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Pittsburgh's 2009 Budget:
Solving the Legacy Cost Puzzle

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Key Findings

- Overall, total general fund revenues are increasing $5.5 million (1.3%) from 2008 to 2009. However, total general fund expenditures are scheduled to increase $21.3 million (5.1%) from this year to next.

- As part of the state's 2004 recovery package, the rates of two City taxes are changing in 2009: the City's share of the earned income (wage) tax will increase and the parking tax is scheduled to decrease.

- The City has assigned a good deal of blame for its stagnant real estate tax revenue to the County's decision to use the 2002 base year. Tax revenue has fallen since 2006 and is projected to grow at a rate of less than 1 percent per year over the next five years.

- Much of the expenditure growth is caused by an $11 million (8.9%) increase in the pensions and benefits category.

- Over the next five years the expenditure category of pension/benefits/workers' compensation is projected to grow by 18 percent, far outstripping the growth projected for total expenditures (5%), and the sub-categories of operating departments (7%) and debt service (-22%).

- It is unclear how long Pittsburgh will remain in Act 47 status. Over half of the 17 communities across the state that are still in distressed status have been in for 16 years or longer.

Introduction

This report analyzes the 2009 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

2009 Budget: $441.4 million

The City currently directly levies eight taxes: real estate, earned income, parking, payroll, realty transfer, local services, amusement, and business privilege. Those taxes are expected to bring in $324.3 million in 2009, an increase of $7 million (2%) over 2008. Total general fund revenues—these taxes along with various other sources of revenues like grants, payments for City services, slots revenue, etc—are expected to rise $5.5 million, or 1.3 percent, over 2008.

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 2009 budget year as part of that legislation:

- The earned income tax, which is currently levied at 1.2 percent rate on the wages, net profits, and earned income of City residents, will increase to 1.25 percent by way of an additional shift of a portion of the rate City residents pay to the Pittsburgh Public Schools.[1] This completes the three year shift of the wage tax rate and it will stay at 1.25 percent for the foreseeable future.
- The parking tax rate will be reduced from 40 to 37.5 percent.[2]

Real Estate Tax

2009 Budget Amount: $126.8 million
2009 Rate: 10.8 mills

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 rests on a pending state Supreme Court decision on the constitutionality of the base year which could alter the real estate tax situation enormously.

But it is immensely clear that the base year plan is being blamed for the slow growth in the City's real estate tax revenues.

Consider that in 2004 the Act 47 Team projected 10 percent growth in the major City tax revenues "driven largely by expected property tax reassessments in 2005 and 2008".

[1] Pennsylvania General Assembly, Act 187 of 2004
[2] Pennsylvania General Assembly, Act 222 of 2004

Obviously those reassessments never happened. This year a member of the Act 47 team noted that "the County's decision to use a base year of 2002 has had a material impact on revenues and the earlier projections which assumed a three year assessment cycle".[3] Given that the tax represents about a third of City's revenues, that impact is profound. The Mayor's budget presentation goes further, noting

> "Like all other municipalities in Allegheny County, the City of Pittsburgh is faced with the prospect of little or no growth in this largest revenue source due to the County's use of a base year assessment system…The base year assessment system also fails to reflect changes in property values, suppresses growth, and leads to inaccurate assessments and disproportionate taxation throughout the City"[4]

Real Estate Tax, 2000-2013[5]

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	Actual	127,163	2.1
2007	Actual	126,279	-0.7
2008	Projected	125,390	-0.7
2009	Budgeted	126,874	1.2
2010	Projected	127,877	0.8
2011	Projected	128,890	0.8
2012	Projected	129,908	0.8
2013	Projected	130,935	0.8

The truth is that the tax has not grown much above where it stood after the reassessments. Collections are down from the 2006 high of $127.1 million and the five-year forecast projects growth of less than 1 percent per year through 2013. It is important to note that the real estate tax was in no way altered by the state's reform package. Could it be increased in the coming years to offset looming budget difficulties?

