ALLEGHENY INSTITUTE FOR PUBLIC POLICY

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Coronavirus impact on City of Pittsburgh revenue

Summary: The City of Pittsburgh is wrestling with a serious revenue shortfall due to the impact of the coronavirus. The mayor reported an estimated revenue shortfall of $127 million in 2020 and a total of $239 million through 2024. The mayor has requested federal funding for local governments, including Pittsburgh.

Nearly a month ago the mayor's chief of staff noted the city would experience a major decrease in tax revenue. The mayor predicted that the city would run a deficit.

On April 18 the mayor wrote a letter requesting that the president "support the inclusion of $250 billion in flexible funding for local governments in a future emergency coronavirus relief package." While the letter notes that the city is experiencing decreased revenue and increased costs overall it is "unsure of the full financial impact of this crisis" on its budget.

An accompanying press release stated "the City of Pittsburgh estimates it will suffer a 21 percent cut in projected revenues in 2020." The release describes the estimates as "extremely fluid and will likely change depending on the length of business closures in the City." Employees working remotely and staffing changes have delayed and challenged budget estimates as well, according to the release.

Note that no layoffs or furloughs had been announced as of April 27. So, spending has been proceeding at the rate laid out in the budget. Also note that the City had $85 million in its fund balance at the beginning of 2020. There has been no indication as to whether any of that has been used. At the end of last May the city had spent 49 percent of its $584.8 million budget.

Is the city's revenue loss estimate reasonable?

The Institute has estimated the revenue shortfall (taxes; licenses and permits; fines and forfeits; intergovernmental revenue; interest and miscellaneous) for the period March 15 through May 31. That assumes that damage to the economy from the virus was already happening by mid-March, although the mandated closings did not occur for another week.

Obviously, a full reopening of the economy in June will not see the immediate return to the level of business activity that would have been in place had the shutdowns not occurred. Given the dramatic dimensions of the closings on the travel industry; restaurants; arts and entertainment; the real estate market; manufacturing; retail, and many service sectors other than health and education, there is virtually no expectation that the economy will be at full strength for several months.

For the 11 weeks from March 15 to May 31, the presumed period of the harshest business restrictions, the Institute places the revenue shortfall—estimated revenue absent the closings minus estimated collections—at $68 million.

This estimate is based on the (1) the state of the labor market as indicated by the statewide level of unemployment claims which by April 23 had reached 25 percent of the state's employment in February; (2) the rate of actual tax collections through February of 2020; (3) the share of annual collections through May 2019 and (4) reasonable assumptions about the impact of the closings on individual taxes.

For example, it is known through reports that parking in the city is down precipitously and, thus, parking taxes are also dramatically lower than projected. With all entertainment venues closed along with museums, etc., amusement taxes have essentially dried up. Then too, with retail sales in the county down sharply, the Regional Asset District tax which supplies revenue to the city is also down sharply.

Taxes related to employment and income in the city are affected but it is not possible to know for sure what the actual shortfall in income taxes and payroll preparation taxes will be until the March and April verified collections are available—and that will be at least two months from now. Although the city undoubtedly has some preliminary figures.

Thus, for payroll preparation, income and local services it is necessary to make reasonable assumptions about the percentages of expected revenue that will fall short.

Note that a high percentage (76 percent or $114 million) of 2020's budgeted real estate taxes of $150 million were collected through February. That large amount provided revenue well above expenditures for those two months and no doubt helped the city cover spending through the early months of the shutdowns. However, any large shortfall in expected revenue during virus slowdown will to have to made up somehow during the remainder of the year or spending will need to be cut. By May another $15 million in real estate taxes would have been collected if the 2019 pattern holds. But it is likely collections will be no more than $8 million for the February through May period this year.

All told, the Institute estimates that tax revenues fell short of expectations during the 11 weeks by $56 million. The other revenues from licenses, permits, and intergovernmental is estimated to fall short by $12 million. In total, the city's revenue will likely have fallen in the range of $68 million between March 15 and May 31. (see appendix for details)

To get to the city's $127 million shortfall for the year, there would be loss of over 25 percent of combined taxes (besides real estate) and other sources of income for the year. In short, the City's estimated losses must be based on a very gloomy outlook for the remainder of 2020. And with another $100 million forecast through 2024, not much in the way of rebound for the next couple of years is foreseen.

Several important points need to be mentioned regarding the shortfall.

