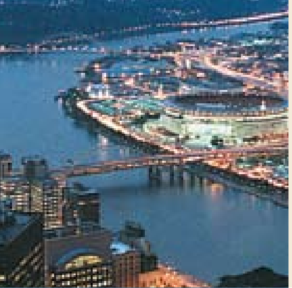

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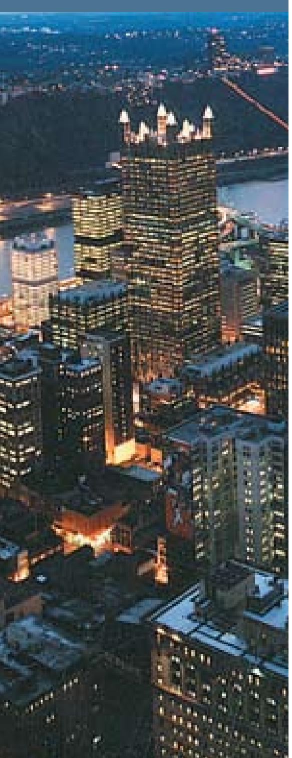
Inside This Issue:



Fiscal Health of Municipalities in the Pittsburgh Region

By George W. Dougherty Jr.

The fiscal health of communities in the Pittsburgh region has been a major concern for the past 30 years. Much of our understanding of the problem, however, has come from intuition, sensational stories about fiscal catastrophes, and filings for Act 47 status under Pennsylvania's distressed municipalities program. The University of Pittsburgh Center on Race and Social Problems' report is the most comprehensive study ever done on quality-of-life issues for multiple racial and ethnic groups in Pittsburgh—African Americans, Asians, Hispanics, and Whites (see *PEQ*, September 2007).

A more informed discussion of local government financial health requires a thorough analysis of the available data to identify the scope of the problems. The Pittsburgh Regional Indicator project, located at the University Center for Social and Urban Research (see *PEQ*, December 2007), and the University of Pittsburgh Graduate School of Public and International Affairs have teamed up to provide the data necessary to improve public dialogue about this critical topic.

This analysis examines the fiscal solvency of municipalities in a 10-county Southwestern Pennsylvania region (Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington, and Westmoreland counties) using data from the Pennsylvania Department of Community and Economic Development surveys of municipal governments (cities, townships, and boroughs) over a six-year period from 2000 to 2006.

Annual Deficits

The most basic measure of municipal fiscal health concerns the annual results of municipal revenue collections and expenditures. Healthy communities run a small annual surplus that allows them to build a rainy day fund and budget for long-term capital and infrastructure needs. Even healthy municipalities face the occasional shortfall due to unexpected events.

Governments that run regular deficits, commonly defined as two or more annual deficits in a five- to six-year period, show significant signs of fiscal distress. Nearly two thirds, or 63.4 percent, of municipalities in the 10-county Southwestern Pennsylvania region showed significant signs of fiscal distress, experiencing two or more annual deficits between 2000 and 2005 (see Table 1). Fully 88.5 percent of our local governments experienced at least one deficit during the period. Only 59 of 513 municipalities or just 11.5 percent of the region's cities, townships, and boroughs avoided deficits during the period. This is an astounding finding and represents widespread financial problems beyond expectations.

Structural Deficits

Annual surpluses and deficits give us a one-year snapshot of government finances but don't tell the story of cumulative red ink. A better measure of fiscal health compares the growth in revenues to expenditures over a period of time. Structural deficits occur when municipal expenditures grow faster than revenues over five or more years.

continued on page 2

Trends in Foreign Trade and the Pittsburgh Region

By Christopher Briem

International trade is an expanding part of the Pittsburgh regional economy. In terms of value, both international exports from and international imports to the Pittsburgh region have grown in the 2000s. International exports from local establishments generate income flows into the region and are normally associated with higher-skilled, higher-paying jobs for local workers.

International export statistics for the Pittsburgh region are computed by the Pittsburgh REMI model. The Pittsburgh REMI model is an econometric model of the Pittsburgh regional economy developed by Regional Economic Models Inc. (REMI) of Amherst, Mass., and used by the University Center for Social and Urban Research for economic impact analysis and forecasting. The REMI model includes estimates of the value of both imports and exports generated by Pittsburgh-area establishments.

