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INSIDE THIS ISSUE:

The Roots of Pittsburgh's Financial Crisis

By Jack Ochs

The City of Pittsburgh's financial difficulties came to a head last year. But the roots of its problems have a long history.

One obvious root lies in the dramatic decline in the residential population of the city. In 1964, the resident population was approximately 600,000. By 2002 its resident population had shrunk to about 330,000 (see Figure 1). However, the cost of providing many important public services, including police, fire, and street maintenance, depends not only upon the number of people to serve but also upon the geographic boundaries of the area to be served. Therefore, as the city lost population, the per capita cost of providing these services to its residential population increased.

Despite this dramatic decline in residential population, the city's importance as an employment and cultural center in the region has not declined at all. In 1964, there were 309,000 people working in the City of Pittsburgh. In 2002, there were 313,400 (see Figure 2 and article below). The fact that the city must provide services to both its resident population and to those who work in the city but who are residents of its suburbs is a second reason why the city could not reduce its costs at the same rate as the decline in its residential population.

The decline in the city's residential population relative to the number of people who work in the city implies that the value of non-residential real estate must have increased relative to the value of all residentail real estate. However, only commercial and industrial real estate is taxable. Real estate that is owned by non-profit institutions and used for activities that are tax exempt is not subject to real estate taxation. If employment in the taxable commercial and industrial sector had not decreased relative to employment in the tax exempt sector, then the percentage of real estate taxes paid by commercial property owners would have increased. However, the percentage of all real estate taxes paid by the ten largest commercial real estate tax payers has not grown in the past 20 years. This indicates that there has been a major shift in employment within the city from activities by commercial and industrial enterprises to entities that occupy non-taxable real estate -- hospitals, universities, and government entitites.

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Daytime Population in the City of Pittsburgh

By Christopher Briem

The Census Bureau has released its first-ever estimates on daytime population changes for cities and counties. Based on Census 2000 data, the city of Pittsburgh's estimated daytime population is 41 percent higher than its resident population as a result of daily commuting of workers. An estimated 182,030 workers commute into the city of Pittsburgh daily while 43,839 city residents commute to jobs outside the city.

Net commuting of 138,191 increases the city's daytime population to 472,754, a 41.3 percent increase over its resident population. Among all cities with a population of 250,000 or more, Pittsburgh ranked fourth for its percentage population change resulting from commuting. Only Washington, DC (+71.8 percent), Atlanta (+62.5 percent), and Tampa (+47.5 percent) had larger percentage increases in their

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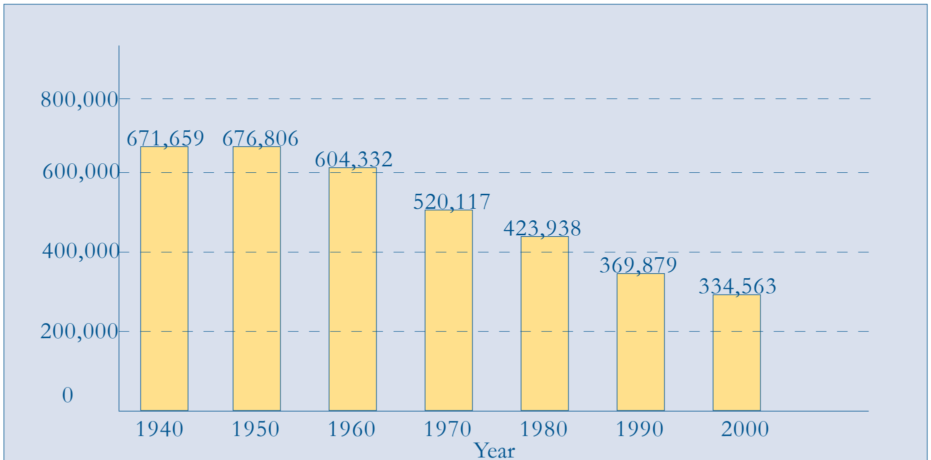
THE ROOTS OF PITTSBURGH'S FINANCIAL CRISIS (CONT.)

Figure 1. City Population Resident Population 1940-2000



Source: US Bureau of the Census

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Real estate taxes and taxes on gross receipts are important sources of tax revenue for the city. The change in the character of economic activity has meant that revenues from the real estate tax and gross receipt taxes could not expand to keep up with the growth in wages the city would have to pay to retain and replace workers.
From 1964 to 2002, the average hourly earnings for non-agricultural workers grew by 591 percent. But the city's revenues from real estate and gross receipt taxes grew by only 416 percent over this period. This left the city with a structural deficit that it could only eliminate through some combination of tax increases and reduced services.