Earned Income Tax

2009 Budget Amount: $64.6 million
2009 Rate: 1.25 percent

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[3] Commonwealth of Pennsylvania, Department of Community and Economic Development, Governor's Center for Local Government Services: "Municipalities Financial Recovery Act, Report of the Hearing Officer, City of Pittsburgh" May 30, 2008
[4] City of Pittsburgh, 2009 Budget
[5] 2000 through 2007 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). 2008 Revised Projection, 2009 Budget Amount, and five year financial forecast from the 2009 Budget, Summary of Operations.

This is the final year of the tax shift moving part of the tax rate from the City schools to the City government. The City's rate will be 1.25 percent, the schools' rate at 1.75 percent with no changes in the immediate future. Projections show the City wage tax revenue will grow at a very slow pace. So aside from the rate shift, there is very little projected growth in the wage tax.

Earned Income Tax, 2000-2013[6]

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	Actual	56,705	13
2008	Projected	61,616	8.7
2009	Budgeted	64,630	4.9
2010	Projected	65,599	1.7
2011	Projected	66,583	1.5
2012	Projected	67,582	1.5
2013	Projected	68,596	1.5

That's bad news since this is the City's second largest revenue source and the highest combined rate in Allegheny County. The Act 47 coordinator noted that "the City now depends heavily on employment related taxes, especially the earned income tax".[7]

Parking Tax

2009 Budget Amount: $42.2 million
2009 Rate: 37.5 percent

The parking tax will fall once again from 40 percent to 37.5 percent as part of the tax reform package. Unlike last year, there have been no calls for forestalling the reduction due to complaints about parking rates not falling commensurately at this time.

[6] Ibid
[7] Report of the Hearing Officer

Parking Tax, 2000-2013[8]

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	Actual	48,059	-4.8
2008	Projected	44,564	-7.3
2009	Budgeted	42,290	-5.1
2010	Projected	39,470	-6.7
2011	Projected	40,378	2.3
2012	Projected	41,307	2.3
2013	Projected	42,257	2.3

Payroll Tax

2009 Budget Amount: $44.8 million
2009 Rate: 0.55 percent

Payroll Tax, 2005-2013[9]

Year	Status	Revenue (000s)	% Change
2005	Actual	37,826	
2006	Actual	41,083	8.6
2007	Actual	44,627	8.6
2008	Projected	44,673	0.1
2009	Budgeted	44,841	0.4
2010	Projected	45,713	1.9
2011	Projected	46,196	1.1
2012	Projected	46,889	1.5
2013	Projected	47,592	1.5

The payroll tax is the primary business tax in the City as it replaced the mercantile tax and the business privilege tax as those two were characterized as being too ridden with loopholes. The rate of increase in collection of the tax has slowed considerably since it had nearly 9 percent growth in 2005-2006 and 2006-2007. This year could show less than 0.5 percent growth if projections hold.

[8] CAFR and Budget data
[9] Ibid

Summary

Below is a summary of the City's actual revenues from 2000 through 2007 and projected revenues through 2013.

City Revenues, 2000-2013[10]

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	327,069	121,540	448,609	73
2008	317,449	118,452	435,901	73
2009	324,378	117,038	441,416	73
2010	316,897	124,184	441,081	72
2011	320,591	128,777	448,868	71
2012	324,989	127,848	452,837	72
2013	329,458	128,642	458,100	72

City Expenditures

2009 Budget: $437.9 million

Spending $437.9 million with a population of 311,000 translates into per capita expenditures of roughly $1,408. That still exceeds other cities, particularly those in our Benchmark comparison. The coming year's expenditures are projected to increase $21.3 million (5.1%) over the 2008 projected amount. Here's a look at the City's most expensive operational and non-operational costs for 2009.

Public Safety Functions: Police and Fire

The functions of police and fire protection are critically important areas for the City. The fire department may be slated to undergo a major overhaul in stations, staffing, and responsibility following the recommendations of an oversight board report.

[10] Ibid. In addition to the taxes detailed in this report, the tax category includes the realty transfer tax, the local services tax, the amusement tax, and the business privilege tax. It counts the mercantile tax from 2000-2005. It does not count the business privilege tax after 2010 as that tax will be phased out. 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.