In 2007, the value of international exports from the Pittsburgh region was forecasted to be $10.5 billion, or approximately 6.1 percent of the region's total economic output of $180 billion. Manufacturing represents the local industry with the largest amount of foreign trade, with $5.5 billion in international exports in 2007. This was followed by transportation and warehousing, with $1.7 billion in international exports in 2007. Wholesale trade ($1.1 billion in exports) and management of companies and enterprises ($860 million) were the third and fourth largest industries, respectively, for international exports from the Pittsburgh region.

continued on page 4

continued from page 1

By this measure we find that more than half of municipalities in the 10-county Southwestern Pennsylvania region face fiscal distress. Over 50 percent of municipalities in the region experienced a structural deficit from 2000 to 2005 where expenditures grew at a faster pace than revenues (see Table 2).

One would expect struggling municipalities either to increase revenues or reduce expenditures, or both, in response to poor financial performance, but there are substantial impediments to doing so. On the revenue side, elected officials face state-imposed limits on tax rates, along with citizen sentiments strongly opposed to increasing taxes and placing their town at a competitive disadvantage if rates are higher than those in surrounding communities. Expenditure cuts are limited by several factors, including statutory requirements to provide specific services, such as public safety, along with labor contracts and citizen demands for services that improve their quality of life.

More than half of municipalities in the 10-county Southwestern Pennsylvania region face fiscal distress.

A set of Southwestern Pennsylvania municipalities have even more problems with structural deficits. A closer look at the data shows that 162 of our local governments faced severe structural deficits where expenditure growth was more than 3 percent larger than revenue growth. Cities, townships, and boroughs in the severe category will quickly run out of rainy day funds and face increasing annual deficits.

Factoring In Inflation

One other factor that affects municipal finances is inflation. Inflation has the effect of reducing the value of money raised as revenues and decreasing the level of services for a given level of expenditures.

It may be the case that even those municipalities that have not experienced annual or structural deficits are providing lower levels of service due solely to the corrosive effects of inflation. While 60.1 percent of municipalities experienced revenue growth from 2000 to 2005, a little more than half (53 percent) of local governments were able to increase revenues at or above the rate of inflation (see Table 3).

On the expenditure side, 56.6 percent of local governments saw expenditure growth in real dollars (see Table 4). And, again, just over half of the municipalities in the 10-county region experienced expenditure growth at or above the rate of inflation. In both cases, nearly half of our cities, townships, and boroughs lost buying power by not keeping up with inflation.

Challenging the Measures: Some Caveats

The data here do not include "other financing sources" and "other expenditures" to calculate surpluses and deficits. Governments often find onetime revenues for their budgets. By taking out nonrecurring income and expenditures, the core fiscal health of each community can be determined, although governments that are good at finding onetime revenues are penalized in these measures.

Another concern is that a handful of the most affluent communities built up substantial surpluses just before or after 2000 and consciously chose to limit revenue growth or reduce their tax revenues in the years that followed. The data used here, which do not include these fund balances, may show deficits in years where they spent down their surpluses, penalizing them for their previous successes in developing surpluses. The data problem is that local governments are not required to report their surplus funds.

Table 1. Number of Annual Deficits (2000–05)

Total deficits	Number of municipalities	Percent	Cumulative percent
6	9	1.8	1.8
5	29	5.7	7.4
4	57	11.1	18.5
3	81	15.8	34.3
2	149	29.0	63.4
1	129	25.1	88.5
0	59	11.5	100.0
Total	**513**	**100.0**	

Table 2. Municipalities Experiencing Structural Deficits *(Revenue growth less than expenditure growth, 2000–05)*

Structural deficit	Number of municipalities	Percent
None	255	48.9
Structural deficit	266	51.1
Total	**521**	**100.0**

Table 3. Revenue Growth Relative to Inflation *(3.5 percent inflation estimate)*

Revenue growth relative to inflation	Number of municipalities	Percent
Less than inflation	245	47.0
More than inflation	276	53.0
Total	**521**	**100.0**

Measuring Deficits (Again)

These are legitimate concerns, so an additional tabulation was conducted with municipalities' "other financing sources" and "other expenditures" included over the five-year period. Including other sources of revenues and expenditures, the new analysis shows that 77.5 percent of municipalities experienced two or more annual deficits from 2001 to 2005 (see Table 5). Furthermore, 95.2 percent of our cities, townships, and boroughs experienced at least one deficit during the period, with only 4.8 percent experiencing no deficits. Once again, some of our most affluent communities fared poorly in our measures as they consciously reduced their surpluses.

