INTRODUCTION

In March of 2001, Mayor Tom Murphy appointed a panel of community leaders and financial leaders to study the City's finances and to suggest a plan for the future.

The Mayor appointed co-chairs for the PGH 21 panel: Doris Carson Williams, President of the African American Chamber of Commerce; and Paul Renne, retired Chief Financial Officer of H.J. Heinz Company.

The members of all the PGH 21 subcommittees worked with diligence and seriousness of purpose to fulfill our charge. The Report we submit to the Mayor and to the people of Pittsburgh is, we believe, an accurate representation of our fiscal situation and, more importantly, a blueprint for the long-term fiscal stability of Pittsburgh City government as well as an essential part of any long-term plan for strong regional economic growth.

PGH 21 Committee Members

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EXECUTIVE SUMMARY

The revenue structure of the City of Pittsburgh was created for a City that does not exist anymore.

In fact, local governments throughout Pennsylvania today have tax bases designed for an economy in which employees live where they work and in which the major employers are taxable businesses. What this means for us in Pittsburgh is that our tax base no longer matches the economic activity of our City.

A Need to Modernize the City's Revenue Sources

Examining the revenue sources that make up the City's tax base today, we have found the property tax diminished by the increasing number of tax exempt businesses; the resident income tax diminished by the loss of residents to the suburbs; the business privilege tax diminished by the growing patchwork of legislative and court-ordered exemptions.

The revenue enhancement initiatives included in this report allow for decreased reliance on property taxes and decreases in the business privilege and mercantile taxes. A combination of these initiatives could provide the City with a tax base that matches the economic activity of Pittsburgh today while encouraging real economic growth in the future.

The essential facts are these:

1) Among the largest 24 employers in Pittsburgh today, 17 are tax-exempt; and, of the remaining seven only two pay more than an incidental business privilege tax;

2) At least 30% of the property in the City is tax exempt, owned either by non-profit institutions or by governments or their entities; and

3) Of the 320,000 who work in the City, only 124,800 are City residents -- the remaining 195,200 are commuting workers who pay only $10 a year in occupation privilege taxes.

The demographic and economic changes which caused these revenue sources to diminish happened over a 50-year period. *The reality 50 years ago was that Pittsburgh had more than 600,000 residents helping to bear the costs for a service-consuming population of more than 600,000. Today Pittsburgh -- with 270,000 commuting workers, students and visitors daily -- has 335,000 residents helping to bear the costs for a service-consuming population of more than 600,000.* In other words, Pittsburgh is still a city of 600,000, supporting infrastructure and services for 600,000, but without an up-to-date system to recoup its costs.

The term *structural deficit*, which we use to describe the City's budget reality for the past ten years, simply describes the growing historical mismatch between revenues and expenditures. The City was able to significantly improve its cost structure with respect to regional assets such as the Zoo, the Aviary and the Phipps Conservatory. The Regional Asset District, created by the State Legislature in 1992, effectively removed these assets from the City Operating Budget. Over the past eight years, the City has reduced its workforce by nearly 20% and, in the last five years, a series of one-time measures enabled the City to balance its budgets. These included renegotiating the City's lease with the Water and Sewer Authority, tax lien sales, financing savings and the use of fund balances.

The PGH 21 Committee has concluded that no more one-time solutions exist for this and future budget years and that nine years of cost containment and reductions have not resolved the City's inherited costs problem. In 2003, the City is facing a potential deficit that exceeds $50 million.

Inherited Costs Must be Addressed

The long-term solutions to the City's problems cannot be one-time revenues. The City has to:

- Continue to control and cut costs;
- Seek meaningful tax reform at the state level that reflects more accurately the City's changed economy; and
- Continue to support commercial and residential development in the City.

The problem Pittsburgh faces is a lack of revenue growth coupled with a continued demand for services by the businesses, residents and commuters who frequent the City everyday. In addition, the City has seen significant increases in expenses that are beyond its control. Labor arbitration awards and increases in health care costs have increased the budget significantly:

- Public safety costs represent 39% of expenditures;
- Public safety costs have grown steadily at an average annual rate of 5% since 1995 while revenues have grown 3% annually; and
- Healthcare costs represent 9% of expenditures.

These costs are unaffordable at current levels. A new compact between the City and the public safety employees where services are right-sized with available resources must be negotiated. The savings goal must be $20 million annually.

Debt management policies on the obligations incurred to maintain the City's infrastructure and other inherited costs -- pension, health care and workers' compensation obligations for former employees -- must be sustained.

- Pension, healthcare and workers' compensation costs comprise 14% of expenditures;
- Debt costs, including pension bonds, represent 21% of expenditures; and
- Total unfunded pension, post-retirement medical and workers' compensation liabilities exceed $550 million.

The City has been successful in managing some costs:

- The unfunded liability of the pension funds has been substantially reduced through the issuance of pension bonds in 1998;
- A debt diet has been put in place to limit future debt service;
- The City's employee headcount has been reduced by 20% to reduce personnel expenditures;
- Workers' compensation managed care is in place to limit cost increases;
- Healthcare costs are shared with employees to limit healthcare cost increases; and
- CitiStat -- a program developed by the City of Baltimore has been replicated to identify performance efficiencies and management improvements.

The City must continue to streamline operations. It should exit the asphalt business. It must improve refuse processing and efficiency. It should continue to build money-saving relationships with County government on 911 and joint purchasing. The City should continue active development and widen the application of CitiStats to focus on productivity and efficiency across all services.

Primary Recommendations

Public Safety

- Pursue long range solutions, i.e. change Act 111, workers' compensation, union contracts
- Merge EMS and Fire = $15 million
- Cut Police budget = $5 million
- Outsource EMS billing backlog = $1 million annually
- Merge City/County 911 = $859,000 ($2 million capital)

Non-Safety Services

- Increase capacity to actively use CitiStats, benchmarking and "best practices" to improve service delivery & cost effectiveness
- Continue effort started recently to identify and implement best practices in the Environmental Services Division (ESD), including:
  - comprehensive rerouting of collection system
  - revise fee schedule for non-residential collections or discontinue the service
  - review ESD fleet maintenance practices
- Conduct cost-benefit analysis of a transfer station including option for joint use by other municipalities
- Revisit the question of selling the asphalt plant
- Proceed with Comprehensive Pool Study

Administrative Services

- Continue to use and expand CitiStats program
- Increase automation to use more data more quickly -- eliminate multiple handling
- Consider cooperation or joint operations with other jurisdictions' computer services

- Costs/benefits studies of cooperation and/or privatization:
    - fleet management
    - cable bureau
    - purchasing

Debt and Infrastructure

- Develop long-range infrastructure plan
- Reduce total GO debt services to 10-15% of operating budget
- Maintain general fund balance of 10-12%
- Shift short-lived assets and operating expenses out of capital program
- Seek additional outside government funding
- Explore creative ways to meet infrastructure needs, e.g. joint City/County 911 system and parks commission

Pensions and Benefits

- Pensions
    - seek additional state aid to prior $28 million funding level
    - establish defined contribution plan for new employees
- Workers' Compensation
    - pursue proposed mitigation plans
- Benefits
    - reduce post retirement healthcare costs through plan design changes and cost sharing
    - continue to use multiple providers
    - increase employee and retiree share of costs
    - continue in shared purchasing coalition

Grants and One-Time Revenue

- Grant seeking must be part of annual budget development process with support from City leadership
- Pursue competitive grants (as appropriate) in addition to formula grants
- Understand long-term budgetary consequences of grants BEFORE application is made
- Conduct analysis of City's grant potential and adjust grant seeking staff capacity accordingly; utilize centralized staff plus department point persons
- Explore feasibility of lobbyist contract for federal grants

Payments in Lieu of Taxes (PILOTs)

- Explain impact of tax-exempt property to property owners, civic leaders, media and City residents
- Post-Act 55, City must "make its case" to tax-exempt owners for support including detailed service provision costs
- Revisit legislation to require State to reimburse municipalities for tax lost from institutions exempt under Act 55
- Explore forming a public service foundation for tax exempt owner contributions
- New development efforts must keep property taxable

Enhanced Revenues

- Levy a payroll preparation tax on all employers in the City
- Seek authorization for a 10% retail drink tax

PUBLIC SAFETY

Background

Public safety operations within the City include the Bureaus of Fire and Police, Emergency Medical Services and the Emergency Operations Center.

Public safety costs comprise 39% of the overall 2002 City Operating Budget. Including building and equipment costs, the impact is well over 50% of annual expenditures.

Overall management of work rule and manpower issues in the Bureaus of Fire and Police is substantially impacted by the parameters of Act 111 binding arbitration. Historically, these Bureaus have also had a pattern of unusually high workers compensation, overtime and disability costs.

