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Pittsburgh's 2007 Budget: Few Signs of Recovery

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Key Findings

- The City's 2007 Budget includes changes to the rates of three taxes it levies: earned income, parking, and business privilege. The projected net result of these three changes is a decrease of $7 million in tax revenue

- The City's major revenue generators—taxes on real estate and earned income—have displayed negligible growth and recent collections are lower than highs reached in the early part of the decade

- In 2007, projections show that taxes will represent 74 percent of total revenues collected by the City. This was lower than recent years and is expected to slightly decline through 2011

- In 2007, budgeted expenditures are expected to rise over this year's expenditures and represent an increase over 2005 actual spending

- In 2011—when formal ICA oversight is slated to expire—the City projects an increase in 15 percent over the 2006 level of expenditure

- By that same year, the largest category of spending—pensions, health benefits, and workers' compensation—are projected to reach $144 million and have a ratio of 78 percent to salaries and wages

Introduction

Next year will find Pittsburgh still on the long road to financial recovery. Major changes go into effect but very big questions remain unanswered. In 2007, the City is projecting expenditures of $419 million, an increase over the $409 million projected for 2006.[1]

This is the first budget by an administration not directly involved with the state reform package but still bound by Act 47 and state oversight. The 2007 budget and financial plan were submitted to the Intergovernmental Cooperation Authority (oversight board) for their approval, which was given on October 20, though it still needs approval from Council. The board approval came after modifications were made to several areas of the budget due to suggestions from the board. The members of Council and the Controller's office have expressed unhappiness with proposed expenditure levels for their offices.[2]

This report examines the 2007 budget and major tax categories and their trends over the past several years and the forecast through 2011, as well as the expenditures associated with public safety, debt, and benefits.

City Revenues

The City directly levies taxes on real estate, earned income, parking, amusements, payrolls, those working in the City (EMS), transfers of real estate, and gross receipts (business privilege). In 2010, the count will be seven levied taxes after the business privilege tax is completely eliminated.

The tax levy changes that started in 2005 with the increase in the occupational privilege tax from $10 to $52 annually (and the re-naming of the tax to the Emergency and Municipal Services Tax) and the creation of the payroll tax as an all-encompassing tax on businesses to replace the loophole-ridden business privilege tax and mercantile tax continue. Here are the three major revenue-side changes that will occur in 2007:

- The earned income tax, which is levied at 1 percent rate on the wages, net profits, and earned income of City residents, will increase to 1.1 percent by way of a shift of a portion of the rate City residents pay to the Pittsburgh Public Schools.[3]
- The parking tax rate was increased to 50 percent in 2004, but will begin its mandated phase-down, dropping to 45 percent.[4]
- The business privilege tax rate will be halved to stand at 1 mill.[5]

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[1] City of Pittsburgh, letter from the Director of Management and Budget to the Intergovernmental Cooperation Authority, October 20, 2006. The original City of Pittsburgh 2007 Operating Budget proposal put expenditures at $429 million.
[2] Rich Lord "Mayor's Budget Clears Oversight Board" Pittsburgh Post-Gazette, October 21, 2006. Letter to ICA
[3] Pennsylvania General Assembly, Act 187 of 2004
[4] Pennsylvania General Assembly, Act 222 of 2004
[5] Ibid

Earned Income Tax

2007 Budget Amount: $50,950,000
2006 Budget Amount: $48,863,527
2007 Rate: 1.1 percent, an increase of 0.1 percent

As mentioned, the rate will increase by one-tenth of a percent through a shift from the 2 percent wage tax City residents pay to the Pittsburgh Public Schools. A City resident subject to the tax will still pay a total of 3 percent in wage taxes in 2007 and for the foreseeable future. By 2009, the shift from the schools to Pittsburgh will be complete. The City rate will increase to 1.25 percent with the schools collecting 1.75 percent.

This combined rate is the highest in Allegheny County and one of the highest in the state. It is, as described in the Act 47 Recovery Plan of 2004, "a strong disincentive to live in Pittsburgh"[6].

