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Recommended action steps for the incoming mayor

Summary: When City of Pittsburgh voters elected a new mayor in 2005, 2009 and 2013, the Allegheny Institute compiled a series of recommendations for the new mayor (and, by extension, City Council) to consider adopting to improve the city's financial, economic and business climate situation in an effort to promote private-sector growth and healthy finances. As a new mayor prepares to take office in 2022, we offer our best wishes for a successful tenure and a brighter future for the city.

Recent economic and population history

The poor performance of the City of Pittsburgh labor market since the turn of the century has been woeful compared to the nation and dreadful compared with many cities across the country.

In the late 1990s and early 2000s, Pittsburgh was able, through political support and in opposition to voter wishes, to build two new heavily taxpayer-subsidized stadiums for football and baseball as well as a new—and massively over the original estimated cost—convention center, *completely* taxpayer funded. These projects were sold as being a great boon to the city's economy, employment and finances. Sadly, the data for the period show no such boost. Indeed, the city's long-running lackluster performance has continued.

To illustrate briefly Pittsburgh's economic sluggishness, consider that since 2000, Pittsburgh's labor force has grown very slowly, rising 0.6 percent through 2019, the last pre-COVID year. Household employment (city residents who are working) rose 0.8 percent during the same period. By comparison, the U.S. labor force climbed 14.7 percent and household employment rose 15.1 percent from 2000 to 2019.

Meanwhile, the city's population loss has continued, dropping from 334,563 in 2000 to 302,971 in 2020. The recent declines have been at a much slower pace than in previous decades. But a return to population growth does not seem likely anytime soon.

Schools

Along with the long-running population loss, Pittsburgh school enrollment has been in virtual freefall since 2000, plunging by nearly 50 percent to the current estimated figure of just under 20,000. School spending per student during the period rose 120 percent to just under $30,000 while consumer price inflation was up 50 percent. Thus, spending per student rose over twice as fast as prices. Recent Institute analyses show that, notwithstanding all the school district's promises to improve education outcomes, the weakest-performing schools have shown little or no improvement from dismal levels.

Recent tax and budget developments

Since our 2013 recommendations, the city has been released from both Act 47 fiscal distress status (February 2018) and state financial oversight (July 2019). Pittsburgh has maintained the practice of forecasting revenues and expenditures for five years as it was required to do when it was in oversight. Those forecasts are reviewed by the City Controller, City Council's budget director and the Office of Management and Budget as part of the preliminary budget process. Each ordinance, resolution and executive order is now accompanied by a fiscal impact statement that details how the measure will affect city finances.

Property taxes increased twice, once with voter approval, and the deed transfer tax increased once, with the rate of the latter (3 percent) maintaining its rank as the highest in Allegheny County.

The city has made strides in addressing its legacy costs. In 2010, net general bonded debt was $629.7 million and on a per-capita basis was $2,058. By 2020, debt had fallen to $458.6 million, or $1,529 per capita. In 2009, the pension funded ratio was 35 percent. Following the passage of Act 44 and the city's long-term pledge of parking tax revenue to avoid a state takeover of the pensions, the funded ratio increased to 57 percent in 2020. The recent improvement in the markets raised the funded ratio to 72 percent as of Sept. 30.

The city's next three fiscal years will be heavily impacted by the American Rescue Plan (ARP) stimulus money. At the end of this year, $213.3 million of the $335.1 million the city received remains; $144.4 million is scheduled to go into the operating budget. After the ARP money is expended, the city's 2025 forecast projects a drop of $35.4 million in revenues. The city is projected to have a positive operating result that year with $645.8 million in revenues and $645.1 million in expenditures.

The ARP money delays the impetus to reduce expenditures in the near term. But the need to emphasize cost-reductions and management improvements and resist costly new programs that will not have long-term funding must be front and center.

Action steps

In light of this analysis, the Allegheny Institute offers the following for the new mayor and City Council to consider.

1) **Institute a hiring freeze**—In the proposed 2022 operating budget, the city's full-time equivalent (FTE) headcount is 3,172.75 general fund employees and 200.25 FTE in various trust funds with dollars provided from federal, state and local sources. Based on 2020's population the 3,373 total FTE translates to 11.1 FTE per 1,000 people. The city was significantly higher on this measurement than the Benchmark City in the Institute's 2019 study. Pittsburgh's rate was 11 FTE per 1,000 people while the Benchmark City rate was 7.5 per 1,000 people.