We also decided to look at structural deficits including the other revenue and expenditure categories. By this new measure, the municipalities fared slightly better, with 40.8 percent experiencing structural deficits (see Table 6), compared to 48.9 percent in the first analysis. Likewise, 21.5 percent of cities, townships, and boroughs experienced severe structural deficits (more than 3 percent greater growth in expenditures over revenues), compared to 29.3 percent in the first analysis. While slightly better, the new findings using total revenues and expenditures still indicate widespread fiscal distress among local governments in the 10-county area, with one in five municipalities experiencing severe structural deficits.

Summary

The purpose of presenting this information is to improve the quality of dialogue on an important topic. The findings presented here do not constitute a thorough review of municipal fiscal health in the region, but they review a handful of the most important measures analysts should use. Every one of the measures above suggests that almost half of our local governments are facing financial crises.

These results lead to a number of important questions that state and local officials must answer. What tools can elected officials and managers use to stem the tide of red ink? How can currently healthy local governments avoid financial distress and maintain their competitiveness within the region and nationally? What actions should state officials take to respond to local government distress? The direction municipalities take regarding their fiscal health has important consequences for the region in the coming years. ■

Table 4. Expenditure Growth Relative to Inflation *(3.5 percent inflation estimate)*

Expenditure growth relative to inflation	Number of municipalities	Percent
Less than inflation	252	48.4
More than inflation	269	51.6
Total	**521**	**100.0**

Table 5. Number of Annual Deficits, Including Revenues and Expenditures from All Sources (2001–05)

Total deficits	Number of municipalities	Percent	Cumulative percent
5	15	2.9	2.9
4	69	13.2	16.1
3	147	28.2	44.3
2	173	33.2	77.5
1	92	17.7	95.2
0	25	4.8	100.0
Total	**521**	**100.0**	

Table 6. Municipalities Experiencing Structural Deficits from All Sources (2001–05)

Number of deficits	Number of municipalities	Percent
Structural deficit	213	40.8
No structural deficit	309	59.2
Total	**522**	**100.0**

George W. Dougherty Jr. is an assistant professor in the University of Pittsburgh Graduate School of Public and International Affairs. He can be reached at gwdjr@pitt.edu. The data from this article will soon be available at www.pittsburghtoday.org.

Table 1. Destination of Exports from the Pittsburgh Metropolitan Area, by Global Region, 2005–06 ($1,000s)

Value of Exports ($1,000)			
Destination	**2005**	**2006**	**Percent Change**
Africa	$79,436.4	$144,164.1	81.5
Asia-Pacific Economic Cooperation Countries	$3,856,999.9	$4,444,408.9	15.2
Association of Southeast Asian Nations	$140,274.0	$166,378.0	18.6
Asia	$1,320,746.9	$1,407,298.7	6.6
Dominican Republic-Central America Free Trade Agreement	$179,226.1	$184,192.5	2.8
European Union	$1,758,922.4	$2,318,043.1	31.8
Free Trade Area of the Americas	$3,063,553.9	$3,711,116.5	21.1
NAFTA (Canada, Mexico)	$2,417,771.6	$2,939,206.7	21.6
Organization of the Petroleum-Exporting Countries	$230,258.0	$275,251.9	19.5
South America	$414,812.2	$533,075.2	28.5

Source: International Trade Administration. Region definitions may overlap.

continued from page 1

The industry estimated to have the highest percentage of its output generated by foreign demand was transportation and warehousing (see Figure 1). International demand accounted for 19.4 percent of the region's output in the transportation and warehousing sector. Manufacturing, management, and forestry and fishing followed in their share of output destined for international markets in 2007.