An important source of the city's current difficulties was the unwillingness of past city administrations to address these structural deficits. For many years, the city did not significantly reduce its complement of city employees. For example, in 1977, there were 4,921 city employees on the January payroll. Thirteen years later, in 1990, there were 4,933 employees on the January payroll. To keep the same size workforce, despite expenditures growing faster than revenues, various city administrations resorted to a number of practices that shifted the financial burden of their current operations to future taxpayers.

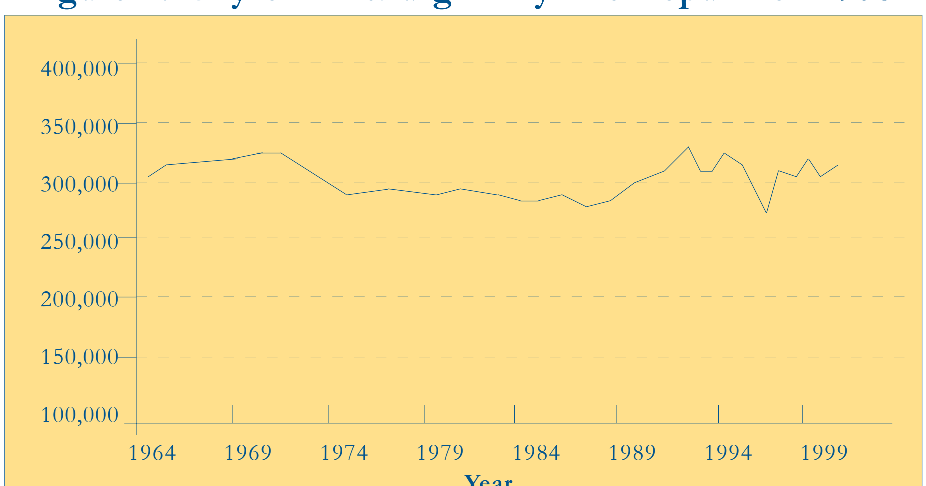
One important practice was to leave unfunded the pension and health benefits that were promised to city employees. That is, the city used current revenues to meet the wage component of its current labor costs, but placed only nominal amounts of current revenues into a reserve account to meet future cash requirements of the pension and health obligations to its current employees. This allowed the city to maintain an apparent balance between revenues and expenditures, but at the cost of accumulating an ever increasing unfunded debt obligation.

In 1996 and 1998, the city issued $269 million in bonds in order to partially fund its pension liabilities. To get a favorable interest rate, the city gambled that interest rates would not fall and issued non-callable bonds. It then invested the monies it raised in investments it hoped would yield more than the interest cost of those bonds. This turned out to be a bad bet for two reasons. As interest rates declined, the city was unable to refinance those non-callable bonds at lower interest costs. The city also found that its investments had declined in value with the decline in stock prices. Despite extensive borrowing to place monies aside for pension liabilities, by 2003 the city's remaining *unfunded* pension liabilities had risen to more than $450 million.

The city not only used unfunded pensions as a way to avoid addressing the problem of its structural deficits, it also gave up ownership of important assets.

It set up what was, effectively, a reverse mortgage arrangement with its Water and Sewer Authority. In 1995, the City entered into a lease agreement