Public Safety Administration

Although the 2002 Public Safety Admin budget exceeds $1.4M, only $222K covers the Director's Office. The remainder includes expenditures for miscellaneous Public Safety functions such as radio shop, photo lab, police administration, alarm billing and Youth Policy Office.

Emergency Medical Services

Under present operations, Pittsburgh EMS will always require a large subsidy from City taxpayers. Despite improved efforts to collect third-party payments, EMS is able to recover less than fifty percent of its total costs.

Emergency Operations Center

Revenues for the City's 911 services are based on the $1 charge (a sliding scale for business) for all landline phones. While these revenues have declined with the increased use of cell phones, PA legislation (SB884) is pending to include wireless communication. Currently the City is considering merging of the 911 operations with the County.

Fire Bureau

The provision of fire protection services remains a controversial issue. The City has struggled with the budgetary pressures created by the historically high costs of fire protection services. To realize substantial and meaningful savings, the City must address the number of stations, staffing, work hours and equipment necessary to provide adequate fire protection service to its citizens.

Discussions between members of the committee and Fire Fighter union representatives indicated a willingness on the part of the union to participate in a non-partisan study of the organization to determine the most cost effective Bureau structure.

Police Bureau

Pittsburgh has more police officers per capita than most comparable cities. There are over 30 sworn officers per 10,000 residents versus the national average in the low 20s. Sworn officers make up more than 95 percent of the full-time employees, as opposed to the national average of 76 percent. In addition to the high staffing levels, the City's Police Bureau overtime pay costs are also high at 15 percent of regular pay. The City has taken measures to minimize court related overtime over which it has control. Fraternal Order of Police (FOP) representatives have also indicated a willingness to participate in a non-partisan study of the organization.

Recommendations

General

- **Pursue long-range solutions (change ACT 111, worker's compensation, and union contracts) for Public Safety contractual and personnel issues.** The subgroup recognizes that these issues cannot be resolved easily, but the City must continue to seek solutions to these long-term problems (e.g. consider final offer arbitration, reserve management rights to the City and review process for selecting arbitrators under Act 111).

Administration

- **Reorganize the budget to reflect true organizational structure.** Move the expenditures to the appropriate organization, either another Bureau or other department (e.g. Youth Policy Office).[1]

Emergency Medical Services

- **Outsource the EMS billing function.** A 1996 audit revealed that EMS under collects its billables by $1M to $1.2M per year due to a number of factors (staffing, outdated billing system) and recommended outsourcing. The City tried unsuccessfully to outsource this function, and currently has a $4.4M lag, $1.4M of which is lost due to failure to meet billing deadlines

[1] The subgroup noted that the City should report all indirect costs such as purchasing, building and maintenance by function or bureau, in order to account for the true cost of services (e.g. First Responder Program, or Fire/Police station).

- **Ensure full and timely reimbursement for EMS services provided for any City event.** Private sector sponsored events are billed directly by EMS, and billing for large City sponsored events is handled by the City's Budget Office.

- **Initiate an EMS study, jointly supported by the City Administration and Pittsburgh Paramedics.** This study should examine ways in which the City could establish EMS as a breakeven operation, considering options such as privatization, merging with the Fire Bureau, and partial or full financial support from Pittsburgh hospitals.

Emergency Operating Center

- **Support bill SB884 in the Pennsylvania Legislature.** This will ensure a continued revenue stream for the City's 911 system.

- **Merge City 911 operations with the County.** Ensure that the City's unique needs are met while establishing an efficient and effective regional 911-response service.

- **Utilize the City's 911 computer reporting system for maintaining efficiency statistics.** Analyze 911 service calls and responses to complement the CitiStats Program and provide reports to the public via the City's website.

Fire Bureau

- **Initiate a Fire Bureau study, jointly supported by the City Administration and the Pittsburgh Fire Fighters.** This study should consider stations, staffing, work hours, equipment, policies and programs (e.g. First Responder) currently in place with an eye toward public safety and fiscal effectiveness and efficiency.

Police Bureau

- **Initiate a Police Bureau study, jointly supported by the City Administration and the Fraternal Order of Police.** This study should encompass personnel, functions, equipment, policies (light duty) and programs, especially Community Oriented Police (COP), to determine the most cost effective structure for the Bureau.

NON-SAFETY SERVICES

Background

A principal goal of municipal government is to strike a reasonable balance between levels of services and cost. Services can over-tax residents if they are not done in a cost-effective manner. Administrators should seek to provide residents with an optimal bundle of services at competitive costs.

The subcommittee examined issues under the jurisdiction of the Department of Public Works (DPW) and Parks & Recreation.

The DPW is responsible for the maintenance of the City's infrastructure by resurfacing streets, preserving park facilities and rehabilitating public structures. In addition, the department meets the environmental needs of Pittsburgh residents by collecting residential refuse and recyclables as well as controlling the animal and rodent population.

The City's Parks and Recreation Department is concerned primarily with providing recreation opportunities and community enrichment for City residents. The operations of both agencies were reviewed by Competitive Pittsburgh and the City subsequently implemented a number of the recommendations. However, we believe there are additional opportunities for cost savings.

The subcommittee focused its efforts in DPW on refuse collection because of its high level of expenditures, the fact that municipalities often turn to the private sector for the service, and the fact that the administration has previously sought bids for these services. Survey data indicates that the City is considerably less efficient in its refuse collection than other large cities. This operational inefficiency was confirmed by private sector solid waste collection and disposal bids from several years ago that offered substantially lower costs – given that private companies must factor taxes and profit margins into their bids, it would appear the City has considerable room for operational improvement. For example, nine cities in a 13-city sample have a higher productivity in households serviced per refuse employee (see Table 1).

Table 1

Rank		Households per Employees on Trucks
1	St. Louis, MO	1,337
2	Cincinnati, OH	1,324
3	Columbus, OH	1,176
4	Nashville, TN	1,121
5	Kansas City, MO	1,103
6	Louisville, KY	691
7	Milwaukee, WI	655
8	Erie, PA	648
9	Buffalo, NY	629
10	**Pittsburgh, PA**	**617**
11	Philadelphia, PA	535
12	Austin, TX	524
13	Memphis, TN	366

Table 2

Rank		Average Households per Route
1	Kansas City, MO	1,500
2	St. Louis, MO	1,100
3	Nashville, TN	925
4	Louisville, KY	850
5	Austin, TX	800
6	Philadelphia, PA	613
7	Cincinnati, OH	600
8	Erie, PA	583
9	Milwaukee, WI	524
10	Buffalo, NY	519
11	**Pittsburgh, PA**	**483**
12	Memphis, TN	430

Note: Columbus did not respond to this question.

Similarly, 10 of 12 cities collect refuse from more households per refuse route than does Pittsburgh (see Table 2). Benchmarking has found Pittsburgh to be comparable to most of the cities in the survey in regards to unionization, wage rates and truck capacity.

Several previous analyses have shown the City's asphalt plant to operate inefficiently.[2] As a result, its asphalt costs are higher than local market costs (see Table 3). The City typically does not pave enough streets in a year to operate the asphalt plant at a level that would realize cost savings. The City would need to produce over 110,000 tons of asphalt per season in order to break even with prices received by Allegheny County through competitive bid. The City has produced that level of asphalt only three times since 1994. The courts have ruled that the City cannot sell asphalt to other municipalities. The City might be able to find a more attractive use for the land at the asphalt plant location. The City took bids for sale of the asphalt plant several years ago but rejected them.