   City government is a labor-intensive operation with salaries, wages and employee benefits representing 76 percent of the total operating budget expenditures next year. There is an increase in the overall headcount from 2021 of 27 employees, mostly due to the new parks tax. Much needs to be done to lower FTE per 1,000 residents significantly to become more in line with other U.S. cities that were roughly the same size 10 years ago.

   Excessively high numbers of employees per resident point to very high comparative expenditures per resident and higher tax burdens for residents and businesses. A hiring freeze would allow retirements and normal attrition to begin the process of dramatically slowing the rise in employee costs, both salaries and non-salary benefits which are very large and burdensome. This is key to long-term fiscal stability and lower tax burdens on city residents and businesses.

2) **Examine all departments and offices for increased efficiencies—**There are 10 departments, four offices, two boards and one commission in the 2022 organizational chart. A major independent study of how more efficient (and less costly) cities operate across all departments should be undertaken immediately with the goal of finding ways to improve workflow and productivity. Creating a bonus program for employees who suggest implementable cost savings and/or productivity enhancements should be a priority.

3) **Outsource non-core functions—**Of the $613.2 million in 2022 proposed expenditures, $235.1 million is not allocated to debt service, public safety or public works. This offers many opportunities for the incoming mayor to examine the possibility of outsourcing non-core functions to the private sector or perhaps the county or an authority. Achieving 10 percent savings translates to $23.5 million. Then with some success, there may be opportunities in public works, such as garbage collection (which many cities outsource), or in public safety if positions can be civilianized (53 FTE in the police bureau and 3 FTE in the fire bureau are identified as civilian positions in the 2022 budget).

4) **Push for the inclusion of a Taxpayer Bill of Rights in the Home Rule Charter—**The charter has been amended four times since 2001. A good addition, and one that has been recommended for some time, is an article requiring that general fund expenditures shall increase no more than the rate of inflation, that any surplus tax collection above and beyond the amount necessary to meet general fund expenditures shall be returned to the taxpayers of the City of Pittsburgh and that each city department, agency, authority and function is subject to periodic sunset review to determine the necessity of continuing said department, agency, authority or function. There should be no tax rate increases without a three-fourths vote of City Council or by referendum, preferably the latter.

5) **Don't support anti-business measures or subsidies for specific businesses—**Three recent city ordinances were challenged in the courts after their passage. One, paid sick leave, was upheld (on very spurious grounds), while the other two—security training requirements and source of income rental qualifications—were struck down as violating the language of the state's Home Rule and Optional Plans Law because they placed duties on businesses.

   The mayor should oppose any measure that seeks to impose a stricter regulatory environment on businesses. Similarly, support for favored businesses using city-based incentives is a practice that should have been eliminated years ago and certainly needs to end now. Likewise, the mayor should also look closely at zoning, planning and permitting processes to see if those are streamlined and friendly to business and, if not, initiate changes to make the processes friendlier and less costly.

There are other areas where the mayor could lead positively to improve the city's business climate and the city's finances including changing the approach to economic development and using the "bully pulpit" to call for meaningful reforms to Pittsburgh Public Schools. The state of the city school system is dreadful with extraordinarily high costs per pupil and many failing schools. It is time for the mayor to take a leading role in pushing for changes that will see that children are learning enough to score proficient on state reading and math exams. The schools are a major reason for the decline in population in the city in recent years. Focusing on the horrendous attendance problem would be a good place to start.

Conclusion

Successful implementation of our recommendations outlined above will demonstrate the long-term commitment to sound fiscal practices needed to grow the city's population and tax base. Those two areas are in a state of uncertainty as the effects of COVID-19 on office workers, events and education are still unfolding.

While the city has exited distressed status and oversight, addressed its underfunded pension plans by using a large portion of the parking tax and has received a large dollop of federal COVID-19 relief, underlying issues remain and must be addressed head-on. If it does not it will continue to lose ground to cities like Raleigh, Austin, Greenville, S.C., and many others in Right-to-Work states.

The city and school district need to move quickly to find effective solutions to their problems. Happy talk, sticking with failed policies and layering on more anti-free market, anti-private sector regulations will lead to further and even worse economic malaise.

Jake Haulk, Ph.D., President-emeritus **Eric Montarti, Research Director**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: AlleghenyInsti1