

# ***Sinking Ships: Municipalities in Fiscal Distress***

by

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## **Highlights**

- The problems of fiscal distress are not confined to the city of Pittsburgh alone, but are in fact much more broadly shared than is commonly believed.
- One out every three municipalities in southwestern Pennsylvania is running persistent deficits.
- This is not confined to recent economic conditions. During the growth of the late 1990s, 27% and 34% ran deficits in 1998 and 1999 respectively. By 2001, nearly half ran deficits.
- Two-thirds of the municipalities are consistently spending money faster than they take it in.

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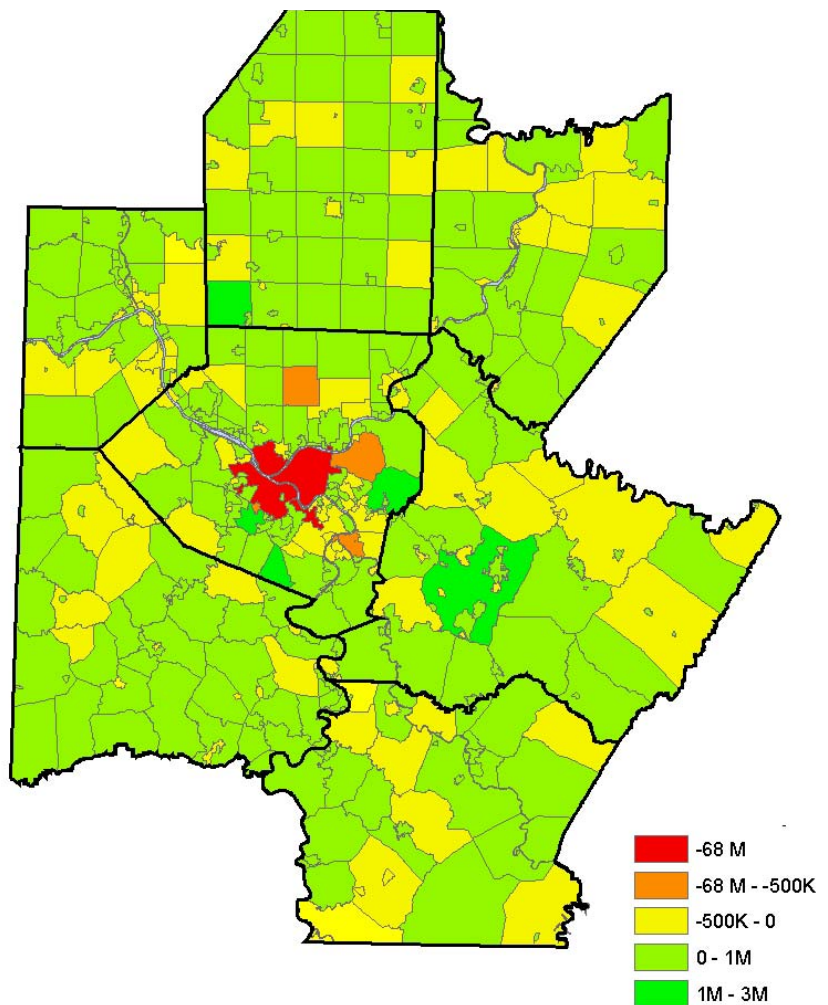
It is indeed a terrible mess that Pittsburgh has gotten itself into. Without a doubt, there are structural fiscal problems for a city that serves as the regional core, providing jobs and services to the region. It is also true that our unwillingness to cut expenses in line with a shrinking population and a shrinking tax base has contributed to the deficit. Reasonable people can disagree about which of these explanations accounts for the bulk of our current fiscal mess, but how can we explain what is happening throughout Southwestern Pennsylvania?

There are 126 municipalities running deficits throughout the region. This is nearly one-third of the communities that reported data for 1998-2001. During the growth of the late 1990s, 27% and 34% ran deficits in 1998 and 1999 respectively. By 2001, nearly half ran deficits. Many of the deficits are very small, but they are persistent. This is a not a one year phenomenon; these deficits are averaged over four years. There are five municipalities, including Pittsburgh, that face deficits greater than \$500,000, and 18 with deficits between \$100,000 to \$500,000. Furthermore, these deficits

count all revenue; if only a community's own source revenues are included then the deficits soar.

Without concerted and comprehensive action, the future outlook will be bleak for these municipalities. Current deficits are one thing, but many municipalities are operating in the same irresponsible manner for which Pittsburgh is often

Figure 1: Average Budget Deficit/Surplus for Pittsburgh MSA Municipalities, 1998-2001



criticized. More than 66%, or 281 municipalities, are consistently spending money faster than they take it in. Again, this is not a one-year phenomenon, but reflects data averaged over 1998-2001. It is true that these have been tough years economically, but when there are 19 municipalities that are over-spending by more than 20%, then Harrisburg, we have a problem. This over-spending is an indicator of future deficits and fiscal distress; it should serve as a warning sign that we need to amend local government financing.

Figure 2: Difference Between Average Revenue Growth and Average Expenditure Growth in Pittsburgh MSA Municipalities, 1998-2001