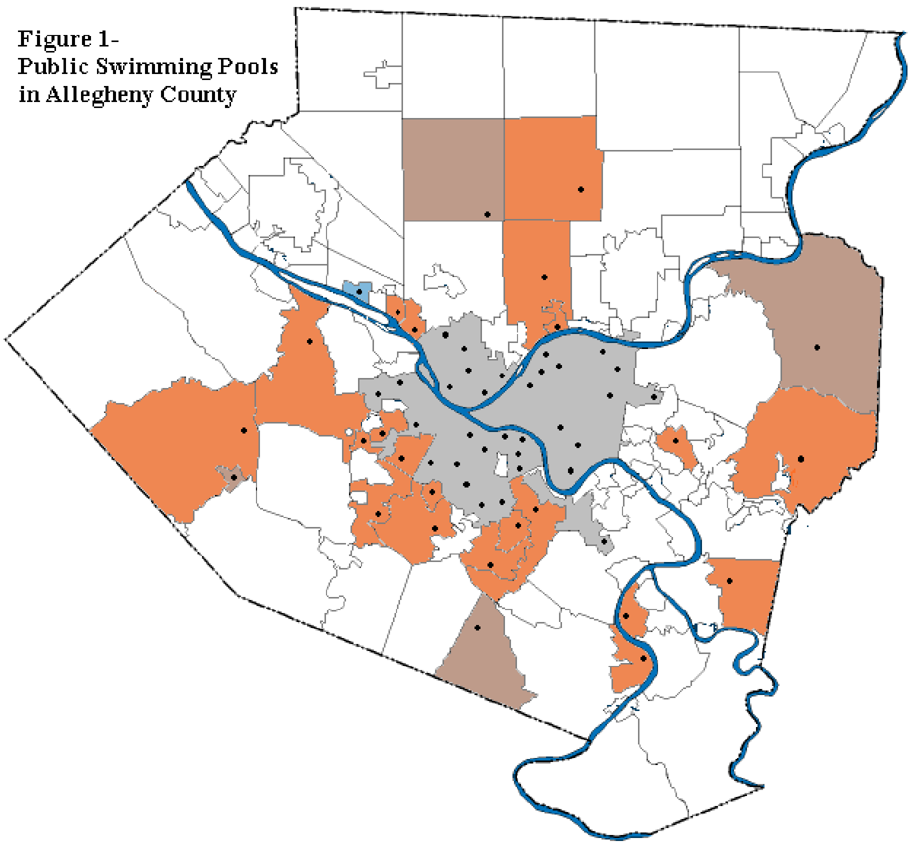
Table 3

2002 Comparative Per Ton Asphalt Costs @ Projected 2002 Production Level of 86,320 Tons			
	ID2 Binder	**ID2 Top**	**FJ-1**
City of Pittsburgh	$25.64	$27.55	$29.45
Allegheny County bids	$24.00	$26.50	$28.00

[2] Pennsylvania Economy League, Pittsburgh Asphalt Plant Analysis, 1994; 1995 Pittsburgh Asphalt Plant Sale Analysis, 1995.

The focal point of the subgroup in Parks and Recreation was on its public swimming pools. There are a total of 58 public swimming pools in Allegheny County: the City maintains 32, the municipalities, 22, and Allegheny County, 4. As illustrated in the map (see Figure 1), municipal pools are available within a short drive or bus trip from any point in the City, with the exception of the eastern border. The portion of the City south of the rivers has a particularly large number of both City pools and nearby public pools in other jurisdictions. In addition to the 15 City pools in this area, there are an additional eight municipal pools in close proximity.

Figure 1- Public Swimming Pools in Allegheny County



Benchmarking of all municipally run pools within Allegheny County shows that the City's fees are well below "market" rates (see Table 4).

Table 4

Resident Swimming Pool Fees			
	Family	**Adult**	**Youth**
City of Pittsburgh	$40	$20	$10
Municipal Average	$135	$59	$51
Allegheny County	$110	NA	NA

Many of the City's pools have low utilization rates, including Manchester at 8.1%, Ammon at 6.4% and Oliver at 5.5% (see Table 5). Most pools were built in the early to middle portion of the 20th century. Most pools have not undergone renovations recently.

Table 5

Pool	**Capacity Utilized**
Schenley	71.8%
Brookline	40.4%
Westwood	35.9%
Northgate/Jack Stack	35.9%
Bloomfield	35.8%
Arlington	34.6%
Warrington	31.8%
East Hills	29.0%
Ormsby	28.6%
Magee	27.8%
Phillips	27.5%
Highland	25.8%
McBride	25.7%
Ream	25.5%
Cowley	24.9%
West Penn	23.9%

Pool	**Capacity Utilized**
Banksville	23.6%
Riverview	21.4%
Leslie	20.5%
Moore	20.2%
Beechwood	19.9%
Sue Murray	18.4%
Burgwin	17.9%
St. Clair	17.1%
Homewood	16.5%
Sheraden	16.0%
Fowler	14.4%
Paulson	14.4%
Broadhead	12.8%
Manchester	8.1%
Ammon	6.4%
Oliver	5.5%

The City has taken a number of important measures to improve its service delivery, but there are still opportunities to improve the delivery and cost-effectiveness of services. Specifically, the subgroup found the City's solid waste collection, public swimming pools and asphalt plant are not as productive as they could be. Low productivity costs the City money that is hard to come by.

Recommendations

General

- **Actively benchmark other cities and borrow best practices.**

- **Increase capacity within the Office of Management and Budget to actively use the information provided from CitiStats, benchmarking and "best practices" to improve the delivery and cost-effectiveness of services.**

Refuse Collection

- **Continue effort started recently to identify and implement best practices in the Environmental Services Division.** Some cities have contracted out certain portions of solid waste services (most commonly recycling) while others have privatized all operations. These cities have found that the private sector provides such services more efficiently and effectively. The City should thoroughly review its practices with the goal of achieving operational efficiencies comparable to those of the private sector.

- **Undertake a comprehensive re-routing of refuse collection services to achieve productivity levels comparable to other large cities.** As is demonstrated in Tables 1 and 2, benchmarking shows that the Pittsburgh's refuse collection is among the least efficient in a sample of large cities. The City also is less efficient than the two largest Allegheny County municipalities with refuse collected by municipal crews (see Table 5).

Table 5

Rank		Households per Employees on Trucks
1	West Mifflin	792
2	Monroeville	750
3	**Pittsburgh**	**617**

- **Consider concentrating the new routes in one particular area of the City each day.** Only three (including Pittsburgh) of 16 cities in the PEL survey currently perform their refuse collection in disparate parts of the City every day of the week. The remaining 13 cities concentrate their crews each day. Concentrating the refuse collection allows crews to cover each other in the case of absences and results in less travel time for repairmen who attend to broken-down trucks

- **Revise fee schedule for non-residential collections or discontinue the service.** Expenditures for non-residential collections exceed revenues received through fees. The City needs to adjust fees upwards to approximate market rates for solid waste collection services for apartments, schools and non-profit institutions. If it does not adjust the fee schedule to cover costs, the City should discontinue the service. Prepaying service fees based on estimated usage, in conjunction with a dual billing system using a relatively high fixed payment coupled with a relatively low usage-based payment can help mitigate potential problems with illegal dumping.

- **Review and revise, if indicated, Environmental Services Division fleet maintenance practices.** Refuse collection trucks undergo severe wear and tear and are subject to breakdown. Current maintenance practices have not kept enough trucks in service at a given time.

- **Explore the feasibility of selected use of automated collection.** In most cases, cities with automated collection are more efficient than cities without it[3]. Therefore, the City should contact cities with similar topographical challenges (such as Cincinnati) to understand exactly how they conduct their automated collection.

- **Consider conducting a cost-benefit analysis in conjunction with Allegheny County to determine the effect of a transfer station on annual operating costs and productivity.** Only one other city (Austin, TX) in they survey makes a longer trip to the landfill. The City might consider weighing the costs and benefits of a transfer station jointly used by other local municipalities to maximize efficiency and defray costs. It should be noted that while there may be long-term savings associated with a transfer station, this recommendation should not be pursued by itself or to the exclusion of the above recommendations.

Asphalt Plant

- **Revisit the question of selling the asphalt plant.** Three studies since 1994 have shown the asphalt plant to be a money loser for the City. The City should seriously reconsider whether the continued production of asphalt, widely and competitively available on the open market, is in its best interest.

[3] There are exceptional cases where cities with no automated trucks have high efficiency (e.g., Kansas City, MO), and there are instances where cities with automation have low efficiency (e.g. Memphis, TN).

Public Swimming Pools

- **Proceed with the Comprehensive Pool Study.** Table 4 shows that the City's pool fees are below market rates for municipal pools in Allegheny County. Many City pools are bound to require renovations and become increasing burdens over coming decades. Low utilization rates call into question further capital investment in neighborhood pools. Therefore, the subgroup recommends that the City continue to study its aquatic facilities. This study, in the end, would ideally evolve into a plan for the reorganization of the aquatic resources to effectively serve youth, adult and family aquatic needs on a more self-supporting basis.

ADMINISTRATIVE SERVICES

Background

The continuing challenge facing city administrators is to maintain a high level of service under difficult financial pressures. To control operating costs, the Murphy Administration has reduced the City workforce by 20% over the past eight years.

More recently, the administration has put into effect its CitiStats program, an efficiency rating system that measures productivity by department, modeled after a program developed in the City of Baltimore.

A significant portion of the personnel and budget cuts have fallen on the Department of General Services (DGS) and City Information Systems (CIS), the two agencies which provide most of the administrative and support services to the other operating departments of the City. It is to their credit that these two agencies have continued to provide good services to the City under strict budgetary guidelines.

CIS provides support services to line departmentsby providing computer hardware, software and networking support to the entire governmental organization.

One of the earliest administrative priorities of the Murphy Administration was the development of a strategy to modernize the City's technology capabilities within given budget restraints and with emphasis on the services provided by CIS.

