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FOR PUBLIC POLICY

*Pittsburgh's 2008 Budget:  
Still a Long Way to Go*

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## Table of Contents

Key Findings	2
Introduction	3
City Revenues	3
<i>Real Estate</i>	3
<i>Earned Income</i>	4
<i>Parking</i>	5
<i>Payroll</i>	6
<i>Realty Transfer</i>	7
<i>Local Services</i>	7
<i>Amusement</i>	8
<i>Business Privilege</i>	8
City Expenditures	10
<i>Public Safety</i>	10
<i>Benefits and Debt Service</i>	11
What if Pittsburgh Adopted a Spending Limitation?	12

## Key Findings

- As part of the recovery package, the rates of two City taxes are changing in 2008: the City's share of the earned income (wage) tax will increase and the parking tax is scheduled to decrease.
- In addition, separate changes to the \$52 tax on people who work in the City will undergo changes that will result in a decrease in the amount of revenue the City collects.
- Aside from any rate changes, the City's two main taxes on real estate and wages are forecast to show minimal growth in the coming years.
- Total expenditures are expected to be held to 1 percent from 2007 to 2008, a far better result than earlier years but not nearly enough to undue deep seated problems.
- The spending for pensions and benefits is expected to grow from \$120 million in 2008 to \$143 million through 2012. This is a troublesome area of growth that requires much attention.
- Despite a bump from the state's reform of the City's tax structure, Pittsburgh remains in critical financial condition and shows little signs of understanding or dealing with the most basic problems.

## **Introduction**

This report analyzes the 2008 budget and five-year financial forecast of the City of Pittsburgh. The City continues to operate under Act 47 recovery status and under the watch of the state-appointed Intergovernmental Cooperation Authority (oversight board).

## **City Revenues**

The City currently directly levies eight taxes: in order of revenue generated for the 2008 budget year, the taxes are on real estate, earned income, parking, payroll, realty transfer, local services, amusement, and business privilege.

All but the real estate and real estate transfer taxes were created or altered by the General Assembly's tax reform package of 2004. Here are the changes scheduled to occur in the 2008 budget year as part of that legislation:

- The earned income tax, which is currently levied at 1.1 percent rate on the wages, net profits, and earned income of City residents, will increase to 1.2 percent by way of an additional shift of a portion of the rate City residents pay to the Pittsburgh Public Schools.<sup>1</sup>
- The parking tax rate will be reduced from 45 to 40 percent.<sup>2</sup>

In addition, and separate from the 2004 reform package, the General Assembly passed Act 7 of 2007, which makes significant changes to the \$52 Emergency Services Tax. This tax can be levied by various classes of municipalities throughout the state. The tax will be renamed the "Local Services Tax" and will not be paid by employees making less than \$12,000. It also will be remitted on a bi-weekly basis instead of a lump sum deduction.<sup>3</sup> This will reduce the tax burden on very low income workers and it prevents the municipality from collecting in advance of actual earnings.

### *Real Estate Tax*

2008 Budget Amount: \$125,545,000

2008 Rate: 10.8 mills

The City's budget document is pessimistic about the ability of the real estate tax to be a growing source of tax revenue. And while the budget makes mention of tax exempt institutions as part of the problem, it hangs a lot of the problem on the decision of Allegheny County to use a 2002 base year. "Flat real estate tax revenue growth in the face of even minimally rising costs is a problem. The average growth of real estate tax

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<sup>1</sup> Pennsylvania General Assembly, Act 187 of 2004

<sup>2</sup> Pennsylvania General Assembly, Act 222 of 2004

<sup>3</sup> Pennsylvania General Assembly, Act 7 of 2007

revenue will be only one-quarter of one percent per year through 2012 because of the base year system”.

Though unpopular, thanks to the reassessments of 2001 and 2002; the City netted \$8 million in additional revenue, even after adjusting millage. The assessment issue is out of the City’s hands and a pending state Supreme Court decision on the constitutionality of the base year which could alter the real estate tax situation enormously.

