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Distressed…or Just Irresponsible?

The consultants who were hired to determine whether the City of Pittsburgh meets any of the legislative criteria of financial distress under Act 47 released their findings at a public hearing earlier this week. The recommendation? Because of the City's fiscal condition, tax base, service levels, trends in population, and administrative practices, the group found that City met the criteria to warrant distressed status.

Though not a complete surprise, a review of their report shows that, on its face, the City does not exhibit the trends one would expect to find with a community that has no hope of solving its own financial problems. While population trends are clearly negative, Pittsburgh has done quite well on trends related to income, unemployment, appreciation of home values and property tax base.

From 1989 to 1999, increases in median income and median home values outpaced the average of the Commonwealth's largest cities as well as the average increase for the entire state. The unemployment rate remained below state and Pittsburgh metro area averages. And the report's findings point to a relatively steady trend in jobs located in the City (an increase of 1.8 percent) between 1990 and 2000, despite the fall in population. We doubt that other distressed communities like Clairton, Farrell, or Duquesne experienced similar trends over the years leading up to their declaration of distress.

The report examines the major sources of tax revenue for the City (real estate, wage, business privilege, and parking) and their rates in comparison with the rest of Allegheny County. While rates on wages and business privilege are at the top of the County's municipalities, the combined real estate rate (municipal, county, and school) ranks 52nd out of 130. Little mention is made of the Regional Asset District tax and its contributions to the City's coffers (about $20 annually million over the last few years, $145 million from 1994 to 2002). Sold as the salvation of the City, it would have been nice to see some discussion of why that revenue source has failed to serve its intended purpose. For a City whose population is shrinking, tax revenues have increased sufficiently to cover reasonable expenditure growth.

The most glaring omission from the report's examination of the expenditure side is on public safety spending. As we discussed in a previous *Policy Brief (Volume 3, Number 35),* spending on public safety far outstripped inflation from 1984 to 2002, rising $123 million, or a whopping 162 percent over 1984 totals. If public safety expenditures had been held to the rate of inflation, the City would have spent about $73 million less in 2002.

It is unfortunate that the consultants did not take a closer look at this trend. Their spending data only went back to 2000, most likely to focus on making the case that the City has run a deficit for three or more years, a criterion of distress under the act. A historical look shows that the failure to rein in public safety spending was a trend established in the 1980s and was exacerbated during the last decade.

The table below presents general fund spending on public safety and population totals at three points over the last twenty years. From 1984 to 1992, the City's per-capita public safety expenditure nearly doubled. From 1992 on, spending per City resident rose 66 percent--not as fast as the previous period, but the upward trend did not cease. If public safety spending had increased at the rate of non-safety spending from 1984 to 2002 (26 percent), Pittsburgh would now have a budget surplus.

Public Safety Spending, 1984-2002

	1984	1992	2002
Public Safety Expenditure	$76,379,491	$135,316,838	$199,017,215
Population	402,538	369,879	327,898
Per-Capita Spending	$188	$365	$607

Consider that four years after public safety costs stood at $365 per person that the Competitive Pittsburgh Task Force was convened and made hard recommendations on costs, staffing, and operations of police and fire. Unfortunately, those solutions were largely ignored.

A longer-term examination of spending trends by the consultants' report would have been welcome. It would have gone a long way in assisting the Commonwealth in its decision-making process. Act 47 states that the Department of Community and Economic Development (DCED) determines whether the criteria asserted to exist "is a valid indication of municipal financial distress". Then, and only then, can the Department exercise its powers to make a finding of financial distress.

Therefore, if the arguments put forth by the report are not determined to make a valid case, then DCED must reject Pittsburgh's application for distressed status. After examining the expenditure trends, Pittsburgh does not fit into the category of a distressed community as envisioned by the spirit and intent of Act 47.

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