The rapid changes in technology should prompt the City to share services (personnel and infrastructure) or to take advantage of economies of scale (hardware and software) with Allegheny County and/or other jurisdictions. This is just one area of opportunity to explore for joint City-County services. Others include, but are not limited to, a joint non-emergency call taking center, purchasing and fleet management.

It is likely that both DGS and CIS could have garnered greater efficiencies had timely, useful and accurate service data been available to them. Fortunately, Pittsburgh, through its CitiStats program, is beginning to capture information necessary to evaluate and make informed choices about service delivery efficiency and policy opportunities.

Recommendations

CitiStats

- Continue to use and expand, if possible, the CitiStats program.

Customer Service

- Implement an enhanced, centralized non-emergency call and e-mail fielding system so that complaints and suggestions that customers relay directly to departments and council members are captured in a systematic and useful way. This would also facilitate better, more timely information back to customers.

- Consider cooperative or merged non-emergency call and e-mail fielding system.

- Consider changing the name of the "Mayor's Service Center" to reflect its wider use within the City beyond just the Mayor's Office.

Information Technology

- Consider cooperative or joint operations with other jurisdictions' computer services.

- Increase automation of data to reduce or eliminate multiple handling of data. Make better use of information systems already in place in order to move data more efficiently and quickly.

- Provide focused management and technical training for select personnel.

- Develop and implement a long-range technology plan.

Property

- Undertake a needs assessment of City-owned property.

Purchasing

- Make full use of existing joint purchasing arrangements with Allegheny County, the various Councils of Government and the Pittsburgh School District. Explore possibilities for and undertake additional joint purchasing arrangements.

- Use best practices for purchasing, including reverse auctions, where indicated. Joint purchasing with other governmental entities can increase the benefits of reverse auctions

Fleet Management

- Undertake a costs/benefit study of fleet jointure opportunities with Allegheny County, the Pittsburgh School District and other entities. Opportunities may lie in specific fleet operation functions, such as spare parts inventory, preventative maintenance, motor pool or other areas.

- Undertake a costs/benefit study of fleet privatization opportunities. Opportunities may lie in specific fleet operation functions, such as spare parts inventory, preventative maintenance, motor pool or other areas.

Cable Bureau

- Undertake a costs/benefit study of privatizing the Cable Bureau's production functions.

Internships

- Enhance the City's internship program with local and other higher learning institutions to develop a pool of new management staff.

Charge-Back System

- Implement a fully integrated charge back system throughout the City's operations (i.e., make departments pay for their use of copiers, motor pool vehicles and other general services).

DEBT AND INFRASTRUCTURE

Background

The City of Pittsburgh is responsible for the maintenance of a huge physical plant: over 100 public buildings, 1200 vehicles, 4 regional parks, 107 neighborhood parks and parklets, 22 neighborhood recreational facilities, 32 swimming pools, 117 bridges, over 1035 miles of streets, an asphalt plant, more than 500 traffic signals, 35 fire stations, six zone police stations, athletic fields, and senior citizen centers.

Much of this infrastructure, which requires constant maintenance, renovation or repair, was created more than 50 years ago to serve a city of 600,000 residents. While the City's current population has decreased to about 335,000, the use of these assets remains constant. In fact, because employment in the City has remained remarkably stable and more than 195,000 workers commute into the City every day, the demand on our streets and bridges may be higher than it has ever been.

The City has financed most of its infrastructure construction, maintenance and improvements with a combination of intergovernmental transfers from the federal and state governments and the Allegheny Regional Asset District, and debt. The administrative, engineering and other expenditures associated with capital projects are financed with the same combination of transfers and debt. The 2002 capital budget is $152 million from all the sources. This includes projects being undertaken by the Urban Redevelopment, Parking, Housing, Equipment Leasing, and Water and Sewer Authorities.

The sources of funds for the 2002 capital budget includes City bonds ($31 million), Community Development Block Grant Funds ($21 million), federal funds ($21 million), state funds ($4 million), and authorities ($74 million). The City makes every effort to finance capital improvements with state and federal funds and to use City bond funds as a last resort.

The current administration inherited $514 million in accumulated general obligation debt. While that figure has increased to approximately $580 million, the debt service has remained relatively constant primarily through prudent management of payment terms and the ability to refinance higher interest bonds. In 1993, the General Obligation bond debt service was approximately $48.5 million and, in 2001, it was slightly less than $51 million.

In addition, the City budgeted $3.6 million to meet obligations to the URA and the Sports and Exposition Authority.

In 1998, the City issued pension bonds to reduce the unfunded liability in the combined pension fund from $493 million to $270 million. The annual debt service on the pension bonds is $19 million.

In order to implement the City's capital budget, new debt is issued every other year. In a further effort to contain costs, the Murphy Administration has implemented a "debt diet" -- they have reduced outstanding debt by retiring at least as much debt as they issue.

The City's capital program does not cover all of the capital needs. The City has identified $383 million in short-term and long-term capital needs that could be met with City bond funds. This is over $60 million a year, twice the amount that is available in 2002. As a result of the lack of spending, many projects are deferred. For example, the City has not been able to implement many of the recommendations in the regional parks master plans.

A portion of the needs identified in the capital budget could be included in the operating budget. For example, the staff working on capital projects is paid out of the capital budget, and the City has included some short-lived assets, such as vehicles, in the capital budget. Approximately one-third of the 2002 capital needs funded with City bonds could be placed in the operating budget. This would free up additional funds for capital projects. This would also increase the operating budget and projected future operating deficits.

Recommendations

- **The City should develop a systematic, long-term approach to identifying its infrastructure asset needs - buildings, streets, bridges, parks, pools, etc. – and to budgeting for the maintenance of these assets.** The City should avoid ad hoc decisions.

- **The City should embark on a long-range program to reduce its total general obligation indebtedness.** The City is on a self-imposed debt diet. It does not borrow more than it retires. As it is, debt service is approaching one-fifth of the City's operating budget.

- **The City should adopt and adhere to financial goals.** These goals could include:

    - Maintaining a general fund balance as a percentage of operating expenditures of 12 percent and no less than 10 percent

    - Maintaining a financial cushion in a Revenue Stabilization Fund of three to five percent of operating expenditures

    - Achieving a tax revenue collection rate of 95 percent or better

The City has already adopted the first goal. The creation of a Revenue Stabilization Fund would provide the City with fund balances that could be available in uncertain times. Until the recent problems with assessments, the City has exceeded the 95 percent goal for property taxes after discounts, exonerations and abatements.

- **The City should shift short-lived assets and expenses that could be classified as operating expenses out of the portion of the capital program supported by City bond funds.** This would make a larger portion of the City bond funds available for direct investment in the City's infrastructure. This would also increase the City's operating deficit.

- **The City should increase the size of the capital program to catch up on deferred items.** This will increase the potential demand on City bond funds. The City will have to follow strategies that can limit this demand to avoid increases in borrowing.

- **The City should seek additional outside funding to reduce the demand on City bond funds.**

- **The City should explore creative ways of meeting its infrastructure needs.** Examples of this could be the lease-purchase strategy that has been proposed for the new public safety complex, the joint 911 center and the creation of a countywide parks commission to assume responsibility for the regional parks.

PENSION AND BENEFITS

Background

The City provides a menu of benefits to its employees including healthcare, dental care, vision, life and disability insurance. It is also responsible for workers' compensation costs, both for current and past injuries. Total costs of healthcare benefits for active employees in 2002 are approximately $25.6 million. Workers' compensation costs total $19.3 million. The City also provides post-retirement healthcare benefits to police and fire retirees. Retiree health benefits for 2002 are $8 million.

Workers' Compensation

All employers, including local governments, are responsible for providing approximately two-thirds of a weekly wage for employees who are injured on the job. This is capped at a maximum based on the statewide average weekly wage. This maximum has been increasing at a rate of 3.0 to 5.5 percent per year. The Pennsylvania Heart and Lung Act of 1935 allows uniformed police and fire employees who are injured on the job to collect 100 percent of their pay.

For a variety of reasons, a significant number of employees have been assigned to disability and/or workers' compensation over the past two decades, and they remain there today. Out of a total of 595 terminated employees with open claims, only 211 are 65 year of age or less. Only 14 percent of the open indemnity claims date from the period 1996-2000. In a group of claims for all other clients of the City's claims administrator, 74 percent date from the period 1996-2000.

