these revenues to the tax collections puts the total revenues at $539 million in 2013 and $632 million in 2018, still a $90 million plus increase but in percentage terms only a 17 percent rise compared to 22.6 percent for tax revenues.

Meanwhile, expenditures (accrual basis) during the 2013-2018 period climbed from $535.7 million to $580.5 million, a rise of $44.8 million (8.3 percent), a considerably smaller increase than revenues. General government outlays were up $23 million, public safety was up $20.9 million and highways and street spending rose $17.2 million while sanitation outlays were up by $4.8 million. Two categories saw large expenditure cuts: economic development was cut by $9.9 million and interest payments were down by $9.7 million. Culture and recreation spending was down $1.5 million bringing total spending cuts to $21 million. These reductions provided a significant offset to the $65.9 million increase in the categories where spending climbed very rapidly.

Unfortunately, even with expenditure growth rising more slowly than revenues over the five years, an estimated drop of 6,000 residents combined with the expenditure pickup lifted the spending per resident to $1,925, a 10 percent increase compared to 2013's per resident outlay of $1,751. The total 2018 spending per resident in Pittsburgh was 57 percent higher than the benchmark city average.

As for the city's balance sheet, some notable changes occurred during the five years. The CAFR for 2018 shows that as of December the city had a net negative position of $1.458 billion dollars. In 2013, the reported net position was a negative $423 million and in 2014 negative $421 million. However, the government accounting rules were changed to require other liabilities including pensions that resulted in a restatement of the 2014 figure to $1.324 billion (as posted in the 2015 CAFR). In 2015 the net position as reported in the 2018 CAFR was a negative $1.291 billion. The restated 2013 figure is not available. Thus, from 2014 to 2018, the net position worsened by $134 million and from 2015 is worse by $167 million.

The good news is that the city's debt outstanding fell sharply from $575 million in 2013 to $406 million at year end 2018—a decline of $169 million or 29 percent. Unfortunately, net pension liabilities rose by $128 million and other post-employment benefits (OPEB) liabilities rose significantly as well to stand at $408 million up by over $300 million compared to the figure reported in the 2013 CAFR. Then, too, the accrued workers' compensation liabilities in 2018 stood at $118 million.

The 2018 ratio of funds in the pension trust to liabilities was only 31.8 percent ($428 million to $1.347 billion), down from 32.6 percent in 2014. However, because the city has pledged $26 million in parking tax revenue through 2041 and is allocating $10 million in gaming tax revenue, the present value of those revenues is sufficient to put the actuarially determined asset to liabilities funding ratio above the 50 percent the state requires to avoid a takeover of management of the pension funds.

Meanwhile, city employee payroll count has remained fairly flat at just over 3,300 and the covered payroll has been quite level at just over $200 million per year. Including state pension aid of $21 million, Pittsburgh spent $116.8 million (does not count $12 million paid by employees) on pension and OPEB in 2018. However, the $116 million in taxpayer funds expended on retiree benefits amounts to 56 percent of the covered payroll. The pension problem is not over and with no defined contribution plan in the offing; the city could eventually face another pension crisis and be forced to find additional funds for the pension plans.

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