Given this year's one percent City rate and $48.8 million in expected revenue, we calculate that each tenth of a percent of the tax brings in $4.8 million dollars. The City should expect to receive $53.7 million in 2007, even with no growth in taxable income. So why is the City budgeting only $50.9 million? Although they have not said, there are a few plausible explanations:

- *A sluggish local economy*: The number of City residents who are employed fell 2 percent from the 2000 level of 149,059 to 146,359 in 2005. And there is little change in 2006. The longer-term weakening trend is even more pronounced, with residents holding jobs down 6 percent from 1996. The decline in number of people working is almost certainly being accompanied by a trend toward a higher percentage of jobs being lower pay and more part-time; i.e., eating and drinking and retail.[7]
- *Statutory Changes*: A 2002 state statute changed the local definition of earned income and aligned it to the state's definition under the state income tax, allowing additional exemptions.[8]
- *Fewer people in the City:* Population in the City continues to fall and stood at 316,000 in 2005, down from 331,000 in 2000, according to the most recent Census data.[9]

Indeed, recent history shows wage tax collections to be on the decline with negative year-over-year growth from 2000 to 2005. In 2000, wage tax collections stood at $49.3 million. Last year receipts were $47.3 million, a decrease of 4 percent. The intervening years saw weaker collections than the 2000 reading with the low point in 2004 at $45.1

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[6] Commonwealth of Pennsylvania, Department of Community and Economic Development: "Municipalities Financial Recovery Act, Recovery Plan for the City of Pittsburgh" June 11, 2004
[7] U.S. Department of Labor, Bureau of Labor Statistics (http://data.bls.gov)
[8] Pennsylvania General Assembly, Act 166 of 2003
[9] U.S. Census Bureau, Projections for City Population (http://www.census.gov/popest/cities/tables/SUB-EST2005-01.csv)

million. There was a modest rebound to 2005 when receipts increased 5 percent, but as previously mentioned, still did not climb back to the 2000 level.

Earned Income Tax, 2000-2011[10]

Year	Status	Revenue (000s)	% Change
2000	Actual	49,326	
2001	Actual	49,276	-0.1
2002	Actual	46,978	-4.6
2003	Actual	46,018	-2
2004	Actual	45,185	-1.8
2005	Actual	47,388	4.8
2006	Revised Projected	48,863	3.1
2007	Budgeted	50,950	4.3
2008	Projected	55,960	9.8
2009	Projected	59,222	5.8
2010	Projected	60,110	1.5
2011	Projected	60,711	0.9

Contrast the absence of wage tax receipts growth with the change in the Consumer Price Index for the Northeast, which increased 15 percent from 2000 to 2005. If wage tax receipts had grown at this rate over the five years, the City would have collected over $56 million in 2005, some $9 million above the actual for last year. In the coming years, as a result of the rate shift mentioned earlier, the City is projected to collect $60.7 million.

Parking Tax

2007 Budget Amount: $47,043,000
2006 Budget Amount: $49,840,000
2007 Rate: 45 percent, a decrease of 5 percent

The significant rate increase in the parking tax in 2004 from 31 percent—where it was the highest rate in the nation—to 50 percent caused receipts to nearly double from the fiscal year 2000 level.

Due to the small decrease in the tax rate, it is unlikely that parking customers will see significant changes in the rates they pay to park at public and private garages and lots in the City. The table below reflects the effects of the reform package on the parking tax: in 2007 it will fall to 45 percent, in 2008 to 40 percent, in 2009 to 37.5 percent and thereafter 35 percent, which brings it closer to its pre-2004 rate.[11]

[10] Comprehensive Annual Financial Report, City Controller's Office, Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Non-GAAP Budgetary Basis) years 2000 through 2005 and letter to ICA
[11] Act 222

Parking Tax, 2000-2011[12]

Year	Status	Revenue (000s)	% Change
2000	Actual	30,097	
2001	Actual	30,902	2.7
2002	Actual	30,944	0.1
2003	Actual	30,879	-0.2
2004	Actual	44,511	44
2005	Actual	50,323	13
2006	Revised Projected	49,840	-0.9
2007	Budgeted	47,043	-5.6
2008	Projected	42,618	-9
2009	Projected	40,720	-4.5
2010	Projected	38,724	-4.9
2011	Projected	39,476	1.9

Business Privilege Tax

2007 Budget Amount: $8,043,000
2006 Budget Amount: $14,493,000
2007 Rate: 1 mill, a decrease of 1 mill

The business privilege tax is a tax on the gross receipts of certain types of businesses, such as services or trades. It was largely decried as a tax that was too unfair, not only taxing receipts on the gross without respect to profit, but that large employers were mostly exempt from the tax[13]. Following the enactment of the tax package, the new payroll tax on all for-profit employers replaced the mercantile tax, another gross receipts tax that was immediately eliminated in 2005 and the business privilege began its scheduled phase out. As seen by the table below, the BPT is eliminated in 2010.