There are three ways in which Workers' Compensation costs can be managed:

1. Prevent injuries from occurring (Safety Program)

2. Decrease the time required for injured workers to return to work (aggressive case management)

3. Settle cases to decrease future liability (litigation)

Following the completion of a risk management study in 1994, the City implemented more aggressive management of workers' compensation claims through a contract with a case manager. The City also supported successful legislation that limited future double dipping by injured employees. (Employees were receiving both workers' compensation and pension benefits.) Workers' compensation costs, however, remain high for the City at about $5,000 per employee. The City continues to hold these cost increases in check through tighter case management for workers' compensation cases, and cost sharing and self-insurance for health care. The Managed Care Workers' Compensation program is administered by Allegheny General Hospital under City oversight.

The City has proposed two approaches that could reduce the City's overall workers' compensation liability.

1. Mitigation Plan – This approach will involve a financial commitment on behalf of the City in the amount of $2.2 million. The $2.2 million would be financed solely by the City. The plan itself will be entered into as a pilot program in which a limited number of claims will be addressed initially. Based upon the success of the pilot, the City will make a decision to continue with the Plan. The initial savings that may be garnered would not warrant partnering with a possible purchaser at this time.

2. Loss Portfolio Transfer – This approach would involve a third party who would be interested in purchasing the loss portfolio in exchange for a sharing of the savings. The Loss Portfolio Transfer approach could potentially cost the City $72 million. The purchasing and financing arrangements would need to be more fully explored. Coupled with the substantial upfront costs, it remains unclear whether the City could legally transfer such a liability.

Pensions

The City and current employees are responsible for the funding of the retirement benefits called for in the City's three pension plans by making contributions to the three pension funds – the municipal, police and fire pension funds. The three pension plans are defined benefit plans. The employee benefits and contributions are subject to bargaining agreements. The City is responsible for making contributions to the funds to cover any benefits not covered by employee contributions. The employees of the Water and Sewer Authority are members of the Municipal Plan.

In 2000, employees contributed $9.8 million. The City contributed $21.4 million. A portion of the City's contributions, $13.3 million, consisted of state aid. The funds also received $24.6 million from interest and dividends from fund investments. Unfortunately, the funds experienced a $40.9 million decline in the fair market value of investments. At the end of 2000, the funds had a market value of $423 million and an unfunded liability of $290 million. Sixty percent of the liabilities in the combined plans are funded.

The three plans have approximately 8,500 members including beneficiaries of deceased retirees. One-half of the members are still employed by the City and are making contributions; the remaining members are collecting benefits.

Before 1984, the three funds and plans were managed on a pay-as-you-go basis. Many cities in Pennsylvania, including Pittsburgh, were faced with mounting unfunded liabilities in the funds. The Municipal Pension Plan Funding and Recovery Act of 1984 required funds to eliminate unfunded liabilities by 2024.

The state makes contributions with funds from taxes paid on foreign (out-of-state) fire and casualty insurance premiums. All qualified, defined benefit municipal plans are eligible for state aid. The state funding formula favors plans with high financial need and high unfunded liabilities. Fully funded plans, however, have accessed state support by offering pension enhancements that create an unfunded status. These municipalities are then able to take advantage of the funding formula.

Following the pension reform of 1984, state aid for Pittsburgh increased annually to $28.4 million in 1989. Since then, the state's contribution has declined. It was $16 million in 2001. The funds generated by the premium tax increased from $117 million in 1989 to $282 million in 2001, but the number of plans with high financial need also increased, thus guaranteeing these plans state.

In 1993, the unfunded liability of the City's three funds was about $493 million. In 1998, the City issued pension bonds decreasing the unfunded liability by more than half to $230 million in 2000. The City traded an increase in debt and debt service payments for a decrease in the unfunded liability and pension payments. The trade in liability greatly reduced the City's costs.

Healthcare Benefits

The City maintains a number of health care plans for its employees and police and fire retirees. These plans are subject to negotiation with unions. The budgeted 2002 cost to the City for these plans is $33.6 million including $8 million for retirees. The average cost in 2002 for employees is about $5,532. This is slightly above the median cost of $5,436 identified in a Towers Perrin 2002 health care cost survey.

Costs have been increasing. In 1998, the total cost was $21.8 million. Increases in prescription drug costs are responsible for most of the increase. For active employees, the average cost for prescription benefits is now $1,475. The City anticipates annual increase of 14.5 percent in health care costs over the next two to three years.

The City has managed these costs with a number of strategies. In 1994, the City and labor unions formed a labor management committee to consolidate the number of plans and to move towards managed care. The City embarked on a managed competition strategy to offer more than one plan to employees. These plans have been competitively bid. Depending on labor contract provisions, employees have been encouraged to join the lowest cost plan. There is employee cost sharing for some employee groups.

The City is an active participant in The Three Rivers/ Heinz Public Sector Purchasing Coalition. The Coalition includes the following five public sector employers:

1. City of Pittsburgh
2. Allegheny County
3. County of Allegheny Schools
4. Pittsburgh Board of Education
5. Port Authority of Allegheny County

The group was formed in 1997 at the direction of public officials with the intent of utilizing the collective resources of local management and labor to provide efficient, high quality health care for public employees. During 1997 and 1998, the group worked with local health plans to benchmark and improve the quality of service provided by participating health plans. A quality improvement process continues from this endeavor. Heretofore, joint purchasing has not resulted, but will continue to be a viable option for the City.

Joint purchasing would be viewed as a long-term approach. While the timing for joint purchasing may not be right for the City at this time, the City continues to remain actively involved in the committee, and would welcome any future efforts leading toward a joint purchasing arrangement.

Recommendations

Pension

- **The PGH21 Task Force and the City should support legislation to improve state funding for truly distressed plans and to limit the drain on the state aid pool.** This is the City's largest unfunded mandate from the State which has grown through legislation improving benefits for specific employees.

- **The City should continue efforts to establish a defined contribution plan for new employees.**

  A defined contribution plan could be started for new, non-union employees and then negotiated for other employees.

This could require legislation. The acts establishing the three pension plans (municipal employee, fire and police) for Pittsburgh require that employees, after the required years of service and age, receive a benefit equal to 50 percent of final salary. The City could not guarantee an annuity equal to 50 percent of final salary in a defined contribution plan.

Workers' Compensation

- **The City should pursue the proposed mitigation plan as available funds allow.**

- **The City should identify and, if feasible, retain a law firm that would be willing to accept responsibility for mitigating a portion of the loss portfolio on a contingency basis.** The feasibility study could include determining how the loss portfolio should be valued, what is the City's continued liability, what portion of the portfolio could be an opportunity for both the City and the law firm, and how success could be defined in terms of the cost of settling an open claim and the reduction in the City's liability.

  If the City is successful in reducing its costs through either or both of these programs, they could be pursued for additional injured workers.

Employee and Retiree Benefits

- **The City should pursue efforts to modify the existing post-retirement health care contract provisions for Police and Fire so that the retirees can be in one of the other City plans.** This could be done while maintaining substantially the same benefits. Because the post-retirement plans are written into the union contracts by name, the City cannot competitively bid these plans.

- **The City should pursue efforts to limit future increases in the post-retirement plans through cost sharing and capping increases.** The police contract requires all pre-age 65 retirees to pay any post-retirement increase in health care insurance costs over the City's cost at the point of retirement. This provision has not been enforced.

- **The City should continue the use of multiple health care insurance providers.** This supports a healthy competition among the region's health care providers.

- **The City should continue efforts to get employees to share the cost of health care insurance.**

- **The City should continue to participate in the Three Rivers/Heinz Public Sector Purchasing Coalition.**

GRANTS AND ONE-TIME REVENUES

Background

The City of Pittsburgh, like all larger governments, receives direct grants and subsidies from the state and federal governments in order to fulfill defined functions or operate specific programs.

