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*Pittsburgh's 2011 Budget:  
Pension Tab Comes Due*

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*Allegheny Institute Report #10-06  
December 2010*

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## Table of Contents

<b>Introduction</b>	<b>2</b>
<b>City Revenues</b>	<b>3</b>
<i>Real Estate Tax</i>	3
<i>Earned Income Tax</i>	4
<i>Parking Tax</i>	4
<i>Payroll Tax</i>	5
<i>Summary</i>	6
<b>City Expenditures</b>	<b>6</b>
<i>Public Safety Functions: Police and Fire</i>	6
<i>Benefits and Debt Service</i>	8
<i>Summary</i>	9
<b>Conclusion</b>	<b>9</b>

## **Introduction**

2010 will be viewed as a seminal year in the annals of Pittsburgh's history. The year of the parking lease; the year the City tried to come up with a solution for its legacy costs; the year that the state, already deeply ingrained in the management of the City's financial affairs through Act 47 and the oversight board, became more involved in the management of pensions.

To summarize: the state passed Act 44 in 2009 to deal with municipal pensions. Under that statute, Pittsburgh, with an aggregate pension funding ratio (assets/liabilities) hovering around 27 percent, was given the opportunity to offer its parking assets in a long-term lease for an up-front lump sum payment. If the lease was executed and the lump-sum enough to get the pensions to 50 percent funded (the City would have to net around \$200 million) Pittsburgh would continue to administer its pensions and even be permitted to increase its parking tax but would have to put the revenues toward pensions.

If the lease failed—either it never came to fruition, was voted down, or fetched a price tag below what was needed—then administration of the pensions would be transferred to the Pennsylvania Municipal Retirement System (PMRS) heretofore a voluntary association of 900 local plans. In order to get Pittsburgh's plans healthy, the state would require a greater infusion of cash. The Mayor viewed a state takeover as a disastrous event should it happen, resulting in tax increases or service cuts.

Council, after taking testimony and commissioning its own study to look at alternatives, eventually got a number from the winning bidder: \$452 million for a 50 year lease of the parking system. Capital improvements and structured rate increases were included in the lease agreement, but the offer was voted down. As of this writing, alternatives are being pursued and PMRS presented a variety of contribution levels for the City based on different actuarial assumptions. The cumulative sum of those funding levels varied from \$2 billion to \$3.6 billion over a thirty year period.

In the backdrop of that situation Pittsburgh proposed its 2011 spending plan and five-year financial forecast.

## City Revenues

**2011 Budget: \$455.1 million**

### *Real Estate Tax*

2011 Budget Amount: \$128.7 million

2011 Rate: 10.8 mills

The real estate tax is the City's largest source of revenue, providing close to 40 percent of tax revenue and nearly a third of all revenue. The millage rate has been unchanged since 2001 when the City scrapped separate rates for land and buildings and adopted a unified rate. The City projects a decrease in tax collections in 2011, something that has not happened since 2007. Declines from 2003-2004 and 2006-2007 were much less than the -3.6 percent decline envisioned for next year.

### **Real Estate Tax, 2000-2015<sup>1</sup>**

<b>Year</b>	<b>Status</b>	<b>Tax Rate</b>	<b>Revenue (\$, 000s)</b>	<b>% Change</b>
2000	Actual	184.5 1/32 b	114,543	
2001	Actual	10.8 mills	120,838	5.4
2002	Actual	10.8 mills	122,284	1.2
2003	Actual	10.8 mills	124,000	1.4
2004	Actual	10.8 mills	123,576	-0.3
2005	Actual	10.8 mills	124,516	0.8
2006	Actual	10.8 mills	127,163	2.1
2007	Actual	10.8 mills	126,279	-0.7
2008	Actual	10.8 mills	127,576	1
2009	Actual	10.8 mills	127,913	0.2
2010	Budgeted	10.8 mills	133,572	4.4
2011	Budgeted	10.8 mills	128,790	-3.6
2012	Budgeted	10.8 mills	135,053	4.8
2013	Budgeted	10.8 mills	138,020	2.1
2014	Budgeted	10.8 mills	140,013	1.4
2015	Budgeted	10.8 mills	142,001	1.4

The City is projecting a near 5 percent increase the following year after the County's court-ordered reassessment of property takes place. That's slightly less than the increase the City gained from the previous reassessment in 2001.