**Real Estate Tax, 2000-2012<sup>4</sup>**

<b>Year</b>	<b>Status</b>	<b>Revenue (000s)</b>	<b>% Change</b>
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	Actual	127,163	2.1
2007	Revised Projected	124,437	-2.1
2008	Projected	125,545	0.9
2009	Projected	125,600	0.1
2010	Projected	126,150	0.4
2011	Projected	126,513	0.3
2012	Projected	127,000	0.4

In short, paltry growth is projected through 2012 with a mere 2.4 percent increase in revenue projected. As we pointed out in last year’s report, the City’s involvement in numerous tax increment finance deals means that the City is not receiving all of the revenue from projects still in the debt retirement phase of their development. It will be interesting to see what will occur with the City’s 10.8 millage rate or its Homestead Exemption as it continues through recovery/oversight.

*Earned Income Tax*

2008 Budget Amount: \$60,535,000

2008 Rate: 1.2 percent

The City’s second biggest revenue generator sits at the highest rate in Allegheny County—statewide, it is up there as well. The City’s 3 percent combined wage tax (the total rate levied by the City and the school district) would have gone even higher under Act 47 had the creation of the oversight board and the tax reform package not precluded it. The increase would have fallen on City residents and commuters alike, but it is off the table for now. However, if the oversight board ceases to exist after 2011 and the City is still in Act 47 status, it is possible that an increase in the tax could come.

<sup>4</sup> 2007 through 2012 data comes from City of Pittsburgh, 2008 Budget and Five-Year Financial Forecast. 2000 through 2006 Actual data from Comprehensive Annual Financial Report, City Controller’s Office, Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Non-GAAP Budgetary Basis)

Much like the real estate tax, there has been little growth aside from the tax reform's required shift of a portion of the school district share to the City without an overall increase in the 3 percent combined City-school rate. This shift is expected to net the City \$5.7 million in the 2008 budget year. Based on the actual 2006 collections when the rate was 1 percent, and the revised projected collections for 2007 and the 1.1 percent rate, the City will likely net closer to \$4 million in 2008.

#### Earned Income Tax, 2000-2012<sup>5</sup>

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	Actual	50,211	6
2007	Revised Projected	54,512	8.6
2008	Projected	60,535	10.5
2009	Projected	64,600	6.7
2010	Projected	66,700	3.3
2011	Projected	67,800	1.7
2012	Projected	68,200	0.6

Following the final year of the tax shift (2009, when the City's rate tops out at 1.25%) projections show the wage tax will grow at a very slow pace, less than 2 percent in 2011 and 2012. So aside from the rate shift, there is very little projected growth in the wage tax. Nothing is being done to lower the 3 percent total rate. Moreover, a commuter tax after 2011 will only exacerbate the City's uncompetitive rate.

#### *Parking Tax*

2008 Budget Amount: \$44,107,000

2008 Rate: 40 percent

The parking tax rate is slated for a further reduction in 2008, though there had been considerable discussion by members of City Council to ask for a freeze in the reduction and to direct the revenues the city would have lost to various functions. One proposal would devote revenue to the City's pension and debt, while another would assist the Port Authority's mass transit operations.<sup>6</sup>

City Council took a preliminary vote in early October, which passed 8-0, to institute the freeze and use the money for debt and pensions. The ICA took action to pass the proposed budget on October 16<sup>th</sup>, and the Mayor vetoed the ordinance the following day.

<sup>5</sup> Ibid

<sup>6</sup> "Fight Brewing over Reduction in Parking Tax" Mark Belko, *Pittsburgh Post-Gazette*, September 28, 2007. City of Pittsburgh Ordinance 2007-1796 passed City Council on October 9, 2007 and would use the revenue for pensions and debt.

As part of his veto, the Mayor stated that he would instruct the Parking Authority to lower its rates in accordance with the tax reduction.<sup>7</sup>

**Parking Tax, 2000-2012<sup>8</sup>**

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	Actual	50,506	0.4
2007	Revised Projected	47,843	-5.3
2008	Projected	44,107	-7.8
2009	Projected	41,437	-6.1
2010	Projected	38,800	-6.4
2011	Projected	38,800	0
2012	Projected	39,100	0.8

*Payroll Tax*

2008 Budget Amount: \$44,000,000

2008 Rate: 0.55 percent

The payroll tax is likewise exhibiting the slow growth that is also characteristic of the taxes on real estate and earned income. The 2008 budget year expects \$44 million in collections, and that will rise by \$3 million (7 percent) through 2012.