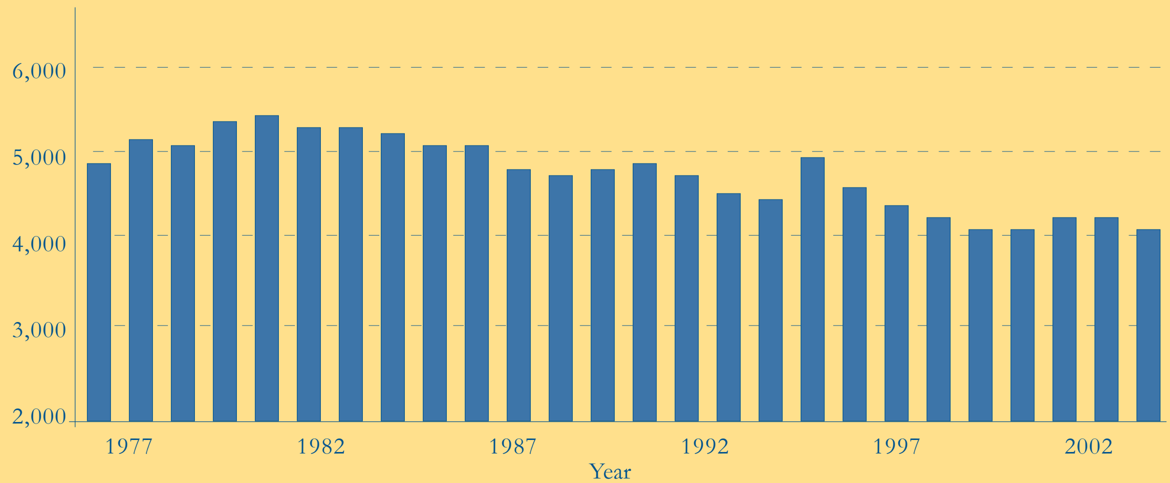
Figure 2. City of Pittsburgh Daytime Population 1964-



Source: City of Pittsburgh Comprehensive Annual Financial Report, various years

The Roots of Pittsburgh's Financial Crisis (cont.)

Figure 3. City of Pittsburgh Employees, 1977-2002



Source: City of Pittsburgh

with the Authority in which the city gave the Authority a 30-year lease on its water and sewer system in exchange for total payments of at least $101 million over the life of the lease, or approximately $3.7 million per year. At the end of 30 years, the Authority would have the option of purchasing these assets for $1.00. The agreement specified that those city employees that formerly worked for the city in the operation of its water and sewer systems would become employees of the Authority. Though no longer city employees, they would remain in the city pension system. The division of the costs of the pension obligations between the Authority and the city are a matter of negotiation.

The city did make efforts to reduce the number of employees on its general budget by a number of means (see Figure 3). It turned over the operation of the zoo and Phipps Conservatory to private entities. This shifted both the costs of operating these facilities and the revenue they generate from the city to private, non-profit entities. Consequently, the city was able to reduce the number of workers in the Parks and Recreation Department.

There has also been a substantial reduction in the number of sanitation workers, reflecting the reduced volume of residential waste that must be handled as a result of the decline in residential population. The largest single decrease in the number of city employees; however, merely represented the transfer of responsibility for the city's water and sewer system to the Water and Sewer Authority. Staffing of the police and fire departments of the city actually increased slightly from 1992 to 2002 according to data from the Census of governments (see Figure 4).

The efforts were somewhat effective. Overall, the number of city employees whose wages were paid from general revenues declined from 4,961 in January 1994 to 3,654 in 2003. However, effective efforts to reduce the level or scope of city-financed services in the face of population declines and structural deficits would imply growth in city government expenditures that would be significantly less than the increase in the employment cost index.

This did occur in Pittsburgh over the period 1994-2003. Over this period, total general fund outlays grew by 23.5 percent while the national general employment cost index grew by 37 percent. That is, even after allowing for the fact that significant numbers of city employees were simply transferred from the city budget to the budget of the Water and Sewer Authority and to operators of other properties formerly owned by the city, there is little doubt that in the past decade the city made significant efforts to reduce the overall cost of its continuing operations.

Furthermore, despite the commonly held view that the city has not controlled compensation costs per employee through effective bargaining, its bargaining units in the past six years have not received increases in excess of the increase in the employment cost index for all employers.

Despite its recent efforts; however, the city still has a large structural deficit, one that it cannot ignore. The proverbial chickens are coming home to roost. The city is currently using in excess of 20 percent of its general fund revenues to meet interest payments and benefit payments to retirees. This burden is expected to increase. Therefore, the city is being pressed to reduce other expenditures.

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THE ROOTS OF PITTSBURGH'S FINANCIAL CRISIS (CONT.)

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The preferred way of reducing costs is to improve the efficiency of operations. It is also tempting to try to secure wage and benefit concessions from workers, a tactic that might work in the short run, but would make employment by the city less attractive and make it difficult to recruit and retain quality employees in the future.