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<sup>1</sup> Actual audited data comes from the City Controller's office, Comprehensive Annual Financial Report ([http://www.city.pittsburgh.pa.us/co/assets/09\\_CityofPgh\\_CAFR.pdf](http://www.city.pittsburgh.pa.us/co/assets/09_CityofPgh_CAFR.pdf)) "Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Non GAAP Budgetary Basis-General Fund) 2010 through 2015 budgeted data comes from the 2011 Budget and Five-Year Plan ([http://www.pittsburghpa.gov/mayor/files/2011\\_Budget\\_reduced.2.pdf](http://www.pittsburghpa.gov/mayor/files/2011_Budget_reduced.2.pdf))

### *Earned Income Tax*

2011 Budget Amount: \$70.3 million

2011 Rate: 1.25 percent

The rate shift of the total wage tax (City and Pittsburgh Public Schools) under Act 187 is complete and the City's rate for the foreseeable future is 1.25 percent. The shift brought the City an additional \$17 million from where collections stood in the middle part of the decade. Collections for next year are anticipated to be \$20 million higher than where they stood in 2000.

#### **Earned Income Tax, 2000-2015<sup>2</sup>**

<b>Year</b>	<b>Status</b>	<b>Tax Rate</b>	<b>Revenue (\$, 000s)</b>	<b>% Change</b>
2000	Actual	1%	49,326	
2001	Actual	1%	49,276	-0.1
2002	Actual	1%	46,978	-4.6
2003	Actual	1%	46,018	-2
2004	Actual	1%	45,185	-1.8
2005	Actual	1%	47,388	4.8
2006	Actual	1%	50,211	6
2007	Actual	1.1%	56,705	13
2008	Actual	1.2%	65,348	15
2009	Actual	1.25%	67,277	2.9
2010	Budgeted	1.25%	68,346	1.6
2011	Budgeted	1.25%	70,398	3
2012	Budgeted	1.25%	71,806	2
2013	Budgeted	1.25%	73,242	2
2014	Budgeted	1.25%	74,707	2
2015	Budgeted	1.25%	76,201	2

### *Parking Tax*

2011 Budget Amount: \$46.6 million

2010 Rate: 37.5 percent

The parking tax rate phase down became part of the Act 44 (2009) formula for pension reform. As part of the Mayor's plan to lease garages and lots to a private operator, the tax rate was allowed to stay at 37.5 percent with a portion of those tax revenues (6.75%) dedicated to the City's contribution to pensions.

If the City were to successfully complete a lease agreement, the tax rate would rise back up to 40 percent with 100 percent of those incremental revenues (2.5 percentage points) dedicated to pensions. At the time of this writing the lease proposal appears to be dead, and so too do the parking tax provisions that came with it as embodied in Act 44.

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<sup>2</sup> Ibid

### Parking Tax, 2000-2015<sup>3</sup>

Year	Status	Tax Rate	Revenue (\$, 000s)	% Change
2000	Actual	31%	30,097	
2001	Actual	31%	30,902	2.7
2002	Actual	31%	30,944	0.1
2003	Actual	31%	30,879	-0.2
2004	Actual	50%	44,511	44
2005	Actual	50%	50,323	13
2006	Actual	50%	50,506	0.4
2007	Actual	45%	48,059	-4.8
2008	Actual	40%	44,236	-8
2009	Actual	37.5%	43,355	-2
2010	Budgeted	37.5%	44,203	1.9
2011	Budgeted	37.5%	46,659	5.5
2012	Budgeted	37.5%	47,009	0.8
2013	Budgeted	37.5%	47,638	1.3
2014	Budgeted	37.5%	48,164	1.1
2015	Budgeted	37.5%	48,703	1.1

#### *Payroll Tax*

2010 Budget Amount: \$46.9 million

2010 Rate: 0.55 percent

The payroll preparation tax was created in order to replace the gross receipts taxes (mercantile and business privilege) that many felt were too riddled with exemptions. That replacement is nearly complete. The mercantile tax was ended in 2005 and the business privilege tax is seeing the last of its revenues trickle in.

After large year-over-year periods of growth in 2006 and 2007 collections have flattened and projections show 2 percent growth in the coming years.