Business Privilege Tax, 2000-2011[14]

Year	Status	Revenue (000s)	% Change
2000	Actual	39,818	
2001	Actual	43,171	8.4
2002	Actual	43,965	1.8
2003	Actual	42,573	-3.1
2004	Actual	39,902	-6.3
2005	Actual	13,816	-65
2006	Revised Projected	14,493	4.9
2007	Budgeted	8,043	-45
2008	Projected	8,636	7.4
2009	Projected	9,211	6.7
2010	Projected	450	-95
2011	Projected	0	-100

[12] Ibid
[13] See the Pittsburgh21 Panel Report; Intergovernmental Cooperation Authority, November 12, 2004 report; Consultative Report by the Act 47 Team, December 8, 2003
[14] CAFR and letter to ICA

Real Estate Tax

2007 Budget Amount: $121,257,000 (current) and $2,741,000 (delinquent)
2006 Budget Amount: $123,996,628 (current) and $5,123,698 (delinquent)
2007 Rate: 10.8 mills

In the mayoral financial forecast of 2004, the projection was made that, following what was to be a reassessment in 2006, the City would "show some growth followed by stagnant collections for the following two years" mimicking the pattern following the 2002 reassessment.

The stagnation appears to have started a bit earlier than planned as reflected by the amount the City is budgeting for current and delinquent taxes in 2007. That number is down from what the City expects to bring in through the end of 2006 in both current and delinquent taxes.

As a side note, no elected City official has spoken out about the County's base year plan and the apparent end to reassessments. Although unpopular, the Countywide reassessments in 2001 and 2002 boosted taxable value and collections for the City, pushing revenues up $8 million dollars from 2000 to 2002.

Real Estate Tax, 2000-2011[15]

Year	Status	Revenue (000s)	% Change
2000	Actual	114,543	
2001	Actual	120,838	5.4
2002	Actual	122,284	1.2
2003	Actual	124,000	1.4
2004	Actual	123,576	-0.3
2005	Actual	124,516	0.8
2006	Revised Projected	129,119	3.7
2007	Budgeted	123,998	-3.9
2008	Projected	124,348	0.3
2009	Projected	125,440	0.9
2010	Projected	126,284	0.7
2011	Projected	127,131	0.7

Since 2003 City tax collections are essentially flat. Meanwhile, the Northeast CPI grew 7 percent from 2003 to 2005 while collections increased a mere one percent. Thus, collections have trailed far behind inflation.

Amazingly, the 2005 assessed value of taxable real estate ($13.2 billion) was nearly $2 billion below the highpoint in 2002 ($15 billion). Based on the high-watermark 2002 value and the City's millage rate, collections would have been expected to be $162 million, but the actual revenue was only $122 million. Why? One reason is the use of Tax Increment Financing for major development projects, which require diversion of tax funds to pay for construction bonds rather than going to City coffers.

[15] Ibid

Nearly every major development in the last fifteen years—the Mellon and PNC operations centers, the Heinz distribution center, SouthSide Works, Home Depot, and others—were granted TIFs. In some deals, it was 100 percent of the new taxes whereas in recent deals the City has retained a portion of the new taxes up front. Senior citizen and many other exemptions, along with discounts for early payment of taxes and assessment appeals, account for a sizable portion of the difference between the base calculation and actual collections.

The lack of growth in assessed real estate value tracks closely with the other demographic and economic factors: negative population growth, little or no job growth, an aging residential housing stock, and a very slow rate of private sector construction. This is the City's real problem on several fronts. The absence of private sector real estate value is a near perfect reflection of Pittsburgh's anemic economy. Stimulating construction through tax subsidies or TIFs for retail or residential buildings is a fool's errand. A lesson the City seems incapable of learning.

Amusement Tax

2007 Budget Amount: $9,140,000
2006 Budget Amount: $8,976,217
2007 Rate: 5 percent (for-profit venues), 2.5 percent (non-profit venues)

The City's amusement tax grew 30 percent over the five year time frame of 2000 through 2005. This was significantly faster than the 15 percent rate of inflation. It plunged significantly from 2003-04, down $2 million, likely due to the NHL strike idling the Penguins for that year.