The FY 2002 budget projects general fund revenue from federal and state grants and from Community Development Block Grant indirect and program revenues to be $4,699,506. (See Table 1) The general fund revenue derived from grants represents only a small portion of all of the annual grant revenue the City receives. The bulk of the grant revenue ($45,531,517) is categorized as trust fund revenue and is used in the operation of various City departments and agencies. (See Table 2)

Table 1 – Projected FY 2002 General Fund grant revenues
(Source: FY 2002 Operating Budget)

Source	Category	Amount	Purpose
General Fund	**Federal & State Grants**	**$3,614,506**	**Administrative overhead**
	Workforce Investment Act	*150,000*	
	Liquid Fuels	*275,000*	
	PA Commission on Crime & Delinquency	*40,000*	
	Commonwealth Recycling Grant	*285,000*	
	Police/Fire/Retiree Reimbursement	*500,000*	
	CDBG-overhead	*75,293*	
	Police training reimbursement	*439,213*	
	State Grant Support	*1,850,000*	
General Fund	**Reimbursement, CDBG**	**$1,085,000**	**Program expenditures & indirect costs in selected City departments**
	City Planning	*360,000*	
	Parks & Recreation	*475,000*	
	Public Works	*250,000*	
TOTAL		**4,699,506**	

Table 2 - Projected FY 2002 Trust Fund grant revenues
(Source: FY 2002 Operating Budget)

Department/Agency	Source	Category	Amount	Purpose
Commission on Human Relations	Equal Employment Opportunity Commission Trust Fund	Federal and State Grants	$96,000	
	HUD Fair Housing Trust Fund	Federal and State Grants	75,800	
City Planning	Community Development Trust Fund	Federal and State Grants	21,063,000	Supports Administration; Development and Management Resources; and Regulatory Compliance
Emergency Operations Center	PA Emergency Management Trust Fund	Grant (from PA Emergency Management Association)	76,000	Supports emergency management programs
Parks & Recreation	Special Summer Food Service Program	Federal and State grants	900,000	
	Senior Citizens Program Trust Fund	Reimbursement CDBG	602,285	
Personnel & Civil Service Commission	Workforce Investment Act Trust Fund	Federal and State Grants	16,676,572	Supports Fiscal & Contracting Section; Customer Services Section; Planning Evaluation Section and Business Development Section
Bureau of Police	Auto Theft Trust Fund	Grant	171,421	Implement programs and provide resources to reduce auto thefts
	Drug Abuse Resistance Education Trust Fund	Grants	120,672	Operate Drug Abuse Resistance Education program
	Federal Task Force Trust Fund	Grants	20,000	Supports development & operations of Weed & Seed Program
	Highway Safety Trust Fund	PENNDOT grant	88,351	Supports State & Community Highway Safety Program
	Public Safety Training Trust Fund	Reimbursements (from State & Municipal police Officers Education & Training Commission)	64,000	Operate Police Training Academy
Public Works	Liquid Fuels Trust Fund	Federal and State grants	5,400,000	
Mayor's Office	YCPC/Mayor's Youth Initiative Trust Fund	Grants (from public and private sources)	177,416	Support Youth Crime Prevention Council & Mayor's Youth Initiative

The City's Capital Budget also relies on grants as funding sources. The FY 2002 Capital Budget contains $21,875,000 in federal Community Development Block Grant (CDBG) funding; $21,214,500 in federal funding other than CDBG; and $4,060,000 in state funding.

The City has also used one-time revenues to balance its budgets when large deficits occurred. Examples of one-time revenues are renogotiation of the lease with the Water and Sewer Authority and the sale of delinquent tax liens'. After many years of identifying one-time revenues, the City may be hard pressed to locate additional sources of revenue in this category.

Findings

- While grants can and should be used by the City to defray the costs of improving the quality of life in the City and of improving City services, grants cannot be relied upon to provide steady operating revenue. Only growing the City's tax base – by attracting more City residents and more City-based workers and by continuing economic development efforts – will result in a reliable increase in operating revenue.

- In addition to City departments, City authorities also seek and receive substantial grant funding. Urban Redevelopment Authority staff apply for federal and state grants for housing and community development programs, make applications to local foundations and also seek funding from individual congressional and senatorial offices. These grant applications and solicitations must be coordinated with other grant seeking activities by City departments to avoid conflicts and multiple solicitations of the same funding source.

- Other cities surveyed as part of the PGH 21 benchmarking process have a generally decentralized grant seeking process with individual City departments responsible for identifying appropriate grant opportunities. Grant administration tends to be centralized in finance and/or controller's departments. None of the cities surveyed had a centralized staffed clearinghouse for grant opportunities.

- Some states and municipal associations outside of Pennsylvania provide substantial assistance to municipalities in: identifying appropriate grant opportunities, training in the development of grant proposals, grant administration and offering on-line information on grant opportunities.

- The Pittsburgh City Council approves the City's application for formula grants (such as the Community Development Block Grant) prior to submission. For all other grants, City Council approves the receipt of grant funds after the application is made and approved by the granting agency.

- At this time, it appears that City officials and staff communicate with legislators, legislative staff and personnel from various federal and state grant programs on a limited, case-by-case basis about grant opportunities and applications.

- The Homeland Security grants currently under development by the federal government are expected to be awarded to states, which will administer grant funding to municipalities. Some funding may be directly available to cities but this is not certain at this time.

- The Grants and Development Officer for the City uses both traditional paper-based resources and website resources to identify and track grant opportunities. City departments interested in seeking grants are encouraged by the Grants and Development Officer to use internet resources to get up-to-date information on grant availability.

- The GASB 34 process which requires the City Controller's office to identify and value all of the City's assets for future financial statements will be undertaken in 2002. The information on the City's assets, which will result from this process, will help City officials evaluate the current use of City assets and potentially identify assets for future sale.

Recommendations

- **City leadership must support grant seeking opportunities by including grant seeking as part of the annual budget development process for City departments and agencies.** Department and agency managers should include possible grant revenue as they project revenue sources for the current year and then follow through with appropriate grant applications.

- **The City should pursue competitive grants in addition to formula grants it currently receives.** Grants to governmental entities are generally done in one of two ways: as formula grants based on factors such as population or as competitive grants based on an approval/ranking process by the granting agency. Virtually all larger governments receive formula grants and then have to administer those grants and comply with reporting requirements. Receiving a competitive grant is not automatic and may depend on a comprehensive, well-developed proposal and/or other factors. Competitive grants also have administration and reporting requirements.

- **Grants that the City receives should not be used to balance the budget; they should be used to increase the quality of life and quality of City services for City residents and visitors.** For instance, the City might pursue grant opportunities that would enable it to make more technology investments to streamline various City services. Grant funding may be able to initially expand the operating revenue base if it is used to introduce changes/innovations in service delivery.

- **The long-term budgetary consequences of receiving grants that require substantial local matches of new money or that require that the City assume full funding for grant-funded activities following the grant should be considered carefully before grant applications are made.**

- **The City should explore and identify potential grant opportunities in a comprehensive manner to better evaluate its future investment in grant seeking, grant writing and grant administration.** A Coro Fellow and/or a graduate student from a local university could be recruited to do a comprehensive report on the City's grant prospects. The results of the report could be used to re-align the City's grant efforts. Such a report might contain comparative information on revenue generated through grants in cities similar to Pittsburgh.

- **The City should explore the feasibility of contracting with a lobbyist to assist in the federal grant-seeking process.**

- **The City should continue and enhance an intensive, centralized approach to identifying grant opportunities utilizing on-line databases and other clearinghouses to effectively search for opportunities.**

- **The City should consider reinvigorating the External Funding Clearinghouse.** This internal group was comprised of a point person in each department who served as the conduit for grant-related information and as the manager of the department's grant seeking process.

- **The City should re-evaluate its capabilities in the area of grant seeking and grantwriting.** Current City staff may not have the time available or the expertise to undertake substantially increased grant seeking and grant writing activity. Preparing current City staff to increase their grant activity will likely require significant grantsmanship training and a sustained commitment to technical assistance at the department level.

- **The City should explore whether it is eligible to apply for and receive grants from locally-based foundations.** Successful applications to local foundations may require partnerships between the City and other local agencies.

- **The City should include grant agencies and appropriate appointed and elected officials in its overall outreach and advocacy efforts.** For instance, the City has a window of opportunity to express its support/concerns on the federal and state Homeland Security grants that will soon be available.

- **The City should seek preliminary information on the asset listings generated by the GASB 34 compliance process to accelerate its identification of unused/underused assets that could be sold.**

PAYMENTS IN LIEU OF TAXES (PILOTS)

Background

The City of Pittsburgh, like many major metropolitan areas across the country, is home to government facilities, utilities, educational institutions, healthcare centers, athletic and convention facilities, affordable housing, religious institutions, cultural and performing arts venues, and other non-profit organizations that are exempt from paying property taxes under law. In 2002, approximately 30% ($6.2 billion) of the total assessed value of property within the City's borders was tax-exempt.

The land area that is tax-exempt within the City boundaries has steadily increased. The larger tax-exempt entities, such as governmental units and educational and healthcare institutions, while located in the City provide employment, services and benefits to many non-City residents. As an example, the City neighborhood of Oakland, where several of the educational and healthcare institutions are located, is third on the list of travel destinations in the Commonwealth following center city Philadelphia and downtown Pittsburgh.

In recent years, the City government has sought to recoup the cost of providing municipal services – substantially funded by property taxes – by arranging PILOT (Payment In Lieu of Taxes) agreements with some of these tax-exempt entities. During the early to mid-90's the legal environment governing property tax exemption was unclear and the City and other taxing bodies were able to challenge the tax-exemption of some non-profit property owners. The result of these challenges was often an out-of-court settlement that included a PILOT agreement.

