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Let Pittsburgh Voters Decide City's Financial Future

Very soon the City of Pittsburgh will be submitting preliminary budget numbers for 2008 and the years beyond to the oversight board. Based on its 2007 submission to the board, the City's projections likely will show average growth of 3 percent in the budget every year. Thus, in 2011 the City is projected to spend \$470.8 million, up from the \$410.6 million in 2006. Holding the City's population constant at 312,000, per capita expenditures will increase by nearly \$200 to \$1,510. In all reality, population will not stay at that level and will experience a net decrease, meaning per capita expenditure will stand even higher.

Given the fact that there have been no dramatic changes coming out of the recovery/oversight era to date, it is clearly time for a radical departure from the status quo. In that regard, it would be heartening to see a spending limit article adopted into the Home Rule Charter that will check spending growth and provide some relief to the City's crushing tax burden.

In 2003 (*Policy Brief Volume 3, Number 35*) we documented how a spending cap would have affected the spectacular growth in public safety spending by the City which rose from \$76 million in 1984 to \$199 million in 2002 (162%). If the City had a spending cap tied to the change in the Consumer Price Index (66%), the 2002 level of expenditure would have been \$123 million instead of \$199 million, an enormous annual savings of \$76 million. The savings would have been even greater if the spending cap included an adjustment for population change, which recorded a 19% decrease during the period.

Placing spending cap language on the ballot to amend the City's Home Rule Charter could be done either by a petition of City voters (about 10,000 based on the 2006 gubernatorial election) or by an ordinance of City Council. While it is questionable whether any Council member would initiate such a measure, an analysis of potential benefits might change some minds.

Here is the trajectory of the City budget based on the 2007 data submitted to the oversight board:

| Year | Expenditures (000s) | % Change |
|------|---------------------|----------|
| 2008 | \$431,005 | |
| 2009 | \$444,267 | 3 |
| 2010 | \$457,283 | 3 |
| 2011 | \$470,882 | 3 |

Since Pittsburgh's per capita spending remains so far out of line in comparison to spending in other cities across the country (\$1,347 in Pittsburgh compared to \$1,000 for our Benchmark City), it is crucial that Pittsburgh begin a trend of substantially reducing per capita outlays. If the City is to have any hope of providing room for tax rollbacks and becoming economically competitive, it simply must get per resident spending down to levels more in line with cities that are strong economic performers.

The spending cap should be set at no more than 2 percent per year plus the annual change in population. More generous cap limits will not bring spending per capita down in any reasonable time frame. Because population change has been negative year-to-year (it fell 1.1 percent from July 2005 to July 2006 according to the Census), spending increases would be quite small.

Now compare the projected out year expenditures, starting with the 2008 baseline, with expenditures capped at 0.9 percent per year (under the assumption that population continues to fall at its recent rate of decline).

| Year | Estimated Population | Projected Expenditures (000s) | Per Capita | Expenditures Under Spending Cap (000s) | Per Capita Under Cap | Reduced Spending (000s) | Cumulative Savings |
|------|----------------------|-------------------------------|------------|--|----------------------|-------------------------|--------------------|
| 2008 | 312,000 | \$431,005 | \$1,381 | \$431,005 | \$1,381 | n/a | n/a |
| 2009 | 308,568 | \$444,267 | \$1,442 | \$434,884 | \$1,411 | \$9,383 | \$9,383 |
| 2010 | 305,173 | \$457,283 | \$1,499 | \$438,798 | \$1,438 | \$18,485 | \$27,868 |
| 2011 | 301,816 | \$470,882 | \$1,564 | \$442,747 | \$1,470 | \$28,135 | \$56,003 |

The spending growth differences are quite significant. By holding expenditures to a 0.9 percent annual increase, the City could achieve cumulative savings of \$56 million through 2011, providing some opportunity to reduce taxes. Lowering taxes and strict adherence to the cap by Council would send a message to other cities and regions that Pittsburgh is on the right track.

As the table above shows, the savings really start to build in future years. In 2014, the reduced spending achieved by sticking to the proposed cap as opposed to 3 percent yearly increases would produce a yearly savings year of \$60 million and a cumulative savings since 2008 of more than \$200 million.

Further, the reduction in inflation/population adjusted spending would create the very positive additional benefit of forcing reductions in employment over time, which in turn will slow growth in pension and retiree health liabilities. This may be the single most important step the City can take toward addressing its unfunded liabilities.

All told, by trending in the direction of lower per capita spending and being able to cut taxes, Pittsburgh could well start to reverse its long slide in terms of population loss and begin to attract businesses and jobs in a much more robust fashion.

Of course, there will be resistance from powerful interest groups and there will be claims that the City's hands will be tied, or that vital services would be cut. Clearly, a spending cap would force hard decisions and require the setting of priorities. That has to happen. If the City wants to continue to provide everything, there will never be enough revenues. To be sure, the City would have to look at cost saving methods such as competitive contracting. Maybe they could emulate Charlotte's ongoing privatization effort that constantly looks for ways to save taxpayer dollars.

The question for the Council is very simple. Is it not time to allow residents and taxpayers of Pittsburgh to decide whether or not they want the City government to be put on a fiscal diet? After all, it is they who will pay the price in one way or another if the City does not get a firm grip on its long term financial problems. Whichever way the vote goes, it should be their prerogative to make the decision about something so vital to the City's future. Moreover, the outcome of the vote will send an unmistakable signal to the world about where Pittsburgh is headed.

If Council will not do the right thing and set up the referendum, then concerned citizens will have to launch a difficult petition campaign.

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