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**Pittsburgh's 2006 Budget**

In the most recent *Policy Brief*, we detailed the revenue side of the City's budget. Now we look at this year's expenditures, which are budgeted at \$427.5 million. This represents a \$28.5 million increase from 2005's actual expenditures. Last year's outlays fell short of the budgeted level largely as a result of a decision to leave many police positions unfilled.

Compared to 2005 actual expenditures, the 2006 budget for spending on all departments is expected to increase by 4 percent to \$194.8 million. The major drivers of the increase are the police department (up \$7.8 million), finance (up \$3.8 million), and public works (up \$12 million). In the case of the police department, more hires are expected this year. Finance and public works are absorbing functions and expenditures for other departments under the recovery plan.

While there are cuts in Council staff expenditures, they are simply too small to make more than a ripple in Pittsburgh's total spending. The same holds for budget reductions for the mayor's office, the Human Relations Commission, as well as Law and Planning Departments.

Additionally, failure to deal with the Fire Bureau continues despite some modest improvement. This year's budget (\$48.4 million) is less than the 2005 actual amount (\$53.5 million) but outrageous overtime pay continues because of the City's ill-advised acceptance of a ludicrous contract with the firefighters unions.

**City Expenditures (in 000s)**

<b>Expenditures</b>	<b>2006 Budget</b>	<b>2005 Actual</b>	<b>Difference</b>
Departmental	194,870	187,470	+7,400
Non-Departmental	232,609	211,425	+21,184
Total	427,479	398,895	+28,584

We also don't know the savings that could have been realized if the planned merger of purchasing with the County had gone through or if the garbage privatization bid had been handled correctly.

Without question, the City's real budgetary problems lie in the non-departmental spending category, which includes employee benefits and debt service. The Act 47 process has not substantially addressed these expenditure categories. Non-departmental spending is budgeted at \$232.6 million for 2006, \$21 million, or 10 percent above the 2005's actual spending.

Amazingly, the out of control category of pension/health benefits/workers' compensation is budgeted at \$12 million above the actual 2005 figure. As far as workers' compensation is concerned, changes can be made in contracts as they are renegotiated, and a strong approach that discourages fraud, controls risk and minimizes workplace injury must be a priority. Meanwhile, the City pension plan is under-funded by \$469 million. The City must get employees to

contribute more to their plans. Better yet, the City should move away from defined benefit programs for new employees and adopt defined contribution plans.

Moreover, in 2007, with tax revenue likely to decline and with the City spending \$12 million of its fund balance this year, pressure to lower spending next year will be intense.

In the longer term, only a fiscal approach that focuses on large declines in per-capita expenditures will get Pittsburgh to where it needs to be. The City must move quickly to reduce spending below current levels. The City ought to be working to outsource services to the County or consolidate functions with the County. Garbage collection, along with park and street maintenance, should be privatized. City and City Authority assets should be sold to generate funds to pay down debt.

Pittsburgh simply must reduce its tax burden if it is to have a thriving private sector. Unfortunately, cutting taxes will be very hard if spending is not lowered first.

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