POLICY BRIEF

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Aligning City Spending with Its Population

Same story, just a new year: the Census Bureau estimates that the City of Pittsburgh's population fell once again and now stands at 311,218. That's a decline of 23,000 people (7%) since 2000. Losing population at the average rate of the past seven years, about 3,300 people annually, the City will be down to around 300,000 people or so in the early part of the next decade.

While population is down, City spending has not adjusted commensurately. Numbers taken from the Controller's Comprehensive Annual Financial Reports show that in 2007 the City's general fund expenditures stood at $442.4 million, which, based on 2007's population count, translates into a per capita expenditure of $1,423. In 2000, the City spent $356.9 million, and based on a population of 334,563, the per capita expenditure was $1,069. In seven years, per capita spending in the City increased 33 percent.

Consider that in the same time frame the Consumer Price Index for the Pittsburgh area rose 20 percent. If the City's per capita expenditures had risen at the rate of inflation instead of 33 percent, the 2007 per resident expenditure would have been $1,282. That translates into 2007 spending of $399 million, about $43 million less than actual spending. Clearly $43 million would have come in quite handy for a City desperately needing to fund pensions and debt or eliminate nuisance taxes.

Nothing can change how the City got to where it is. But the spending trajectory for outlying years can be changed. We've advocated a rigid City spending cap (see *Policy Brief Volume 7, Number 49*) to be placed on a referendum as an amendment to the City's Home Rule Charter. The spending cap would limit the change in per capita expenditures to a 2 percent increase from the previous year.

Based on the population decline in recent years of about 1 percent per year, the City would be held to an increase of 1 percent in total outlays (2 percent max – 1 percent decline in population) yearly.

The table shows how this would affect City spending beginning with the 2008 budget baseline ($423 million) and the forecasted growth contained in the budget now. It is very possible that the budget and the projected growth could be revised upward by the City. Note that the 2007 final budget was $434 million and actually came in at $442 million. As of now, projections show that the City will increase its spending to $470 million in 2012.

Two Courses for Future City Spending

Year	Current Projections (000s)	% change	Under a Spending Cap (000s)	% change	Reduced Expenditures (000s)
2008	$423,755		$423,755		
2009	$435,491	3	$427,993	1	$7,498
2010	$442,446	2	$432,272	1	$10,174
2011	$455,905	3	$436,595	1	$19,310
2012	$470,549	3	$440,961	1	$29,588

Contrast that with a spending cap. That same $423.7 million baseline in 2008 would instead top out at $440.9 by 2012. Holding year over year increases to a smaller growth rate would result in cumulative savings of $66.5 million. The difference is clear: assuming the City has 300,000 residents in 2012, the per capita spending levels would be $100 lower under a cap than they would be under the current path of expenditure growth. From 2008-12, the cap controlled growth in per capita spending would be 8 percent compared to 15 percent under current budget projections.

On top of these savings there is the important effect of reducing City employment numbers, which in turn results in fewer future liabilities for pensions and retiree healthcare, two areas that desperately need to be controlled. A stringent cap on spending increases would begin the process of curtailing such liabilities.

The cap offers a productive alternative, especially with the City remaining in Act 47 distressed status following the decision of the Department of Community and Economic Development. The Secretary noted "Pittsburgh needs an amended recovery plan that would provide a blueprint for it to exit Act 47 and address pending legacy costs of debt, pensions, post retirement benefits, workers' compensation…while maintaining positive operating budgets well into the future".

How's that to be done? The City can continue on its current course of seeking out allies across the state to petition the Commonwealth to fold pension obligations into the statewide system or to amend the pension funding formula. That's been met with barely lukewarm enthusiasm so far. Or it can make a change to limit spending strictly and show the region, the state, and the country that they are serious about turning the City around. That's never been tried here. It would be hard, but with a much bigger payoff. Maybe the City should forge this path.

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