Therefore, since current public safety costs command more than 50 percent of current revenues, significant further cost savings would have to be through reductions in fire and police staff. At some point, productivity cannot be increased. Further reductions would mean a real reduction in services. It is likely that this reduction in services would have a negative impact on property values and, thus, property tax revenues. Lower property values and lower property tax revenues, in essence, mean that the net dollar savings from such service cuts would be less, and possibly considerably less, than the realized cost savings.

Even with significant cuts in service levels, the city's consultants project that there will remain a sizable structural deficit from the increasing burden of servicing existing debt, the increasing costs of meeting the unfunded pension liabilities, and the increased costs of health insurance. The city's Act 47 consultants estimate that even after adoption of various proposed reductions in expenditures, without new tax revenues, voluntary contributions from non-profit organizations and a transfer of monies from the school system, the remaining structural deficit will be on the order of $50-$60 million per year. (See Municipalities Financial Recovery Act Recovery Plan, the Act 47 Recovery Plan of the City of Pittsburgh, June 11, 2004.) Further tax increases are; therefore, inevitable.[1]

There is a fundamental maxim of tax analysis: ultimately, whatever the legal basis upon which a tax is levied, the true burden of the tax is borne by those who cannot avoid it. Since people and businesses can move to other locations that do not increase their taxes, but property cannot, the implication of this maxim is that no matter what form these tax increases take, it is property owners within the city who will bear the burden. This includes those who will have to accept lower rents on rental property in order to prevent lower occupancy rates, and homeowners who will have to accept lower prices for their homes when they wish to sell. These property owners will bear the burden of paying for the previous years because the city failed to get its fiscal house in order.

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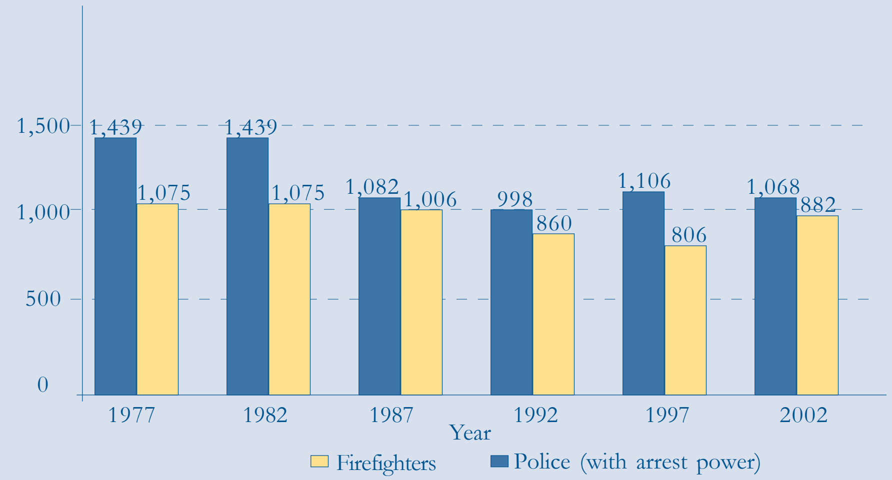
Figure 4. City of Pittsburgh Police and Fire Employment, 1977-2002



Source: U.S. Census Bureau; Census of Governments

[1]The Act 47 recovery team's preferred tax proposal is to allow the city to increase its occupational privilege tax, which it has done, albeit at a lower rate than recommended, to increase its millage rate, to reduce its gross receipts taxes from which some important classes of enterprises are exempt and to levy a payroll tax on for-profit enterprises. The proposed new taxes would only cover 80 percent of the projected revenue gap. The proposal calls for securing revenues from non-profits, who are not legally liable to make any contribution to the city's finances and from a transfer of the expense of provision of school crossing guards to the school district, a proposal the school district will vigorously oppose. This 'preferred proposal' would address perceived inequities in the current structure of taxation in the city. The payroll tax would not apply to non-profits, the largest employers in the city. Instead, to avoid legal difficulties of taxing non-profit activities, the plan calls for voluntary contributions from the non-profit community.

UCSUR to Launch New Research Program

UCSUR will formally launch a new research program on January 1, 2006 called Women in the Workforce. This new initiative stems from the findings of UCSUR's *Women's Benchmarks* report (http://www.ucsur.pitt.edu/publications.htm).