Fluctuations in foreign currency and significant changes to international trade policy are two forces that impact foreign trade. The North American Free Trade Agreement, enacted in 1994, increased trade flows significantly between the United States and Canada and Mexico.

Although the value of imports to the region exceeds the value of exports, the balance between imports and exports has shifted over that period.

The REMI model estimates that between 1996 and 2006, international exports from the Pittsburgh region increased by over 100 percent while foreign imports increased by 68 percent. In 1990, international exports from the Pittsburgh region were estimated to represent less than 42 percent of the value of total international imports flowing into the region. For 2007, the value of international exports is estimated to be 70 percent of international imports into the region (see Figure 2).

The destination of goods exported internationally from the Pittsburgh region is estimated by the Department of Commerce. Table 1 lists the regions of the world with the largest exports from the Pittsburgh region. These regions reflect major trade accords or geographic regions of the world.

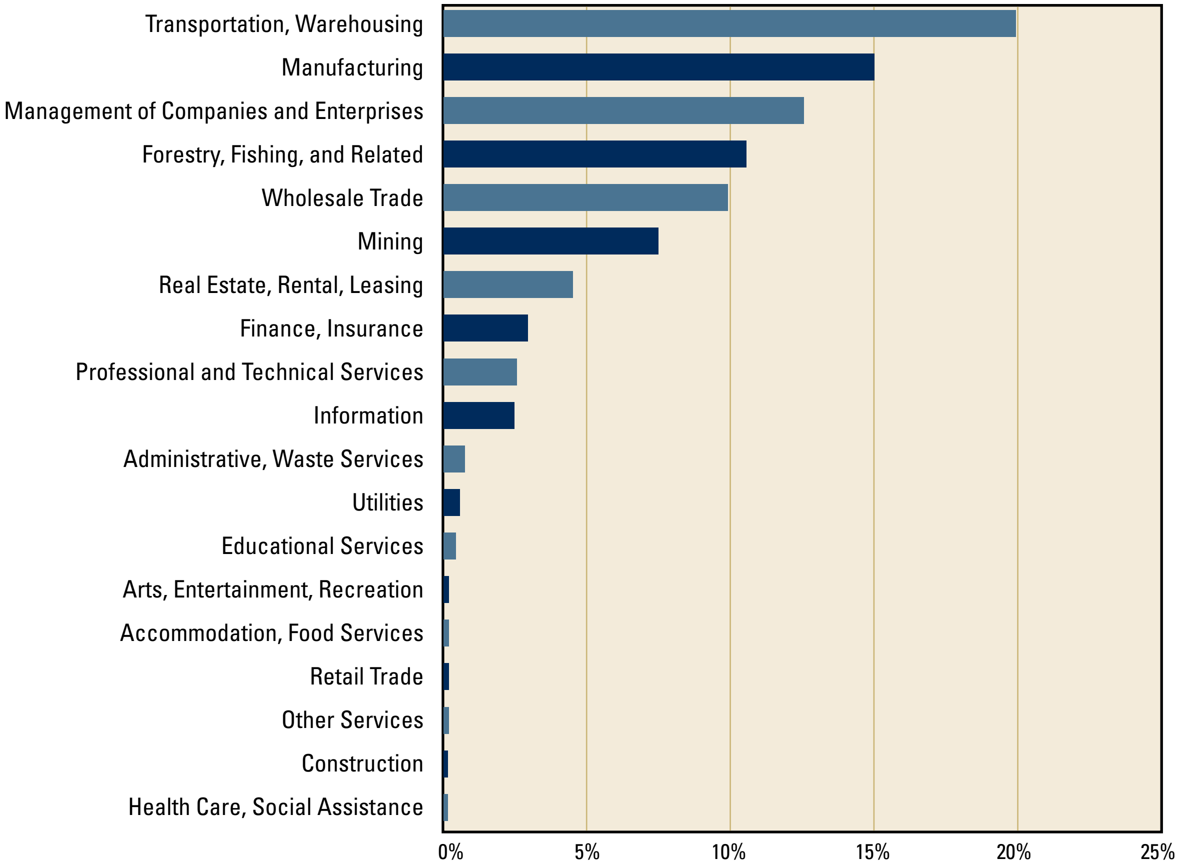
In 2006, the value of exports from the Pittsburgh region to the Asian-Pacific Economic Cooperation countries reached just over $4.4 billion, the largest amount of the global regions. Africa represented the region of the world where Pittsburgh exports grew the fastest, increasing by 81.5 percent between 2005 and 2006. Exports from the Pittsburgh region to Mexico and Canada reached nearly $3 billion in 2006, up 21.6 percent from the year before.