Amusement Tax, 2000-2011[16]

Year	Status	Revenue (000s)	% Change
2000	Actual	7,706	
2001	Actual	9,636	25
2002	Actual	9,422	-2.2
2003	Actual	9,462	0.4
2004	Actual	7,714	-18.4
2005	Actual	9,771	26.6
2006	Revised Projected	8,976	-8.1
2007	Budgeted	9,140	1.8
2008	Projected	9,314	1.9
2009	Projected	8,995	-3
2010	Projected	8,979	-0.2
2011	Projected	9,045	0.7

There is indication that the lower rate paid by non-profits (2.5%) might be cut even further, possibly to 1.75 percent or even phased out completely. That would leave the 5 percent tax in place for the major source of amusement tax revenue—the three professional sports teams in the City.

[16] Ibid

Realty Transfer Tax

2007 Budget Amount: $16,828,000
2006 Budget Amount: $16,039,798
2007 Rate: 2 percent

This tax's growth in 2004 and 2005 can be attributed to the sale of several large commercial properties in the Downtown section and the increase in the rate, effective 2005, from 1.5 percent to 2 percent on each transaction. This rate increase was not part of the bailout package, but it was recommended by the Act 47 recovery team in their evaluation[17].

Transfer Tax, 2000-2011[18]

Year	Status	Revenue (000s)	% Change
2000	Actual	8,680	
2001	Actual	7,931	-8.6
2002	Actual	9,818	23.8
2003	Actual	9,154	-6.8
2004	Actual	10,614	15.9
2005	Actual	18,983	78.8
2006	Revised Projected	16,039	-15.5
2007	Budgeted	16,828	4.9
2008	Projected	17,588	4.5
2009	Projected	18,382	4.5
2010	Projected	19,212	4.5
2011	Projected	20,079	4.5

The New Taxes: Payroll and EMS

2007 Budget Amount: $42,100,000 Payroll/$15,891,000 EMS
2006 Budget Amount: $40,881,000 Payroll/$16,013,000 EMS
2007 Rate: 0.55 percent Payroll/$52 per year EMS

The state authorized the creation of the payroll tax in 2004 and its receipts began coming into the City in 2005. It was not without controversy when enacted: the City engaged in some "retroactive taxation" by basing the first quarterly installment on December of 2004, January and February of 2005. By reaching back to the height of the Christmas hiring season, the City was able to get a little more out of the businesses subject to the tax, which is on all for-profit employers in the City.

Last year, when we compared the budgeted amount for the payroll tax and what the City had actually collected, the difference was quite stark. By mid-year actual collections were about 10 percent short of half of the budgeted amount, a shortfall for the $41

[17] Commonwealth of Pennsylvania, Department of Community and Economic Development: "Municipalities Financial Recovery Act, Recovery Plan for the City of Pittsburgh" June 11, 2004
[18] CAFR and letter to ICA

million that was projected[19]. That came to pass as the actual for 2005 came in at $37.8 million instead of the $41 million the City had budgeted. By 2011, the City's expected take from the payroll tax is slated at $46.9 million.

The EMS tax is new in name and rate only. As part of the reform package, the General Assembly had given municipalities across the state the option of increasing the $10 occupational privilege tax to a maximum of $52 a year, to set the exemption level to $12,000 in annual income, and to rename the tax to better reflect its purposes[20].

The City took these actions and collections jumped to nearly $16 million in 2005. But based on the new flat rate of $52, and the previous flat rate of $10, we see that employment in the City has not grown and remains in the area of 300-320,000.

City Employment and OPT/EMS Tax Collections, 2000-2011[21]

Year	Status	Revenue (000s)	Rate	Employment
2000	Actual	3,523	$10	325,300
2001	Actual	3,110	10	311,000
2002	Actual	3,133	10	313,000
2003	Actual	3,244	10	324,400
2004	Actual	3,176	10	317,600
2005	Actual	16,306	$52	313,576
2006	Revised Projected	16,013	52	307,942
2007	Budgeted	15,819	52	304,211
2008	Projected	14,925	52	287,019
2009	Projected	15,299	52	294,211
2010	Projected	15,681	52	301,557
2011	Projected	16,073	52	309,096

As we saw in the trend for City residents employed and the results for the wage tax, we can see that the level of employment based in the City has fallen as well since 2000.