Women's Benchmarks assessed the socio-economic status of women in the Pittsburgh area and compared women's conditions in the city, county, and region to other places in the United States. *Women's Benchmarks* concluded that "though women in the City of Pittsburgh and Allegheny County are among the most educated in urban America, they are among the lowest paid, face a larger gender gap in pay, are under-represented in non-traditional occupations, and are over-represented in low-paying occupations" (*PEQ*, March 2004, p. 6). The benchmarks report stimulated a group of faculty at the University of Pittsburgh to meet and discuss research on the employment and economic conditions of women in our region.

Women in the Workforce will provide ongoing research on these important issues. The group has already obtained external funding for two research projects. The first project, Analyzing Pittsburgh Gender Earnings Gap, is directed by Sabina Deitrick and Susan Hansen. The project analyzes the reasons for the wide earnings gap by gender in Pittsburgh and its region. It is funded by the Heinz Endowments. The second project, Diversity Among Members of Pennsylvania State Boards, is directed by Ralph Bangs and funded by the Women and Girls Foundation, Maurice Falk Foundation ,and Women Way. The purpose of this project is to analyze sociogeographic membership of state boards in Pennsylvania.

Dr. Audrey Murrell, Associate Professor of Business Administration and Psychology, will assume the role of director of this new program beginning in January. Women in the Workforce will seek additional funding for other work that looks at local and national issues facing women in the workforce.

For more information about this new research program, please contact Audrey Murrell at 412-624-5442 or via email at amurrell@katz.pitt.edu.

U.S. Census Bureau Releases Facts for Features: The Holiday Season

The U.S. Census Bureau prepares Facts for Features for nearly 20 holidays during the year. The following was prepared for the upcoming holiday season:

Season's Greetings: Nearly two billion Christmas cards are sent to friends and loved ones every year, making Christmas the largest card-sending occasion in the United States. The second largest is Valentine's Day, with approximately 192 million cards being given (source: Hallmark research).

Christmas Trees: In 2002, 20.8 million Christmas trees were cut around the country. These trees were located on 21,904 farms spread out across 447,000 acres. Pennsylvania led the nation in the number of Christmas tree farms with 2,164 (source: USDA National Agricultural Statistics Service).

Holiday Shopping - December Rush: Retail sales by the nation's department stores (including leased departments) in December 2004 was $31.9 billion. This represented a 54 percent jump from the previous month, when retail sales, many Christmas-related, registered $20.8 billion. Other U.S. retailers with sizable jumps in sales between November and December 2004 were clothing stores (48 percent); jewelry stores (170 percent); book stores (100 percent); sporting goods stores (63 percent); and radio, TV, and other electronics stores (58 percent).

Nearly 2 million (1.8 million people were employed at department stores in December 2004. Retail employment typically swells during the holiday season, last year rising by 50,900 from November and 195,500 from October.

E-Shopping: The value of total retail e-commerce sales for the fourth quarter of 2004 was $21.5 billion. This amount represented 2.3 percent of total retail sales over the period and exceeded e-commerce sales for all other quarters of the year. E-commerce sales were up 24 percent from the fourth quarter of 2003.

For more on these topics, see U.S. Bureau of the Census: http://www.census.gov/Press-Release/www/releases/archives/facts_for_features_special_editions/005870.html

DAYTIME POPULATION IN THE CITY OF PITTSBURGH (CONT.)

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daytime populations. The median increase in the daytime population of among 67 cities with populations 250,000 or more was 14 percent.

These statistics likely underestimate Pittsburgh's entire daytime population. The estimates of daytime population released by the Census Bureau only adjust populations based on travel to work. Not included are others groups who come into the city during the day. These include college and university students, shoppers, patients at city hospitals and doctors' offices, and other visitors.

As regional employment centers, most large cities have significant increases in their daytime populations over their resident populations. There are a few exceptions to this; however. In 2000, both Detroit and San Jose lost population during the day, as more workers commuted out of the city than commuted in.

Commuters who work in the city of Pittsburgh reside in municipalities throughout the Southwestern Pennsylvania region. Individual municipalities with the largest number of residents who work in the city of Pittsburgh include Penn Hills with 7,823, Mount Lebanon with 6,639, and Ross Township with 6,130.

Pittsburgh's large increase in daytime population reflects the concentration of regional jobs located in the city. The U.S. Department of Housing and Urban Development (HUD) has estimated that the total number of jobs located in the city of Pittsburgh was 319,946 in 2001, or just under 31 percent of total employment in the Pittsburgh Metropolitan Statistical Area (MSA). The city of Pittsburgh's resident population of 334,563 in 2000 was only 14 percent of the MSA's 2.36 million population. When measuring total worker payroll earned in the City of Pittsburgh, the concentration is even larger. In 2001, HUD estimated that $12.7 billion in annual payroll was earned at jobs located in the City of Pittsburgh, just under 40 percent of an estimated $34.5 billion earned throughout the MSA.

