

# ***POLICY BRIEF***

An electronic publication of  
The Allegheny Institute for Public Policy

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September 30, 2004

Volume 4, Number 37

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## **Budget Tomfoolery**

How's this for audacity? Pittsburgh has been in acute financial distress (virtually bankrupt) for nearly two years now, and yet controllable expenditures continue to grow. The latest budget proposal from the Mayor increases controllable outlays by roughly \$20 million, or more than 5 percent over 2004's spending of \$388.8 million. Clearly, in a distressed city, total expenditures should be falling.

An examination of budget specifics reveals that 14 of 27 existing line items will see increases totaling \$22.1 million in higher spending. In addition to hikes in those 14 line items, two new expenditure categories totaling \$10.5 million in outlays are included in the 2005 budget bringing the total spending increase to \$32.6 million. On the other hand, for the few expenditure items that are scheduled to decline, total savings will amount to only \$12 million.

As we have demonstrated in several studies comparing Pittsburgh's spending to other cities, Pittsburgh has a very serious overspending problem. It is incumbent upon the Mayor and Council to make substantive progress in reducing expenditure levels across the board. But with this budget, no such progress has been made. For example, the largest savings is slated for the fire bureau, which would see a \$9.1 million (15 percent) expenditure decline from 2004 and account for 75 percent of all cuts in the 2005 budget. To date, the fire union has resisted any attempts at reductions and may not accept a cut of this magnitude. Hence, there is a good chance the limited spending cuts in 2005 will turn out to be even less than the Mayor's budget proposes.

Other areas of alleged "savings" are with the Department of Engineering and Construction, the City Clerk's office, and the Magistrate's Court. However, these departments are being folded into the Department of Public Works and City Council respectively, while the Magistrate's Court will be taken over by the Commonwealth. Thus, the City cannot take full credit for the cuts, especially with the Magistrate's Court since those \$1.2 million in costs are being shifted to the state.

Amazingly, 8 departments are scheduled to receive spending hikes of more than 10 percent in 2005, including several large ones such as Public Works, Finance, Information Systems, and Parks.

The most glaring jump in expenditures occurs in the benefits category. To be fair, of the \$26 million rise, approximately \$18 million is the result of a change in accounting procedures that requires the state pension assistance to be recorded as an expense as well as revenue. But that still leaves a real increase of \$8 million in that category. Our calculations of the overall spending increase have taken into account the procedural change.

Meanwhile, Council and the Mayor have done little or nothing to initiate privatization of functions and services the City should have privatized long ago—garbage collection, building inspection, fleet management, and EMS. Nor have they moved to adopt a program of entering into contracts to have functions such as parks and recreation, purchasing, the office of municipal investigation, and tax collection taken over by the County. Numerous studies over the last ten years have pointed out these and other meaningful remedies. Yet Council and the Mayor have stood by, apparently hoping for a magic wand to painlessly solve the City's financial problems.

Bear in mind that the City does have the opportunity to open up a potentially large new revenue stream—the City's authorities. By selling off the assets and terminating authorities such as Parking, Stadium, Water, and Urban Redevelopment, the City can accomplish two things: receive a large infusion of cash and return properties to the tax rolls. The Urban Redevelopment Authority has net assets of almost a quarter of a billion dollars. Liquidating all or some of these assets represents a long-term solution and real progress in repairing city finances. For whatever reason, City government leaders seem unable or unwilling to carry out such far-reaching and dramatic reforms.

Council and the Mayor insist that the City's problem is a lack of *new* revenue. Unfortunately, until they realize that the problem is spending, not revenue, they are not going to enact meaningful changes and the City will never dig its way out of its financial morass.

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