The REMI model calculates international exports for the region based on the Pittsburgh region's industrial structure and the pattern of exports in state-level data on the origin of movement of foreign trade flows. This differs from data compiled on the origin of movement of foreign exports at the zip code level.

Recently the International Trade Administration estimated foreign exports from the Pittsburgh region based on data collected by zip code. This data measured exports from the region at $8.2 billion for 2006. While the REMI methodology may not take into account region-specific differences in exports from local firms, the Bureau of Economic Analysis methodology may not yet fully account for differences in the location of establishment-generating exports.

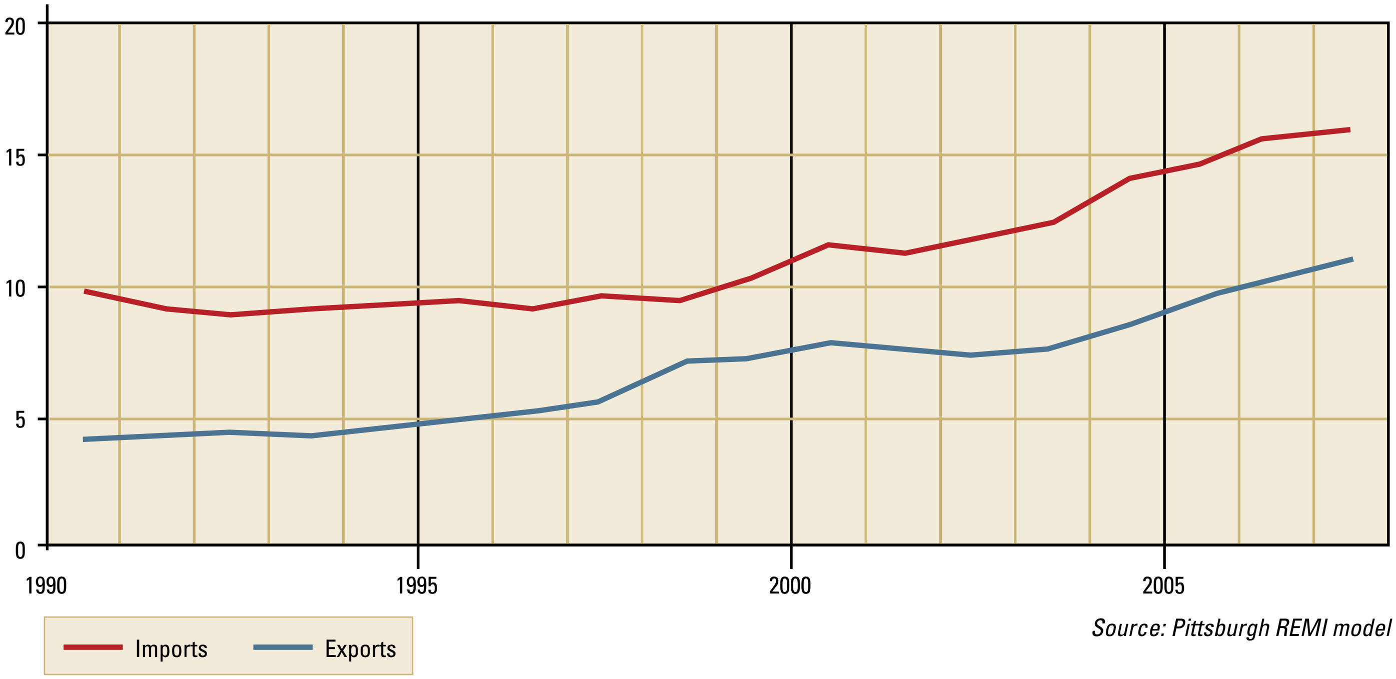
For international exports, the value of output represents the value of all goods and services produced within the Pittsburgh region. This definition of economic output differs from the value of the region's gross regional product (GRP), which is a measure of value added produced locally. Because of imports from elsewhere within the United States and international suppliers used in local production of goods and services, the value of local sales will exceed the value of the region's GRP. Data here represent the six-county definition of the Pittsburgh region, which includes Allegheny, Beaver, Butler, Fayette, Washington, and Westmoreland counties. ▪