As a result of the passage of Act 55 of 1997, the legal criteria governing tax-exempt organizations were clarified and the ability of taxing bodies to challenge tax exemptions was greatly reduced. While Act 55 permits PILOT agreements, taxing bodies have no legal standing to compel nonprofit tax-exempt entities to enter into such agreements.

Most of the City's PILOT revenues come as a result of the early PILOT agreements and these agreements, which were time-limited in nature, are now expiring. In FY 2002, the City initially budgeted for $1,900,000 in PILOT payments down from $1,956,583 collected in 2000 and down from a high of $2,957,865 in 1997. After the budget was adopted, the PILOT agreement from the largest PILOT contributor ($1.3 million) expired and has not been renewed. As a result, the City has revised its budget projection to $600,000 in PILOT collections for FY 2002. Actual collections for FY 2002 currently stand at $349,061. The total number of agreements active at any time between 1996 and 2002 is 15 -- involving universities, health care organizations and non-profit housing providers. Although City officials have recently brokered one new PILOT agreement for FY 2003, the remainder of the agreements have not been renewed.

City staff has made an initial estimate of some of the costs associated with providing public safety and public works services to properties throughout the City. The staff has then calculated the percentage of the assessed value of the property base that is owned by individual tax-exempt entities and allocated the appropriate proportion of these service costs to each entity.

For instance, the major tax-exempt educational institutions located in the City have a total 2001 assessed value of $1,587,243,894 and would generate $17,142,234 in property taxes if they were taxable. These properties represent 8.1452% of the City's property tax base. The estimated cost of providing essential public safety and public works to these properties is $16,527,381 based on 8.1452% of the compensation, benefits and pension costs of public safety and public works personnel. When these costs are allocated on a per-owner basis, the annual essential services costs range from a high of $9,132,986 for the largest property owner to a low of $31,380 for the smallest based on the assessed value of the owner's holdings.

Some of the essential services costs estimated by City staff may be underestimated because the cost base does not include capital budget expenditures necessary for public safety and public works. On the other hand, some tax-exempt entities employ their own police/security staff and other facilities staff and as a result may place less demand on City services than their allocation indicates. Furthermore, if the assessed value of the tax-exempt property is not accurate, the resulting allocation is incorrect.

Findings

In the course of its work, the PGH 21 PILOT subgroup made the following findings:

- **Determining the impact of tax-exempt property on the overall tax base and on the potential tax yield requires accurate assessments of tax-exempt property, which are not currently available**.

  Under state law, property assessment is handled by Allegheny County. Because they are not required to pay property taxes, almost none of the tax-exempt property owners in the county challenge the assessment of their properties through the appeal process. Similarly, the City, which also has the standing to challenge the assessments placed on tax-exempt property has had no financial incentive to do so.

  In prior years, the percentage of the City's overall assessed value that was attributable to tax-exempt properties was 38%. Following the FY 2002 reassessment, this percentage dropped to 30%.

  In general, there is no current system for adjusting the assessed values of the majority of tax-exempt properties. As a result, inaccuracies in assessments remain and the impact on the overall tax base and on potential tax yield can only be estimated.

- **Loss of property tax revenue from tax-exempt property is substantial.**

  According to City of Pittsburgh calculations, tax-exempt property will result in a loss of $64.9 million in property tax dollars to the City in FY 2002 based on current assessed values. This figure does not represent the loss of Institution and Service Privilege Tax dollars (6 mills on an organization's gross receipts) that the City sustains because tax-exempt entities do not pay this gross receipts tax.

- **PILOT agreements have not traditionally resulted in a dollar-for-dollar replacement of foregone property taxes.**

  These agreements have historically resulted from case-by-case negotiations and the in-lieu-of payments are typically substantially lower than the amount of property tax exempted.

- **Tax-exempt property is owned by a variety of owners – governmental, utilities, charitable non-profits and others.**

  Approximately 40% (or $2.48 billion) of the assessed value of tax-exempt property in the City is owned by governmental and quasi-governmental entities. The remaining 60% ($3.72 billion) is divided among: colleges and universities (25%), healthcare organizations (17%), social and community groups (8%), miscellaneous owners (9%) and utilities (1%).

- **The land area within the City that is tax-exempt is increasing.**

  Preliminary mapping by City staff indicates that the land area that is tax-exempt has increased in certain City neighborhoods such as Oakland over the last several years. Further information about the extent of the increase and the value of the newly exempt property is necessary for further analysis.

- **PILOT programs are quite rare – only 7 other cities in the US have them.**

  Of the cities that have PILOT programs only Boston and Philadelphia have efforts that are broad-based and relatively comprehensive in scope. The Boston program focuses only on tax-exempt organizations that are adding to or improving their property holdings. The Philadelphia program, launched when the city was on the edge of bankruptcy, is collaborative in nature and permits nonprofits to contribute services to city neighborhoods in lieu of taxes (SILOTs). Philadelphia operates under the same state law as Pittsburgh and it has also seen a rapid decline in PILOT revenues since the advent of Act 55 of 1997.

- **Colleges, universities and healthcare organizations are engines of new economic growth.**

-

The growing diversification of the regional economy places a new premium on knowledge workers and on information technology, biotechnology and advanced manufacturing companies. Educational and healthcare institutions – which are generally tax-exempt -- are now regarded as major players in economic development because they incubate new talent and new businesses. These entities plus all levels of government are also the majority of the region's major employers.

Recommendations

- **The City should approach the County to review the assessed value of tax-exempt properties during the upcoming "lull" in the assessment process.** Allegheny County is responsible for property assessment and has recently announced that it will be conducting reassessments on an every 3-year basis. In the next two years, therefore, the County will not be conducting a reassessment. This is a good time for the County to review the assessed values placed on tax-exempt properties and to re-assess them if necessary.

  More accurate assessed values are necessary if the City intends to predicate future PILOT agreements and/or public service foundation contributions on the assessed value of tax-exempt properties.

- **The City should revisit legislation that was previously discussed to require the Commonwealth to reimburse the City of Pittsburgh and other urban areas for property tax loss resulting from tax-exempt property owners (especially institutions of purely public charity exempted under state law).**

- **The City should pursue PILOTs or other reimbursement from the state and federal government for their facilities that are located within City boundaries.** Preliminary information from City staff suggests that the City has not recently undertaken a focused effort to collect PILOTs from state and federal facilities. Furthermore, recent news reports indicate that the US Immigration and Naturalization Service is planning to build a new 32,000 sq ft facility in Pittsburgh in the near future. The City should also pursue a PILOT agreement or other reimbursement in connection with this new facility.

- **The City should continue and expand its recently begun effort to sell delinquent property in targeted neighborhoods.** This effort indicates to other tax-exempt property owners that the City is committed to actively putting land it owns back on the tax rolls.

- **The City should explore the possibility of forming a public service foundation in partnership with tax-exempt nonprofit organizations.** Act 55 permits this kind of foundation, which is formed to receive contributions from non-profits and other exempt property owners for the purpose of funding specific City services and facilities and/or community needs. The support of the business community would be helpful in bringing such a foundation into existence.

- **If the City decides to pursue further PILOT agreements, the legal climate dictates that these must be approached in a collaborative manner that is beneficial to both parties.** The City is now seeking the major non-profit organizations such as universities, colleges, healthcare facilities and cultural facilities as partners who want a fiscally sound City government and effective and efficient City services. These institutions need to attract and retain thousands of employees and customers a year to be successful and their location in a clean, safe, attractive environment is an important component of their attraction/retention efforts.

- **If the City reinvigorates the PILOT agreements, it should do so as part of a comprehensive outreach effort to tax-exempt property owners that have an established process and guidelines. The PILOT negotiation process must be handled by high-level City staff and should focus on tax-exempt entities paying their fair share for essential City services.**

- **Economic development efforts involving tax-exempt entities such as colleges and universities should focus on keeping properties on the tax rolls.** A common financing tool for such projects is Tax Increment Financing (TIF). As it did recently in the Panther Hollow development proposed by CMU and the Carnegie Institute, the City must continue to require that properties that benefit from TIFs remain on the tax rolls and not be transferred to tax-exempt owners when the TIF expires.

- **The City of Pittsburgh needs to tell its story to a variety of audiences.** The overall state of the City's finances, the impact of tax-exempt properties on property tax yield and the cost of providing services to tax-exempt property owners has not been presented by City officials to property owners, civic leaders, the media or City residents. All of these constituencies can also help the City make its case to the state legislature, if legislative change is necessary.

- **The City of Pittsburgh needs to "make its case" to tax-exempt property owners.** The City has not 'made its case' to tax-exempt property owners who have a vested interest in the fiscal health of the City. In the past, the City did not need to make its case for support for essential City services from tax-exempt entities because it had the ability to challenge the organizations' tax-exempt status. Post-passage of Act 55, the City no longer has that ability and it must explain the financial impact of providing services to tax-exempt entities. The support of the business community would be helpful to the City as it asks tax-exempt property owners for financial support.

