POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

March 23, 2010 **Volume 10, Number 15**

Measuring Pittsburgh's Financial Performance

Compared to our Benchmark City—an amalgamation of financial data from four U.S. regional hub cities that differ in geographic location, population, square mileage, and political environment—Pittsburgh spends more per resident, taxes more per resident, has more employees per 1000 people, and is far out of line on legacy costs related to pension health, debt load, and workers' compensation expense.

We created this statistical concept in 2004 after our work comparing Pittsburgh against cities that had similar population size and then those in the same geographic "rust belt" location. We selected Salt Lake City (UT), Columbus (OH), Omaha (NE), and Charlotte (NC). Taken together they form the Benchmark City.

This year, as in 2004, we examined budgets and financial audits, Census data, and annual reports. Phone calls and e-mails to staff in each respective city filled in information gaps. The average of the per capita or per 1000 people measurement for each city in the Benchmark sample produced what is termed the Benchmark value. Altogether we compiled 25 variables that covered the areas of Demographics, Spending and Taxes, Headcount, Legacy Costs, Authorities, and Schools.

So when we stacked up Pittsburgh against the Benchmark City what did we find? Our full-length report (available at our website) provides the in-depth detail of all the variables, but here are some highlights of the analysis:

- *Pittsburgh spent 50 percent more on a per capita basis*—This measurement looked at general fund spending and related municipal debt service. In the 2010 budget year Pittsburgh plans to spend $1,440 per person while the Benchmark City plans to spend $961 per person. On general municipal debt service alone Pittsburgh was 75 percent higher than the Benchmark City ($261 vs. $147 per person).
- *Pittsburgh collected 56 percent more in taxes*—Looking at everything that was locally levied as a tax (in Pittsburgh this list includes seven taxes) Pittsburgh will bring in $1,113 compared to the Benchmark City's $715. Money from other state and national governments, licenses, fees, etc. make up the rest of the revenue equation.
- *Pittsburgh is far out of line on pension funding, debt, and workers' compensation*—The issue of legacy costs is front and center for Pittsburgh, as well as for other state and local governments around the country. On the funded ratio of pensions (the plans' assets divided by liabilities) Pittsburgh was far lower (43% to 82% based on officially audited numbers; Pittsburgh's ratio has dipped to 30% recently), and its per capita net bonded debt was $2,176 to the Benchmark City's $797. Workers' compensation payments were much higher in Pittsburgh ($69 per capita to $16 per capita).

That's the 2010 overview. Looking back to our original 2004 work, we can see whether or not Pittsburgh has improved its standing relative to the Benchmark City on any of the variables. Pittsburgh improved its relative position on fire department spending and staffing. In 2004, Pittsburgh was 60 percent higher on spending and 47 percent higher on staffing. This year, the gaps on those respective measurements fell to 30 percent higher and 17 percent higher, respectively. In 2004 Pittsburgh's per capita debt load was 233 percent higher than the Benchmark City: it is now 173 percent higher. This measurement is still hugely out of sync with other cities despite the relative standing improvement.

Six years after seeing Pittsburgh carry a funded ratio for pensions that was 43 percent lower than the Benchmark City ratio that measurement is now 48 percent lower. Police department spending is higher now than it was in 2004 (22% to 18%). School enrollment per resident has continued to fall compared to the Benchmark City.

To repeat the most important results: overall spending is 50 percent higher than the Benchmark in 2010, almost identical to where it was in 2004. Note that in 2004, Pittsburgh's per capita expenditure was $1,189; this year it is $1,440, a 21 percent jump. If Pittsburgh's overseers could have cajoled Pittsburgh to hold per capita spending at 2004's level, the City would be spending $368 million this year instead of $446 million (based on a population of 310,000). That would have easily provided ample funds to meet the City's pension funding needs, perhaps set aside some money for its post-retiree health care obligation (which currently has no assets on its balance sheet to pay for a $360 million liability) and maybe even give Pittsburgh's taxpayers a much needed tax cut.

And over the last six years, holding the line at 2004 spending would have saved over a hundred million dollars that could have been used to put the City on a much sounder footing. Moreover, even at $1,189 per capita, Pittsburgh would still be well above the Benchmark City's current spending level. This shows in starkest terms how far Pittsburgh has to go to become financially and fiscally sound. Recently, the Pittsburgh Council passed a prevailing wage bill and is considering a living wage bill. Bear in mind that the City does not have the funds to pay for the higher costs of either one.

Unfortunately, Pittsburgh has chosen to keep ratcheting up the expenditures and is constantly searching for more revenue sources, including the recent attempt to impose a tuition tax and now the sugary beverage tax as well as endless pleas for Harrisburg to provide more help. Adding new taxes will only serve to make Pittsburgh less competitive with the Benchmark City, as well as most other cities around the country. It appears the City's governing officials do not have a clear picture of the reality they face.

Eric Montarti, Senior Policy Analyst **Jake Haulk, Ph.D., President**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org