Though the city continues to lose population annually, it has retained its role as a major employment hub in the region and a location of relatively higher paying jobs. A recent article by Hill and Brennan (2005) showed that between 1998 and 2001, job growth in the City of Pittsburgh (3.3 percent)

Cities with the Largest Difference between Daytime and Resident Populations, 2000 (Cities with 250,000 or More Resident Population)

	City	Resident Population	Commuting Into City	Commuting Out of City	Net Commuters	Daytime Popualtion	Percent Change
1	Washington, DC	572,059	481,112	70,318	410,794	982,853	71.8
2	Atlanta, GA	416,474	332,782	72,825	259,957	676,431	62.4
3	Tampa, FL	303,447	188,678	44,627	144,051	447,498	47.5
4	Pittsburgh, PA	334,563	182,030	43,839	138,191	472,754	41.3
5	Boston, MA	589,141	335,601	93,509	242,092	831,233	41.1
6	Miami, FL	362,470	204,197	69,131	135,066	497,536	37.3
7	St. Louis, MO	348,189	180,501	58,267	122,234	470,423	35.1
8	Louisville, KY	256,231	124,066	43,724	80,342	336,573	31.4
9	Cincinnati, OH	331,285	161,110	58,390	102,720	434,005	31.0
10	Seattle, WA	563,374	242,936	82,893	160,043	723,417	28.4
11	Denver, CO	554,636	257,451	101,965	155,486	710,122	28.0
12	Honolulu, HI	371,657	118,486	25,181	93,305	464,962	25.1
13	Raleigh, NC	276,093	119,332	50,139	69,193	345,286	25.1
14	Minneapolis, MN	382,618	191,522	96,046	95,476	478,094	25.0
15	Sacramento, CA	407,018	167,251	66,318	100,933	507,951	24.8
16	Cleveland, OH	478,403	192,275	77,435	114,840	593,243	24.0
17	Kansas City, MO	441,545	177,854	75,888	101,966	543,511	23.1
18	Portland, OR	529,121	192,581	70,838	121,743	650,864	23.0
19	Newark, NJ	273,546	111,076	51,401	59,675	333,221	21.8
20	San Francisco, CA	776,733	265,291	96,544	168,747	945,480	21.7

Source: U.S. Census Bureau

DAYTIME POPULATION IN THE CITY OF PITTSBURGH (CONT.)

slightly outpaced job growth in the metropolitan region (3.1 percent) by 0.2 percent. Though both changes fall below average job growth for the 100 largest central cities and metropolitan areas over the period, in recent years the region's central city has gained in its share of the region's employment.

Over a longer period, 1993-2001, the central city's share of regional employment declined only slightly, by 1.4 percent. This information shows that in Pittsburgh there is little distinction between a "city economy" and a "suburban economy." Both are part of the regional economy, where the City of Pittsburgh maintains its role as an important job center and job generator in the region.

Additional data on daytime population is available online at: http://www.census.gov/population/www/socdemo/daytime/daytimepop.html

See Edward W. Hill and John Brennan, "America's Central Cities and the Location of Work," Journal of the American Planning Association 71, no. 4 (August 2005): 411-432.

Municipalites with Largest Commuter Flows into the City of Pittsburgh, 2000

Rank	Municipality	Commuters	Rank	Municipalitry	Commuters
1	Penn Hill	7,823	11	Plum	3,199
2	Mount Lebanon	6,639	12	Scott	2,733
3	Ross	6,130	13	Whitehall	2,701
4	Shaler	5,739	14	Cranberry	2,696
5	McCandless	4,888	15	Upper St. Clair	2,678
6	Bethel Park	4,725	16	Hampton	2,453
7	Wilkinsburgh	4,643	17	Brentwood	2,410
8	Baldwin	4,005	18	Dormont	2,171
9	Monroeville	3,255	19	Swissvale	2,122
10	West Mifflin	3,230	20	Bellevue	2,102

Source: U.S. Census Bureau

The staff at UCSUR wishes everyone a safe holiday season and a successful 2006!

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