Police and Fire, 2000-2013[11]

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	Actual	46,261	-2	62,657	4.5
2008	Projected	49,088	6.1	66,829	6.7
2009	Budgeted	50,653	3.2	68,024	1.8
2010	Projected	51,511	1.7	69,631	2.4
2011	Projected	51,770	0.5	71,353	2.5
2012	Projected	52,558	1.5	72,617	1.8
2013	Projected	53,628	2	74,176	2.1

The 2009 budget plans to transfer some desk and office functions to civilian status—a recommendation made by the Recovery Plan in 2004—and will redeploy the sworn officers who were performing those functions back into neighborhoods.

The Oversight Board has completed its work on the Bureau of Fire and the recommendations, which are long-term, are yet to be decided upon for implementation. That study found that Pittsburgh does have an above average number of fires and fire casualties, and attributed this to aging infrastructure and weak prevention efforts. It also found a lack of a long term vision for the department and labor union constraints impacting the City's ability to determine adequate service levels. The long-term recommendations include closing and consolidating stations, fleet improvements, and reorganization of the bureau's staffing.[12]

Benefits and Debt Service

If the City and its overseers are encouraged by the progress on the large and expensive operating costs of public safety, they continue to show concern when it comes to the non-operational costs of pensions, health benefits, and debt service. The oversight board noted that "the City of Pittsburgh must continue to address the costs of four legacy issues that impact its fiscal and public safety well-being: debt, pension, post-retirement health care, and infrastructure".[13]

[11] Ibid
[12] Intergovernmental Cooperation Authority, Tri-Data Services "Comprehensive Reviews of Pittsburgh's Fire and EMS Bureaus" June 26, 2008
[13] Intergovernmental Cooperation Authority "ICA Approves City of Pittsburgh's Revised 2009 Operating Budget and Five Year Financial Plan" October 20, 2008

Benefits and Debt Service, 2000-2013[14]

Year	Status	Pension and Benefits(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	Actual	122,580	5.9	88,808	8.1
2007	Actual	113,453	-7.4	67,033	-24.5
2008	Projected	120,329	6.1	86,533	30
2009	Budgeted	130,223	8.2	82,250	-4.9
2010	Projected	134,796	3.5	81,033	-1.5
2011	Projected	139,618	3.6	79,437	-1.9
2012	Projected	146,425	4.9	72,497	-8.7
2013	Projected	154,208	5.3	63,752	-12.1

The budget category of pension and benefits is expected to show further growth, rising 18 percent from the 2009 budgeted amount to the 2013 forecasted level. From 2000 to 2013, the category will have grown by 141 percent. Meanwhile, debt service outlays will be shrinking is refinancing debt is completed.

Consider the 2009-2013 projected spending growth on the five expenditure sub-categories in the budget:

Expenditures	% Growth, 2009-2013
Operating Departments	+ 7%
Pension/Benefits/Workers' Comp	+18%
Utilities/Judgments/Refunds	+18%
Miscellaneous Other Non-Dept	-98%
Debt Service	-22%

The benefits category represents the fastest projected growth rate (along with utilities, judgments, and refunds, which is much smaller than the benefits category at $20 million) in the coming years.

The City is planning to once again finance capital needs on a "pay as you go" basis and debt service is projected to fall from its current $86 million expenditure to $82 million next year and down to $63.7 million by 2013.

[14] CAFR and Budget data

Summary

General Fund Expenditures, 2000-2013[15]

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	Actual	442,496	8
2008	Projected	416,667	-5.8
2009	Budgeted	437,976	5.1
2010	Projected	441,012	0.7
2011	Projected	448,687	1.7
2012	Projected	452,763	0.9
2013	Projected	457,966	1.1

How Long Will Pittsburgh Be Under State Watch?

