POLICY BRIEF

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Pittsburgh's Apologists Return with Bad Policy Suggestions

In 2003 a duo of the City's elite chaired a task force known as the Hillman/Roderick Committee to study Pittsburgh's financial problems and to recommend solutions. Of course, this was before the City formally entered Act 47 distressed status or was under the watch of a state appointed oversight board. The task force identified the usual fiscal maladies—stagnant revenues and too much spending. They recommended substantial tax increases and spending cuts and the creation of a state-appointed review board.

Now nearly seven years later with the City still floundering the apologists for (and too often enablers of) the City's self-inflicted fiscal wounds are back with a Post-Gazette opinion column claiming the City has made the Committee's recommended $40 to $45 million in spending cuts but the revenues from the new taxes have been inadequate to fix the City's problems. The Committee's leaders are asking for still more revenues on the grounds the City is the regional hub and the region's fortunes are inextricably tied to the City's well being.

But what the authors fail to acknowledge is that having the region forever subsidize profligate and irresponsible financial and economic behavior is neither sustainable nor desirable for the future of the City or the region. And it is also curious that they say not a word about the City's recent adoption of an economy stifling, government expenditure boosting prevailing wage bill or the looming living wage legislation.

Let's review what has happened regarding the City's financial situation since 2003 when the Committee convened. In 2003, the City had $378.4 million in operating expenditures and revenues of $349.3 million. Seven years later in 2010, Pittsburgh has budgeted expenditures of $446.5 million along with nearly equal projected revenues. Even adjusting for the roughly $20 million increase due to an accounting entry change that started in 2005 for state pension funding, the City is still spending about $50 million more than in 2003.

To understand better Pittsburgh's financial problems, in 2004, the Allegheny Institute created a benchmark city against which Pittsburgh's government finances and operation could be compared. Four geographically dispersed cities were chosen for the benchmark, Charlotte, Columbus, Omaha and Salt Lake City. The comparisons were very illuminating. Pittsburgh government was spending almost $1,200 per resident compared to $803 for the benchmark city, a difference of nearly $400 or 48 percent. At the same time, Pittsburgh had 11 city employees per 1000 residents, while the benchmark city had only 8 per 1000 residents, a gap of 37 percent.

Moreover, in 2004, Pittsburgh's bond payments per capita were three times the amount paid by the benchmark city. And, the City's pension plans had already fallen to 50 percent funded compared to 89 percent for the benchmark city.

On the revenue side, Pittsburgh was collecting $898 per capita in taxes from all sources, far higher than the benchmark city's $551. Non-tax revenues were fairly close at $287 per capita for Pittsburgh and $234 or the benchmark.

In short, Pittsburgh in 2003 and 2004 was spending and collecting taxes at levels far exceeding mid-sized cities across the country.

Now fast forward to the Institute's benchmark update in 2007. Pittsburgh's tax collections rose significantly to $1,037 per resident in 2007 and benchmark taxes per resident climbed to $615, boosting the gap between Pittsburgh and the benchmark city sharply from $347 to $422. Interestingly, Pittsburgh's tax collections in 2007 were $45 million above the 2004 level thanks to the new taxes and mandated changes in existing taxes required by the legislature's reform package—almost exactly the amount the Committee had wanted to see. Total revenue, including non-tax sources, climbed from $354.7 million in 2004 to an adjusted $428 million in 2007, a $73 million increase. The nearly $30 million jump in non-tax revenue was accounted for by money from gaming taxes, Commonwealth grants, the non-profit contribution and other miscellaneous line item increases.

Meanwhile, after adjustments to account for the transfer of debt service sinking funds into the PAYGO capital improvements and other one time transfers that were included in the operating budget, spending in 2007 still rose compared to 2004 rather than falling by $45 million the Hillman/Roderick Committee has claimed. The point is that while Pittsburgh was enjoying a strong three year rise in revenues of over 20 percent, the inability to rein in spending meant the fiscal problems of the City did not go away. Moreover, Pittsburgh's employee count per 1000 residents still stood 35 percent above the benchmark city.

What's worse, the situation has not improved since 2007 despite the City's being under the financial oversight of an Act 47 coordinator and the ICA board. Although 2010 budgeted expenditures of $446.5 million compared to 2007's actual spending of $434.5 would appear to indicate a modest $12 million rise over three years, the elimination of the PAYGO transfers of previous years to the general fund budget resulted in $55.2 million fewer dollars in the non-departmental Citywide line item in 2010 than in 2007. In other words, the other expenditure categories combined jumped by $67.2 million in just three years led by a $30 million (27 percent) hike in personnel benefits. But many other expenditure groups climbed by double digit percentage increases including; law, controller's office, city planning, police, fire, and public works. All told, 2010 budgeted spending stands $50 million above the 2004 level with further planned increases in coming years.

So much for reining in Pittsburgh's expenditures. The last three years have seen a virtual abandonment of any pretense at checking the growth of expenditures. Combined with an overwhelming legacy cost problem and a huge debt load, the inability to reduce other outlays on a continuing basis puts the City right back where it was seven years ago, except that it now has a panoply of new revenue sources, which we are being told yet again are not sufficient. It would seem fairly obvious that unless expenditures are curtailed by far more stringent efforts than we have seen to date, the City will never get its financial house in order.

These are the same folks who lobbied for the RAD tax, the regional renaissance tax, higher occupation tax, and the business payroll tax, among other revenue enhancements, again arguing that more taxes on non-residents are needed to solve the City's fiscal difficulties once and for all. Bear in mind it was the City's government officials who created this intractable financial mess with the tacit support of Pittsburgh voters. And it was the same civic leadership who now wants more taxes that perennially failed to bring pressure on the City to act responsibly. It is no good for them to argue that binding arbitration prevented the City from holding the line on police and fire contracts. They could have gone to Harrisburg and lobbied for Act 111 reform. That did not happen either. Nor did they fight the enormous and losing bets the City placed on publicly funded developments that have added to the poor financial situation.

To be sure, the City does serve as a regional core. But why should the burden of propping up its government fall ever more heavily on those living outside the City while the City fails miserably and continually to act in a prudent manner financially or in terms of economic policies? Those who work in the City pay one the nation's highest parking taxes and the Local Services Tax (the former occupation privilege tax). Their employers pay the payroll preparation tax; their companies pay property taxes either directly or indirectly through rent. County residents and visitors to the county pay RAD sales taxes that heavily support the City and its amenities—which by the way, is one of the main reasons Pittsburgh remains the sports cultural and entertainment center of the region. Perhaps the Committee leaders have forgotten that.

Folks venturing into Pittsburgh for a sporting or entertainment event pay an amusement tax on the tickets they purchase as well as the parking tax. Commuters and non-residents pour enormous revenues into the City's coffers that are well in excess of their use of services. Yet they are for some, always the scapegoats for Pittsburgh's problems.

Those living outside the City did not agree to the egregious pension benefits and legacy costs that threaten to sink City finances. They did not elect the officials that caved into union demands or placed stifling mandates on businesses. The City has done little to help itself as budgets and obligations continue to grow, even under financial oversight.

Finally, why do the Committee leaders not call attention to the glaring fact that the City and County have made virtually no progress in the last five years to reach accords on consolidating services despite the recommendations of many task forces over the years? So much time and effort was wasted pushing the full governmental merger of the City and County. A push doomed to failure from the outset.

The time for making excuses and blaming others for Pittsburgh's problems is long past.

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