**Payroll Tax, 2005-2012<sup>9</sup>**

Year	Status	Revenue (000s)	% Change
2005	Actual	37,826	
2006	Actual	41,083	8.6
2007	Revised Projected	43,743	6.5
2008	Projected	44,000	0.6
2009	Projected	44,800	1.8
2010	Projected	45,500	1.6
2011	Projected	46,200	1.5
2012	Projected	47,000	1.7

<sup>7</sup> “Watchdog OKs Proposed City Budget” Jeremy Boren, Pittsburgh Tribune-Review, October 17, 2007  
“Mayor Vetoes Parking Tax” Rich Lord, Pittsburgh Post-Gazette, October 18, 2007. October 17, 2007 letter from the Mayor to Council noted “we must abide by state law mandating the parking tax reduction until such time as the legislature is willing to revisit the issue”.

<sup>8</sup> Ibid

<sup>9</sup> Ibid

*Realty Transfer Tax*

2008 Budget Amount: \$14,900,000

2008 Rate: 2 percent

**Transfer Tax, 2000-2012<sup>10</sup>**

<b>Year</b>	<b>Status</b>	<b>Revenue (000s)</b>	<b>% Change</b>
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	Actual	17,285	-8.9
2007	Revised Projected	15,222	-11.9
2008	Projected	14,900	-2.1
2009	Projected	15,490	4
2010	Projected	15,980	3.2
2011	Projected	16,460	3
2012	Projected	16,950	3

*Local Services Tax*

2008 Budget: \$8,700,000

2008 Rate: \$52

There are major changes afoot in the \$52 flat Local Services Tax (formerly the occupation privilege/Emergency and Municipal Services tax) levied on anyone who works in the City, regardless of where they live. The intent of this tax has always been that a worker pays it once a year—those who change jobs or work multiple jobs aren't supposed to pay twice.

**OPT/EMS/LST Tax Collections, 2000-2012<sup>11</sup>**

<b>Year</b>	<b>Status</b>	<b>Revenue (000s)</b>	<b>% Change</b>
2000	Actual	3,523	
2001	Actual	3,110	-11.7
2002	Actual	3,133	0.7
2003	Actual	3,244	3.5
2004	Actual	3,176	-2.1
2005	Actual	16,306	413
2006	Actual	16,063	-1.5
2007	Revised Projected	9,819	-38.8
2008	Projected	8,700	-11.3
2009	Projected	11,765	35
2010	Projected	12,000	1.9
2011	Projected	12,000	0
2012	Projected	12,000	0

<sup>10</sup> Ibid

<sup>11</sup> Ibid



The new legislation under Act 7 adds that the tax can't be taken out as a lump sum (which was a burden to low income workers) and will instead be deducted bi-weekly. It also mandates a cutoff of \$12,000 in annual income—those making less aren't subject to the tax.

Since the tax is a flat rate—when it was \$10 or \$52—it is an approximation for the number of people working in the City. Based on 2006's actual collection of \$16 million as the \$52 rate, 308,000 people were employed in the City. Based on 2008's projection of \$8.7 million and the tax applying only to those earning \$12,000 or more suggests there is a significant share of employment (as high as a third) making less than \$12,000 annually.

*Amusement Tax*

2008 Budget Amount: \$8,840,000  
 2008 Rate: 5 percent (on for-profit performances only)

The most notable change coming under the amusement tax this year is the elimination of the tax on qualified performance events produced by non-profit performing arts groups. The City's budget notes that 85 percent of the tax comes from twelve taxpayers. Note that, except for the uncharacteristic dip in 2004, the collections are rather steady in the \$9.0 million to \$9.7 million range.