The City will apparently benefit under a 2006 statute that changes the collection scheme for the EMS tax to allow for quarterly collections but exempts Pittsburgh for 2007, 2008, and 2009. The statute allows all other municipalities to avoid the messy situation of having to deduct $52 in a lump sum from paychecks, including low-wage workers for who $52 represents a significant portion of their paycheck. Pittsburgh had budgeted as though they would be affected by the change, but now it appears that they can continue to take $5 million a year unscrupulously until their collection scheme is changed in 2010.[22] As a result, the budget amount for 2007 and the projection for 2010 and in out years will have to be adjusted.

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[19] Allegheny Institute for Public Policy "Are City Tax Revenues Falling Short?" *Policy Brief Volume 5, Number 29*

[20] Act 222 of 2004

[21] CAFR and letter

[22] Pennsylvania General Assembly, Senate Bill 157. As of this writing the bill has passed both houses and awaits the Governor's signature. It has been reported that if Pittsburgh were subject to these provisions that it would cost the City $6 million annually. Since they will be exempt, this $6 million was added to the $9.8 million in the letter to the ICA to arrive at the adjusted projected figure.

Summary

Below is a summary of the City's revenues from 2000 through 2011. It shows that total revenues have gone up and are projected to increase by almost $100 million by 2011 over the 2000 total. The share represented by the taxes levied by the City increased as a percentage of total revenues through 2004 until the reform package was enacted. In 2005, the City realized a net gain of $17 million from the enactment of the payroll tax and the increase in the EMS tax, offset by the cut to the business privilege tax and the elimination of the mercantile tax.

As of 2007, the percentage of revenue represented by the eight main taxes will be 74 percent.

City Revenues, 2000-2011[23]

Year	City Levied Taxes (000s)	Other(000s)	Total Revenues (000s)	Taxes as % of Total Revenues
2000	260,731	90,481	351,212	74
2001	272,161	81,283	353,444	77
2002	273,859	79,518	353,377	77
2003	273,144	76,185	349,329	78
2004	282,178	72,551	354,729	80
2005[24]	319,417	95,044	414,461	77
2006	324,224	111,832	436,056	74
2007[25]	313,921	110,714	424,635	74
2008[26]	316,789	120,605	437,394	72
2009[27]	321,869	131,157	453,026	71
2010[28]	315,240	135,392	450,632	70
2011	319,418	133,300	452,718	70

It should be noted that the coming years will see additional changes as part of the reform package (wage tax rate shift continues, parking tax falls, and BPT phased out in 2010) and the City is counting on roughly $17 million from slots and an annual appropriation of $10 million from the state. By 2011 the percentage of revenue represented by the seven taxes—on real estate, wages, parking, amusements, realty transfers, EMS, and payrolls—will be 70 percent.

[23]CAFR and letter to ICA. In addition to the taxes discussed in this report, the tax category includes the mercantile tax from 2000-2005. The category of other includes non-profit payments, authority reimbursements, penalties, fines and forfeits, licenses and fees, Federal and state grants, proceeds from the RAD tax, and other assorted charges.

[24] In this year, the BPT rate fell from 6 to 2 mills, the OPT/EMS rate went from $10 to $52, the mercantile tax was eliminated, and the payroll tax began. The realty transfer tax rate was raised independent of the reform package.

[25] In 2007, the wage rate goes from 1 to 1.1 percent, the BPT from 2 mills to 1 mill, and the parking tax from 50 to 45 percent

[26] In 2008, the wage tax rate goes from 1.1 to 1.2 and the parking tax from 45 to 40 percent

[27] In 2009, the wage tax rate goes from 1.2 to 1.25 and the parking tax from 40 to 37.5 percent

[28] In 2010, the BPT is eliminated and the parking tax goes from 37.5 to 35 percent

City Expenditures

2007 Budget: $419,456,396
2006 Budget: $409,812,825

The City's operating expenditures for next year represent an increase over this year's projected spending total. The operating budget for 2007 translates into a per-capita spending level of $1,327. We have long made the point—and specifically in three reports in 2004—that the City spends too much in comparison with other cities of comparable size, those in the Rust Belt, and those that serve as regional centers of economic and cultural activity.

The City has said that it has cut to the bone and that they have done enough. And while there might be a lot of debate over spending on City Council or the Controller's office, these areas of the budget simply represent too small a portion to make a real impact.