### Payroll Tax, 2005-2015<sup>4</sup>

Year	Status	Tax Rate	Revenue (\$, 000s)	% Change
2005	Actual	0.55%	37,826	
2006	Actual	0.55%	41,083	8.6
2007	Actual	0.55%	44,627	8.6
2008	Actual	0.55%	46,364	3.9
2009	Actual	0.55%	45,744	-1.3
2010	Budgeted	0.55%	46,436	1.5
2011	Budgeted	0.55%	46,970	1.1
2012	Budgeted	0.55%	47,910	2
2013	Budgeted	0.55%	48,868	2
2014	Budgeted	0.55%	49,845	2
2015	Budgeted	0.55%	50,842	2

<sup>3</sup> Ibid

<sup>4</sup> Ibid

## Summary

Below is a summary of the City's revenues through 2015. It also breaks the revenue components into City levied taxes (the four major ones covered above, along with the deed transfer tax, local services tax, and amusement tax, as well as the residual amounts of business privilege tax collections) and other sources of revenue (fees, licenses, gaming money, grants, charges for services, etc.). Consistent with the immediate preceding years taxes represent about three quarters of all revenues. If projections hold the City will, in 2015, be collecting \$100 million more in taxes than it did in 2000.

### City Revenues, 2000-2015

Year	Status	City Levied Taxes (\$, 000s)	Other (\$, 000s)	Total Revenues (\$, 000s)	Taxes as % of Total Revenues
2000	Actual	260,731	90,481	351,212	74
2001	Actual	272,161	81,283	353,444	77
2002	Actual	273,859	79,518	353,377	77
2003	Actual	273,144	76,185	349,329	78
2004	Actual	282,178	72,551	354,729	80
2005	Actual	319,417	95,044	414,461	77
2006	Actual	326,226	111,449	437,674	74
2007	Actual	330,201	118,408	448,609	74
2008	Actual	335,148	109,119	444,267	75
2009	Actual	333,089	94,643	427,732	78
2010	Budgeted	344,132	92,403	436,535	79
2011	Budgeted	349,994	105,115	455,109	77
2012	Budgeted	359,510	109,627	469,137	77
2013	Budgeted	367,901	111,221	479,122	77
2014	Budgeted	375,051	112,329	487,380	77
2015	Budgeted	382,868	114,256	497,124	77

## City Expenditures

### 2011 Budget: \$450 million

Once Census numbers come in for 2010 the City will have an accurate estimate, but it is fair to say that Pittsburgh's per capita expenditures exceed that of other better performing cities around the country. If trends hold and the Census population count is close to 308,000, per capita spending for 2011 will be \$1,449.

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

Nearly a third of all City spending is tied to the important departments of police and fire. Since benefits and pensions are counted in a separate spending category in the operating budget the share of total spending for these departments is clearly much higher.

### Police and Fire, 2000-2015<sup>5</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	Actual	46,261	-2	62,657	4.5
2008	Actual	48,050	3.9	65,560	4.6
2009	Actual	50,699	5.5	69,286	5.7
2010	Budgeted	52,015	2.6	70,606	1.9
2011	Budgeted	52,136	2.3	67,843	-3.9
2012	Budgeted	53,174	2	69,187	2
2013	Budgeted	53,482	0.6	69,558	0.5
2014	Budgeted	53,777	0.6	70,196	0.9
2015	Budgeted	54,848	2	71,602	2

Two important developments are coming for these two departments. First, there is a desire on the part of the police department to increase staffing levels in the coming years. The police union pointed out earlier this year that within five years, more than half of the department's 886 sworn officers will be eligible to retire. Getting new blood into the City forces is tough, say FOP officials, because of the pay of suburban departments and the fact that some police officers with children don't want to send them to the Pittsburgh Public Schools (thus the recurring efforts to amend the law to allow City officers to live where they want).

The FOP says it almost never has reached the budgeted amount of 917 officers because of normal turnover and that, in fact, Pittsburgh could be best served with a department of close to 950 officers. Based on Pittsburgh's population (310k) that higher number would put the employee per 1000 people ratio at 3; add in other police staff and Pittsburgh would far exceed other U.S. cities on staffing.

The City's CAFR shows that from 2000 to 2009 total City full time equivalents fell 24 percent while police fell 23 percent. The 2009 Act 47 plan shows that on "headcount by bargaining unit" the FOP count fell 1.9 percent from 2004 to 2009 while all personnel in all bargaining units fell 9.9 percent over the same time period.

Facing retirements and budget constraints—along with the realization that Pittsburgh is already high on overall police staffing—there has to be a better way. The Act 47 team made a point of turning non-safety services to civilian employees so that the sworn resources can be better deployed on the streets.