Bear in mind that a host-fee payment of $10 million per year comes from the Rivers Casino, which is closed. In 2018 the full amount of the host fee as well as $26 million in parking tax revenue were allocated to the city's pension contribution—necessary payments to maintain the assets-to-liabilities ratio above 50 percent as the state requires.

The mayor's letter to the president states that "it is only a matter of time before we will face cash flow issues affecting our ability to pay first responders and essential workers." Council passed and the mayor signed a measure that would allow the city to obtain lines of credit for operations. But no agreements have yet come to council for approval.

Under Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the city is expected to receive an additional $12.7 million in Community Development Block Grant funding (above the current $13 million used for projects related to low- and moderate-income persons, seniors and blight).

The CARES Act contains $150 billion in a Coronavirus Relief Fund for state and local government. Local governments that have a population of 500,000 or more, based on 2019 Census estimates, are eligible for federal funding for expenditures related to the coronavirus not accounted for in the local government's most recently approved budget and incurred between March 1 and December 30, 2020.

Due to Pittsburgh having a population around 301,000 it was not eligible for a share of this money. In all, 171 counties and cities/towns, including Allegheny County and Philadelphia, were. What happens if there is no additional federal money forthcoming, whether by no additional legislation being passed or local aid that for whatever reason would bypass Pittsburgh?

In a speech a few days before the letter was published, the mayor stated that "large cuts to spending will likely be necessary" in the city's budget but no specifics were presented. The city's home rule charter requires a balanced operating budget. Amendments can be made after adoption but the requirement must still be met**.** *Spending cuts should be made and soon to keep the deficit from ballooning further.*

It is very important to remember that in our most recent Benchmark City report we noted that Pittsburgh spent 51 percent more on a per-capita basis than the cities that make up the benchmark and its headcount per 1,000 people was 47 percent higher. A study in 2016 ranked Pittsburgh near the bottom of 160 cities in financial management affairs (see *Policy Brief Vol. 16, No. 34*).

If the city's taxes and spending levels were not so high in comparison to better financially managed cities, the revenue shortfalls would not be so dramatic and the need to find supplemental revenue dollars or to make spending cuts would be far less, even if in percentage terms they are the same for the benchmark cities.

Asking for $127 million in federal or state government aid before layoffs, spending cuts or use of the reserves is likely to be a non-starter. The most important thing is to get the national, state and city economies up and running. Otherwise the financial holes just get deeper.

Now would be a perfect time to look at money-saving proposals—such as privatization and outsourcing—to reduce city expenditures and gradually reduce the workforce. That is a necessary step in lowering the future growth of pension liabilities. Getting in line with much better managed cities is paramount for Pittsburgh's future.

Finally, as we noted in 2009 as the economic recession began to be felt in the area, "the one thing [local governments] should not do is to make the local problems worse by raising taxes to fill budget gaps." Unfortunately, for 2020 the city raised the tax rate on deed transfers and added the voter-approved increase in the property tax. The need for revenue grows because of spending increases and the City of Pittsburgh shows no inclination to reduce it.

Allegheny Institute Estimate of City Revenue

Tax/Non-Tax	Cumulative Revenue through February 2020	Expected Revenue March 15 to May 31	Estimated % that Could be Collected	Estimated Shortfall from Expected
Real Estate	$114,084,979	$15,000,000	53	$7,000,000
Local Services	$2,868,181	$3,147,093	50	$1,573,547
Amusement	$1,401,841	$3,881,302	0	$3,881,302
Earned Income	$22,186,088	$22,558,267	60	$9,023,307
Facilities Usage	$1,202,835	$1,155,534	0	$1,155,534
Payroll Prep	$10,625,778	$15,037,089	40	$9,022,253
Deed Transfer	$7,712,441	$9,263,851	0	$9,263,851
Parking	$5,770,778	$12,542,085	5	$11,914,980
Act 77	$3,429,191	$4,970,368	30	$3,479,258
Licenses and Permits	$2,662,821	$3,013,223	50	$1,506,612
Charges for Services	$13,692,624	$8,833,593	50	$4,416,797
Fines and Forfeitures	$3,517,850	$2,228,082	20	$1,782,466
Intergovernmental	$5,696,582	$9,221,743	60	$3,688,697
Investment	$392,956	$547,160	0	$547,160
Miscellaneous	$24,999	n/a	n/a	n/a
Total	$195,504,720	$111,399,391		$68,255,764

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