The major spending categories—the ones that account for significant shares of the budget—are:

- pension, workers' compensation, and fringe benefits at $121 million, or 29 percent
- debt service at $91 million, or 21 percent
- police at $66.9 million, or 16 percent
- fire at $49 million, or 12 percent

Together, these four items account for nearly 80 percent of the general fund budget. Consider that the benefits and debt service—in themselves not direct municipal services—account for 50 percent of the proposed 2007 budget. How have those levels of spending changed since 2002?

Public Safety Functions: Police and Fire

From 2000 through 2005, the fire department budget had increased 5 percent while the police budget had fallen 12 percent. The police spending fell in 2003 as a result of layoffs to the force, but looks to move upward as more officers are enlisted. While the City claims it has done all it can to cut expenditures, there is still a lot to be done. The major area of attention has to be the Fire Department, whose contract has a re-opener next year. Could the suggestions of the ERASE study commissioned by the oversight board be adopted? Or could there be an effort to avoid cuts altogether?

Police and Fire, 2000-2011[29]

Year	Status	Fire Spending (000s)	% Change	Police Spending (000s)	% Change
2000	Actual	50,943		65,737	
2001	Actual	54,210	6.4	67,895	3.3
2002	Actual	55,795	2.9	71,505	5.3
2003	Actual	58,332	4.5	67,306	-5.9
2004	Actual	60,388	3.5	56,743	-15.6
2005	Actual	53,583	-11.2	57,618	1.5
2006	Revised Projected	47,909	-10.5	64,931	12.7
2007	Projected	49,029	2.3	66,641	2.6
2008	Projected	50,248	2.5	68,292	2.5
2009	Projected	51,498	2.5	69,985	2.5
2010	Projected	52,779	2.5	71,719	2.5
2011	Projected	54,092	2.5	73,497	2.5

Though difficult, it is possible to see how the recovery/oversight process could bring about changes in these two expenditure categories. Future collective bargaining agreements cannot violate the spending plans, meaning the arbitration process under Act 111 is somewhat curtailed. To be certain, the oversight board definitely fumbled when it decided not to proceed with litigation against the fire contract.[30]

Benefits and Debt Service

The same cannot be said for the two bulky areas of benefits and debt. The Act 47 statute is silent on these areas and this is especially pronounced in Pittsburgh, the second largest city in the Commonwealth. The oversight board seemed to be more poised to attack these larger issues, but nothing concrete or substantive has yet been established as a remedy.

Here's the amazing statistic: since 2000, benefit costs have doubled and, if projections come to pass, by 2011 the City's obligations to benefits will total $144 million in that fiscal year. A good portion—in recent years it has been budgeted at about $20 million—is represented by workers' compensation costs, which is simply much too high and needs to be addressed. Cities of comparable size and other regional hubs pay a fraction of that amount.

The pension time-bomb was mentioned in the 1996 Competitive Pittsburgh Task Force Report and the City's decision to use the bond market to fund pensions was ill-advised.

[29] Ibid
[30] Jim Roddey and Jake Haulk "The ICA Watchdog Loses its Bite" Pittsburgh Tribune-Review , August 2, 2005

Benefits and Debt Service, 2000-2011[31]

Year	Status	Pension, Benefits, and Workers' Comp (000s)	% Change	Debt Service (000s)	% Change
2000	Actual	63,859		69,341	
2001	Actual	75,073	17.6	70,405	1.5
2002	Actual	78,364	4.4	58,938	-16.2
2003	Actual	83,277	6.3	73,669	24.9
2004	Actual	90,202	8.3	89,622	21.7
2005	Actual	115,778	28.3	82,161	-8.3
2006	Revised Projected	127,579	10.1	77,308	-5.9
2007	Budgeted	121,131	-5.1	85,069	10
2008	Projected	126,616	4.5	87,183	2.5
2009	Projected	132,521	4.6	88,957	2
2010	Projected	138,469	4.5	90,427	1.7
2011	Projected	144,906	4.6	91,929	1.7

Also consider that the projected growth rate in pension/benefits/compensation in future years is higher than the projected growth rates of police, fire, and debt service. By 2011, this category will account for 78 percent of salaries and wages, up from 72 percent next year.

Debt service has been brought under some control by refinancing, but the City still has a lot of lingering infrastructure needs that demand attention.

Summary

Aside from the 2 percent decline in actual expenditures from 2003-2004—the time when financial distress was granted by the Commonwealth, police layoffs took place, and the oversight process got into gear—spending has increased every year from 2000 through 2006, based on the revised projected amount.