In November of 2007 Pittsburgh City Council petitioned the state to remove it from Act 47 status, noting that the City "vigorously and diligently implemented the terms of the recovery plan" and that Council "believes that we have met or exceeded the requirements of the recovery plan and have met the requirements enumerated in Act 47 for the Secretary's consideration for termination".[16]

The resolution added that should the Secretary of the Department of Community and Economic Development determine the City was not eligible to leave Act 47, "the Council…respectively requests that the Secretary provide to the government of the city clear and definable benchmarks as to what would further be required to have the status of distressed municipality removed".[17]

The Secretary's decision was rendered on July 16th of 2008. Pittsburgh was to continue in Act 47 status with 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 along with a long-term capital plan, while maintaining positive operating budgets well into the future".[18]

[15] Ibid. The jump in 2007 Actual expenditures reflects a transfer of $60 million to the capital budget for the "pay as you go" capital improvement plan
[16] Pittsburgh City Council Resolution 2007-1949
[17] Ibid
[18] Commonwealth of Pennsylvania, Department of Community and Economic Development "DCED Secretary Yablonsky Decides Pittsburgh's Distressed Status Under Act 47 to Continue" July 16, 2008

The Secretary further noted that "rescission at this time would be premature and could subject the City to a return to distress status in the near future…many of the conditions that originally led to the distress determination have not been fully alleviated".[19]

So when does Act 47 get lifted? It is hard to say. This is a different set of problems than Act 47 coordinators have attacked in other municipalities. After Pittsburgh, the largest municipality in Act 47 now is Scranton, which has 72,485 people. Only one other has more than 25,000 residents. Since there is no life span attached to Act 47 status—it is lifted when the DCED Secretary determines the distressed conditions are no longer present—there is variation in how long communities stay in.

Here are the current statistics on the communities either in Act 47 currently or those that have had their distressed status lifted.

As shown below, there seems to be little rhyme or reason to the length of time in Act 47—it is lifted when the problems are solved in the eyes of the Secretary. With Pittsburgh's massive legacy costs, it could be in Act 47 for a long time.[20]

Status and Duration of Act 47 Communities, 1987-2008[21]

	Duration of Act 47			
Status	**5 years or less**	**6-10 years**	**11-15 years**	**16 years or greater**
Active	Pittsburgh (12/03) Plymouth (7/04) Nanticoke (5/06) New Castle (1/07)	West Hazelton (3/03) Greenville (5/02)	Milbourne (1/93) Chester (4/95)	Farrell (11/87) Aliquippa (12/87) Clairton (1/88) Braddock (6/88) Franklin (7/88) Rankin (1/89) Duquesne (6/91) Scranton (1/92) Johnstown (8/92)
Rescinded	Shenandoah (5/88-4/93) Ambridge (4/90-4/93)	Wilkinsburg (1/88-11/98) East Pittsburgh (11/92-12/99) North Braddock (5/95-4/03)	Homestead (3/93-3/07)	

The same cannot be said for the City's other overseer, the Intergovernmental Cooperation Authority, also known simply as the oversight board. The board came into existence under Act 11 of 2004 and is modeled on a similar agency in Philadelphia. It was intended to be broader in scope than Act 47 and have a bit more power, such as the ability to intercept tax revenue if the City diverged from agreed upon financial plans.

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19 Ibid

20 Section 253 of Act 47 states that the Secretary can issue a determination that the conditions that led to distress are no longer applicable and the Act 47 designation is rescinded. The Secretary can do this on his own or after a petition by the municipality. Section c lists the factors to consider in the determination, including monthly reports of the coordinator, that deficits have been eliminated, obligations are retired, and that the municipality has operated for a year with a positive fund balance.

21 Pennsylvania Department of Community and Economic Development

The legislation creating the board notes that it is "intended to operate concurrently and equally with…the [Act 47 team]".[22]

Unlike Act 47, the oversight board has a defined existence. The Act notes that the board shall exist "for a term of at least seven years" which means 2011. The Act further notes that should the board approve balanced operating budgets and five year financial plans for the years 2008, 2009, and 2010, the board will go away. Like Act 47, the determination that the board is no longer needed rests with the Secretary of DCED.[23]

It is important to consider a separate statutory provision insofar as it relates to the question of "how long will the City be under state watch?" Section 6.1 of Act 222 of 2005—the law that created the City's payroll tax—states that the City is prohibited from considering a commuter tax, which is permitted under Act 47, so long as the oversight board is in existence. If the board goes away in 2011 as planned and the City is still in Act 47 status, there will be nothing preventing a commuter tax, unless new statutory language is enacted that prevents such an action.

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[22] Act 11 of 2004, 101BIII(3)
[23] Act 11 of 2004, Section 204