**Amusement Tax, 2000-2012<sup>12</sup>**

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	Actual	9,237	-5.4
2007	Revised Projected	9,140	-1.1
2008	Projected	8,840	-3.3
2009	Projected	9,100	2.9
2010	Projected	9,280	1.9
2011	Projected	9,500	2.4
2012	Projected	9,750	2.6

*Business Privilege Tax*

2008 Budget Amount: \$8,150,000  
 2008 Rate: 1 mill

The business privilege tax is being phased out and will no longer be levied after the 2010 budget year. It is a gross receipts tax applicable to certain types of businesses.

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<sup>12</sup> Ibid

**Business Privilege Tax, 2000-2010<sup>13</sup>**

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	Actual	14,678	6.2
2007	Revised Projected	8,491	-42
2008	Projected	8,150	-4
2009	Projected	7,994	-1.9
2010	Projected	400	-95

*Summary*

Below is a summary of the City's actual and projected revenues from 2000 through 2012.

**City Revenues, 2000-2012<sup>14</sup>**

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	319,417	95,044	414,461	77
2006	326,226	111,449	437,674	74
2007	307,921	117,736	425,657	72
2008	314,777	122,049	436,826	72
2009	320,786	134,184	454,970	71
2010	314,810	133,606	448,416	70
2011	317,273	133,572	450,845	70
2012	320,010	135,703	455,713	70

Starting in 2010, after all of the tax changes have taken effect, the City's levied taxes are expected to grow at an anemic 1.9 percent rate through 2012. But to those who claim that revenue growth has been lacking, consider that by 2009, if projections hold, revenues will have grown 30 percent over 2000 actual total revenues. Adjusted for inflation, tax revenue will have actually fallen 5 percent. Meanwhile, assistance from state, Federal, and non-profit sources will be up 20 percent, adjusted for inflation, assuming City forecasts are correct.

<sup>13</sup> Ibid

<sup>14</sup> Ibid. 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. Inflation assumed at 3 percent annual increase, or 27 percent from 2000 through 2009.

## City Expenditures

2008 Budget: \$423,755,325

Spending \$423.7 million with a population of 312,000 translates into per capita expenditures of roughly \$1,360. That still exceeds other cities, particularly those in our Benchmark comparison, but the City is to be commended for holding expenditures to a 1 percent increase over 2007's budget. However, it should be reducing outlays given its precarious position.

The budget notes that “less than half of the operating budget expenditures are dedicated to operating departments”. Some \$201 million (47%) goes to provide the day-to-day municipal services that Pittsburghers are most familiar with—police, streets, refuse, etc. The rest is tied up in debt service, pensions and benefits, and utilities and judgments.

Dealing with these non-operational items—the budget calls them “mistakes of the past”—is being done by attempting a pay as you go strategy for capital expenditures which avoids issuing debt and crafting a comprehensive solution, possibly statewide, to the pension funding problem.

### *Public Safety Functions: Police and Fire*

The functions of police and fire protection are critically important areas for the City. The fire department is currently being examined by a consultant for the oversight board.

**Police and Fire, 2000-2012<sup>15</sup>**

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	Actual	47,209	-11.8	59,946	4
2007	Revised Projected	48,245	2.2	65,907	9.9
2008	Projected	49,088	1.7	67,830	2.9
2009	Projected	50,309	2.5	69,510	2.5
2010	Projected	51,561	2.4	71,233	2.5
2011	Projected	52,843	2.5	72,999	2.5
2012	Projected	54,158	2.5	74,809	2.5

Though there has been talk of a redeployment of fire stations and personnel, spending is projected to increase back up to pre-Act 47 levels by the time 2012 is reached.

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<sup>15</sup> Ibid

### *Benefits and Debt Service*

The category of benefits, excluding pensions, includes health insurance (for employees and retirees), at \$47 million; unemployment compensation at \$500,000; social security fund at \$6.5 million; workers' compensation at \$24.9 million; and personal leave buyback and severance at \$2.6 million.