General Fund Expenditures, 2000-2011[32]

Year	Status	Expenditures (000s)	% Change
2000	Actual	356,920	
2001	Actual	360,014	1
2002	Actual	361,882	1
2003	Actual	384,073	6
2004	Actual	375,500	-2
2005	Actual	398,895	6
2006	Revised Projected	409,872	3
2007	Budgeted	419,456	2
2008	Projected	431,005	3
2009	Projected	444,267	3
2010	Projected	457,283	3
2011	Projected	470,382	3

[31] CAFR and letter to ICA.
[32] Ibid

The years 2006 through 2011—when formal ICA oversight is slated to expire—projects an increase in 15 percent over the 2006 level of expenditure. Is that the direction the City should be headed? If state oversight and recovery is to work, should the budget approach be a baseline one where previous year expenditures are used to arrive at the following year, or a zero-based method where new expenditures are justified along with the functions performed by each department?

Next Steps

Clearly, there is a lot of work to be done.

It is premature for the City to be free of recovery or oversight, as the Council tried to do earlier this year.[33] While we have heard a lot of talk about consolidation and looking for innovative solutions, there is little evidence that is happening. Almost a year later, there is still no movement on transferring purchasing functions to Allegheny County, the garbage bid seemed cooked, and there appears to be complaints about fleet privatization.[34]

There are a lot of areas in the 2007 budget where the City could simply contract with Allegheny County to perform the function or outsource it to the private sector. These include the functions of Information systems ($5 million), Public Works ($30 million), and Parks and Recreation ($3.6 million). The reluctance of the City to move on a simple purchasing deal shows that the ultimate controlling influence in "achieving efficiency" is to preserve jobs and control. The appointment of yet another task force on City-County efficiency shows that little will change or that the old tired solution of a merger will once again rear its head.

As mentioned earlier, the trajectory envisioned by the five-year forecast has Pittsburgh spending $470 million--$51 million more than they will next year. That's a 9 percent increase; put another way, the City, under oversight and in distressed status, will spend an additional $10 million every year through 2011.

The City needs to take the opportunity in 2007 to make changes to the Fire Department. It needs to wrestle the workers' compensation problem, which is wrought with fraud and abuse.[35]

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[33] City of Pittsburgh Ordinance # 2006-0116; Rich Lord "City Council May Ask to Get Free of Act 47 Oversight" Pittsburgh Post-Gazette, February 15, 2006

[34] Rich Lord "Pittsburgh City Council Defies Fiscal Overseers" Pittsburgh Post-Gazette, October 12, 2005; "City Council Shelves Money-Saving Plans" Pittsburgh Post-Gazette, December 15, 2005; Office of City Controller "Cost Savings Analysis ands Operational Efficiency Evaluation of Outsourcing Fleet Management" September, 2006; City of Pittsburgh Request for Proposals for Residential Solid Waste Collection Services and parameters of Act 47 Recovery Plan provisions show that was to be one private only bid and one private and public bid were combined into one with no pilot program

[35] Rich Lord "Siblings Held in Workers' Comp Fraud" Pittsburgh Post-Gazette, October 6, 2006. Also see ICA study on workers' compensation that stated City workers view the system as a benefit or perk. "That distinction was not readily apparent in the City program" was the synopsis.

On the revenue side, a revenue stream for retiring debt and pension obligations needs to be identified—one possible avenue, as we have previously suggested and was recently noted in an audit by the City Controller, is to move properties owned by the City and its authorities, specifically the Urban Redevelopment Authority.[36] That the city is not projecting any proceeds from the sale of public property through 2011 shows that they are not being aggressive and setting an annual goal.

Much like when the City was entering into distressed status and was placed into oversight, the picture was "50-50": the City likes the fact that it will possibly end 2011 with a positive fund balance of $52 million while noting that "serious structural difficulties need to be addressed at the Commonwealth level".[37]

After passing the payroll tax, allowing for an increase in the EMS tax and allowing Pittsburgh to continue its collection method for three years longer than all other municipalities in the state, and extending a $10 million allocation for municipal purposes, we wonder what more is to be done. Ultimately that means that only by cutting expenditures will the City be able to bring down its overall tax level, a definite step in the right direction.

[36] Office of the City Controller "Urban Redevelopment Authority Property Acquisition and Maintenance" August, 2006
[37] Letter to ICA