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<sup>5</sup> Ibid



Second, the state legislature has signed off on a law that paves the way for a merger between the fire departments of Pittsburgh and Wilkinsburg. In more appropriate terms the City of Wilkinsburg will pay the City of Pittsburgh to provide fire protection and Wilkinsburg's fire department will be absorbed by Pittsburgh's. Wilkinsburg firefighters have a year to establish residency in the City of Pittsburgh. This represents the second shared service agreement Pittsburgh and Wilkinsburg have executed.

*Benefits and Debt Service*

As pointed out in the introduction the ramifications of Act 44 on pension funding from the scenarios presented by PMRS has been included in the out year (2013-15) projections for the City's expenses related to pensions and benefits.

**Benefits and Debt Service, 2000-2015<sup>6</sup>**

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	Actual	122,580	5.9	88,808	8.1
2007	Actual	113,453	-7.4	67,033	-24.5
2008	Actual	114,062	0.5	84,911	26.7
2009	Actual	123,913	8.6	82,248	-3.1
2010	Budgeted	137,544	11.1	76,903	-6.4
2011	Budgeted	137,010	-.003	87,656	13.9
2012	Budgeted	141,772	3.4	87,688	.03
2013	Budgeted	178,187	26	71,427	-18.5
2014	Budgeted	182,137	2.2	71,439	0
2015	Budgeted	187,724	3.1	71,428	-.01

PMRS posed six separate funding scenarios, but the Mayor's office has incorporated the scenario that involves the City putting no up front money into its pension system in the way of a lump sum transfer and handing its pensions over to PMRS. This would drive the pension, benefits, and workers' compensation category from its 2011 total of \$137 million to \$50 million higher by 2015. The category will have grown three times since its 2000 audited amount.

On debt service, the City is not planning to take on additional debt in order to make it to a "debt plateau" somewhere around 2017 or 2018 where debt levels off and then drops significantly.

<sup>6</sup> Ibid. The lower debt service payments in 2013-15 reflects using close to \$50 million in debt service reserve balance for those payments.

## Summary

The table below shows the general fund spending for all years 2000 through 2015. If projections hold through the period spending will have increased 39 percent, roughly 3 percent per year or at the rate of inflation for the Pittsburgh region from 2000 through 2009 according to data from the Bureau of Labor Statistics.

### General Fund Expenditures, 2000-2015<sup>7</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	Actual	442,496	8
2008	Actual	475,029	7.3
2009	Actual	418,008	-12
2010	Budgeted	442,246	5.7
2011	Budgeted	450,087	1.8
2012	Budgeted	460,048	2.2
2013	Budgeted	479,073	4.1
2014	Budgeted	486,797	1.5
2015	Budgeted	496,894	2.1

In 2000, with spending of \$356 million and a population of 333,000, per capita spending was \$1,071. Starting with that per capita baseline, the growth in spending through 2015, when the expenditure level is expected to reach \$496 million, can be interpreted two different ways:

- If Pittsburgh continues to lose population at the rate it has in the last decade (about 2,400 per year) it will have 297,000 people in 2015. With \$496 million in spending, per capita spending in 2015 will be \$1,670, about 56 percent higher than per capita spending in 2000, and 17 percent faster than inflation.
- If Pittsburgh and its financial overseers had committed to hold per capita spending to the rate of inflation (45% over the time period at 3 percent annual growth) the City would be spending \$1,552 in 2015 instead of the projected \$1,670 per person level. At the \$1,552 level, the 2015 budget would be \$460 million instead of \$496 million.

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<sup>7</sup> Ibid

## Conclusion

In delivering the budget and financial forecast, the Mayor stated:

“...by year 2016, to say that our City's financial situation will be troubling is an understatement. After 2016, I cannot tell you how we will be able to deliver to residents the core public safety services they need without severe cuts and tax increases. And the pension payments after 2016 are even more staggering. With a fund balance that is dried up, we must make a \$127 million pension payment in by 2017. That's less than seven years away.”<sup>8</sup>

Convinced that the parking lease was the way to go, the Mayor has long argued that the implications of a state takeover of pensions meant anything from a property tax increase or a wage tax increase to cuts solely to the police department to reductions among all departments to “severe cuts and tax increases”.

With minimal growth projected in the City's main taxes and a significant increase in pension payments, the forecast ahead is a rocky one. As before, the remedies for the City are clear: reduce headcount to the level of better performing cities, privatize and outsource services where it can, and apply all savings from these moves to the legacy cost bill.

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<sup>8</sup> Mayor's 2011 Budget Address