#### **Benefits and Debt Service, 2000-2012<sup>16</sup>**

<b>Year</b>	<b>Status</b>	<b>Pension and Benefits(000s)</b>	<b>% Change</b>	<b>Debt Service (000s)</b>	<b>% Change</b>
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	Actual	122,580	5.9	88,808	8.1
2007	Revised Projected	120,155	-2	91,194	2.7
2008	Projected	120,239	0.1	87,443	-4.1
2009	Projected	126,290	5	87,706	0.3
2010	Projected	127,432	0.9	87,665	-.05
2011	Projected	134,995	6	87,661	-.05
2012	Projected	143,351	6.2	87,689	.03

The 20 percent projected growth in pension and benefits category dwarfs the 10 percent increases projected for police and fire. It is the area of critical importance in the City budget. What is going on?

Part of it can be found by examining a breakout of the subclass of benefit categories (something required by the Act 47 recovery plan). This shows that the category of "Workers' Comp" has increased 6 percent since the 2005 budget year from \$23.2 million to \$24.9 million in 2008. We have pointed out on previous occasions that the City is far out of line with other cities on this category and the past three years' growth shows that something is amiss.

The cost of health care for retirees and long-term liabilities continue to expand. Pensions are woefully under funded and debt service remains a large burden to present day and future budgets.

Sizeable workforce reductions must take place if the City is to restore a stable financial picture.

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<sup>16</sup> Ibid.

Summary

**General Fund Expenditures, 2000-2012<sup>17</sup>**

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	Actual	410,580	3
2007	Revised Projected	419,454	2
2008	Projected	423,755	1
2009	Projected	435,491	3
2010	Projected	442,446	2
2011	Projected	455,905	3
2012	Projected	470,549	3

**What if Pittsburgh Adopted a Spending Limitation?**

As can be seen from the table above, if 2012’s projected spending holds and becomes an actual amount, the City’s spending will have increased 32 percent since 2000—this during a time when population is falling and other cities are winning the competition for residents and businesses.

If the projected 1 percent increase from 2007 to 2008 in spending holds, it will be the slowest rate of increase in City spending since the 2000-01 and 2001-02 budget years. The City is to be commended if spending is held to this level.

However, following the 2008 budget, spending is expected to grow in increments of 2 to 3 percent annually, and, by 2012, the City will be spending \$50 million more than it will this year. That, coupled with a predicted drop in population leads to even higher levels of per capita spending, which decreases the chances Pittsburgh will achieve a competitive edge with other cities.

But suppose that Pittsburgh adopted language that would amend the City’s Home Rule Charter mandating spending increases be held to a level of 2 percent minus the change in population? Population fell 1.1 percent from July 2005 to July 2006, meaning that a spending cap would allow 0.9 percent increase for the following fiscal year. For simplicity sake, the spending cap is set at 1 percent in the table below beginning with the 2008 fiscal year.

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<sup>17</sup> Ibid

**City Spending: The Current Course vs. A Spending Cap**

<b>Year</b>	<b>Projected (000s)</b>	<b>% change</b>	<b>Under a Spending Cap (000s)</b>	<b>% change</b>	<b>Reduced Expenditures (000s)</b>
2008	423,755		423,755		0
2009	435,491	3	427,992	1	7,499
2010	442,446	2	432,271	1	10,175
2011	455,905	3	436,593	1	19,312
2012	470,549	3	440,958	1	29,591

By 2012, the reduced expenditures would amount to \$66.5 million. That would allow for a complete elimination of some taxes (parking tax would top the list) or provide for significant reductions (at least 5 mills off of the 10.8 rate) to the City’s real estate tax. It would also begin to move the City toward more competitive per capita rates of spending.

If Pittsburgh continues losing 1 percent of its population every year through 2012, population would stand at 297,000. Based on the City’s current spending projections that translates into per resident spending of \$1,584. Under a spending cap of 1 percent, per resident spending would be \$100 less at \$1,484, a difference of 6 percent.

It may seem miniscule but the effect could be far-reaching. And, after all, as a home rule municipality, the City of Pittsburgh’s voters would vote on the change whether it was initiated by Council or a petition of the voters. Make no mistake: the voters would have the final say, and their decision would send a clear message to the rest of the country as to the future course Pittsburgh is going to pursue.