- **To make its case, the City will need more detailed information on the cost of providing essential City services to tax-exempt entities.**

Conclusion

There are four key factors necessary for the City's success in obtaining payments for essential City services from tax-exempt property owners: (1) accurate assessments of tax-exempt property; (2) more detailed information on the cost of providing essential City services to these entities; (3) the creation of a public service foundation with appropriate leadership; and (4) willingness of the tax-exempt entities to pay their fair share for City services.

Fees and Charges

Background

The City levies hundreds of diverse fees, permits, fines and charges. Many different City or City-related departments or bureaus are responsible for the collection of various fees including the Bureau of Building Inspection (BBI), the Magistrates Court, the Personnel & Civil Service Commission, the Department of General Services, the Department of Public Works, the Emergency Operations Center, Emergency Medical Services, the Bureau of Police, the Bureau of Fire, the Department of Parks & Recreation, the Department of City Planning and the various City-related authorities. There is no central fee and charge collection agency.

Fees, permits, fines and charges are levied to affect different purposes. The amount of each, therefore, should relate to and support the goal of the fee, permit, fine or charge.

The amount of fines and penalties are imposed not primarily to collect revenue for services rendered but to modify behavior. Fines should be sufficiently high to effectively deter unwanted behaviors, and at the same time, should at a minimum cover the City's costs in rectifying the behavior. For example, fines for parking in front of fire hydrants should be both high enough to discourage the practice in the first place and cover the cost of citation and towing, if not the public safety costs in the event the hydrant were to be needed to fight a fire.

Some permits, such as electrical permits issued by BBI, protect homeowners from faulty wiring. Since the permit is of value to the owner, the amount of the permit should somehow reflect the value the homeowner receives from the permit, while at the same time cover the City's costs in inspecting wiring.

Other permits, such as parade or pool permits, act to regulate usage of a public good. Such permits should be high enough to provide a control over usage but not be set so high as to inordinately discourage usage. For example, the cost of the permit for the City's St. Patrick's Day parade does not remotely cover the City's costs for hosting the parade, but the parade is in a number of ways a public good – it provides amusement for residents, provides good public relations for the City and draws a fair number of people into the Golden Triangle. The tangible and intangible benefits of the St. Patrick's Day parade outweigh the difference between the price of the permit and the cost to the City of hosting the parade.

Recommendations

- **The City should commission a periodic review of fee, permit, fine and charge levels to determine their appropriateness in providing the function for which they are intended.**

- **As part of the review, the City should consider best practices on fees and charges from benchmark cities.**

- **As part of the best practices benchmarking review, consider adopting new fees that other cities employ.**

- **In those cases where higher fees would not place the City in an uncompetitive position, consider raising fees to cover the fully allocated cost of the service for which they are intended.**

- **In particular, consider the appropriateness of fee levels that effect only or primarily non-residents, e.g., EMS charges for services to non-residents.**

- **The City should review its enforcement mechanisms, practices and results for fines, e.g., how effective is the fine for failure to remove snow from sidewalks? How can the City better induce the desired behavior (snow removal)?**

- **The City should weigh the costs and benefits of centralizing and streamlining the processes involving certain fees, permits, fines and charges.**

- **The City should review the appropriateness of the reimbursements from the various City-related authorities.**

ENHANCED REVENUES

Background

Over the past 30 years, the City has experienced a major shift in its economy that has had a profound impact on the City's tax base. During this period, the City has remained the job-producing center of the region. Employment by both residents and commuters has remained remarkably constant at about 320,000. However, there has been a dramatic change in the proportion of residents to commuters in the work force.

In 1970, 20% of the City's employed resident labor force of 192,565 worked in manufacturing and 10 percent in health care and education. By 2000, approximately 320,000 people worked in the City with a resident labor force of 144,768. Only 6% of these City residents work in manufacturing, while 29% work in health care, education and social services. Most of these residents, 124,800, work in the City. The remainder commute out the of the City to work elsewhere.

The City's commercial core is no longer dependent on manufacturing but is instead made up of a diversified mixture of educational institutions, health care researchers and providers, small manufacturing, high technology companies, and financial and cultural institutions. Enrollments at colleges and universities have increased from about 52,000 to 65,000.

The demands on the City to provide essential services -- police, fire, emergency medical and public works -- have increased, placing a greater burden on residential and business taxpayers.

The City's ability to update its revenue structure to more accurately reflect current reality is greatly limited by state law.

In 1965, the State Legislature enacted Act 511, the Local Tax Enabling Act, which authorizes a set of subjects of taxation for local governments that was appropriate when most employees lived and worked in the same municipality and the major employers were taxable businesses. Such is no longer the case for many municipalities, including the City of Pittsburgh. Pittsburgh depends on the real estate tax, which has been diminished by increases in the numbers of tax-exempt businesses; the resident income tax, which has been diminished by the out-migration of residents to the suburbs; and the business privilege tax, which has been diminished by the growing patchwork of legislative and court-ordered exemptions. A number of statistics bear out the fundamental changes in Pittsburgh's potential sources of tax revenue:

- Among the top 24 employers in Pittsburgh, 17 are tax-exempt, and of the remaining seven, only two pay more than an incidental business privilege tax.

- About 30% of the property in the City is tax-exempt – it is owned by either nonprofit institutions or government entities.

- Among the 320,000 employees in the City, only 124,800 are City residents – the remaining 195,200 are commuters who pay only $10 a year in occupation privilege taxes.

- Population decline and changes in demographics result in 334,563 City residents bearing the full cost of services despite a commuter, student and visitor population of 270,000.

As the following table shows, to the detriment of residents and taxable employers, the Commonwealth of Pennsylvania does not allow the City to tax much of its current economic activity.

Tax Sources	Current Amount ($ Millions)	Amount that would be collected if not exempt
Earned Income Taxes:		
City residents (153,000)	$49	
Commuters (195,200)		$98
Real Property Taxes:		
Residential & commercial	126	
Hospitals & Universities		28
Business Taxes:		
Retail, wholesale, real estate & services	52	
Financial institutions, manufacturers & others		40
TOTAL	$227	$166

The City has met with some success in strengthening its tax base by attracting commercial and residential development. Economic development initiatives have been successful and underpin the long-term vitality of the region.

Overall tax reform is needed to allow the City to shift its tax package to reflect the changed state of affairs. The City must be allowed to decrease its reliance on the real property tax and increase financial support by tax-exempt businesses. The Commonwealth should explore ways for commuters to help pay for services they receive from the City. A variety of reform initiatives could meet the City's objective of shifting its tax base to better reflect the actual distribution of those who benefit from City services.

The PGH 21 study committee members considered a number of possible tax reform options. The City could consider various tax reductions to partially offset resulting tax increases. A combination of these initiatives could provide the City with a tax base that reflects its economic activity.

Tax	Justification	Rate	Estimated New Revenue
Payroll preparation tax on employers including nonprofits	Recognizes services provided to non-profits	0.50%	$60 million
Retail drink tax	Recognizes services provided to commuters & visitors	10%	$10 million
Increase in Occupational Privilege Tax on both employers and employees	First rate adjustment since 1965 Recognizes services provided to non-profits and commuters	$15/month - exemptions for low income employees	$63 million
Increase in Occupational Privilege Tax on both employers and employees	Adjusts rate established in 1965 Recognizes services provided to non-profits and commuters	$10/month - exemptions for low income employees	$42 million
Public Safety Surcharge on employees	Recognizes services provided to employees	$50/year	$16 million
Shift from the earned income to the personal income tax	Allows use of state base and collection process Expands base to non-earned income	1% - no change in rate net gain from expanded base	$10 million
Non-resident earned income tax	Recognizes services provided to commuters	0.25%	$25 million
State reimbursement for lost revenues from tax-exempt property.	Recognizes the cost of hosting non-profit and educational institutions		$27 million
Refuse fee	Recognizes the state mandated rise in solid waste costs	$10/month	$11 million

The committee considered a number of changes in existing taxes, such as an increase in the Occupation Privilege Tax, and a number of new taxes, including a payroll preparation tax on the gross payroll paid by employers to employees working in the City and a retail drink tax. Unlike the Business Privilege Tax, a payroll preparation tax would fall on all employers. A retail drink tax would generate revenues to offset City services provided to visitors and tourists. It would also take advantage of the activity generated by the convention center expansion.

Recommendations

- **The City should levy a payroll preparation tax as a transaction tax on employers. The tax would fall on the gross payroll for employees working in the City of Pittsburgh.**

- **Seek authorization for a 10% retail drink tax.**