Figure 1. Percent of Output Generated by International Demand by Industry, Pittsburgh Region*, 2007



**Six-county Pittsburgh region includes Allegheny, Beaver, Butler, Fayette, Washington, and Westmoreland counties.*
Source: Pittsburgh REMI model.

Figure 2. International Trade and the Pittsburgh Region, 1990–2007 ***(Millions of 2007 dollars)***



Source: Pittsburgh REMI model

Foreclosures in Allegheny County

By Christopher Briem, Sabina Deitrick, and Robert Gradeck

The mortgage crisis continues to loom over many aspects of today's economy. The national foreclosure rate hit new highs in 2007. Many factors have contributed to the rising failure rates, including the securitization of mortgages—especially subprime mortgages—for investors and the increase in the number and types of mortgage products, with many having fewer credit and equity requirements than traditional mortgages. For the first time since the Federal Reserve began keeping home equity debt data in 1945, homeowners' equity dropped below 50 percent of the market value of homes.

In Pennsylvania, the Commonwealth of Pennsylvania recognized the growing problem of mortgage foreclosures in the early 2000s and called for an in-depth study of the problem in 2003.

The Reinvestment Group study for the Pennsylvania Department of Banking showed that, at that time, Pennsylvania had the ninth highest rate of foreclosure on prime mortgages. The commonwealth had the fourth highest rate of foreclosure at 11.9 percent for subprime mortgages. The Reinvestment Group report found that Allegheny County had one of the Commonwealth of Pennsylvania's highest rates of foreclosure, rising 60.3 percent between 2000 and 2003. The subprime market was the main source of these foreclosures. The report found that although subprime mortgages were only 12 percent of the mortgages originating in Allegheny County in 2003, they represented 71 percent of the foreclosed mortgages analyzed by the Reinvestment Group. The report found the foreclosure rate in Allegheny County to be 11.4 per 1,000 owner-occupied housing units in 2003.

The problems for the region have increased since the early 2000s, but have exploded nationally. Metropolitan areas in Pennsylvania ranked

Table 1. Highest Foreclosure Rates: Allegheny County Municipalities

Municipality	Homes with Foreclosure Proceedings, 2006 to November 2007	Housing Units (Census 2000)	Per 1,000 Housing Units
McDonald	10	180	55.6
Mt. Oliver	73	1,864	39.2
Oakdale	23	640	35.9
Glenfield	3	96	31.3
Elizabeth	23	758	30.3
Penn Hills	611	20,355	30.0
East McKeesport	34	1,154	29.5
Brackenridge	49	1,700	28.8
McKees Rocks	94	3,402	27.6
Pitcairn	52	1,901	27.4
Coraopolis	85	3,119	27.3
East Pittsburgh	30	1,107	27.1
South Fayette	132	4,924	26.8
Versailles	25	937	26.7
Clairton	115	4,350	26.4
Swissvale	124	5,097	24.3
Collier	54	2,358	22.9
Crescent	21	920	22.8
Stowe	81	3,556	22.8
Duquesne	85	3,768	22.6
Pittsburgh	2,604	163,366	15.9
Allegheny County	9,046	583,646	15.5

in the lowest quartile for the household foreclosure rate in 2007, according to RealtyTrac, with the Pittsburgh region ranked 86th among the nation's largest metropolitan areas.

We can examine foreclosures for smaller areas of geography using Census data and information from the Pittsburgh Neighborhood and Community Information System (see *PEQ*, March 2007). Data on distressed properties were compiled on foreclosure-related legal proceedings on real estate parcels in Allegheny County over a 23-month period from 2006 to November 2007. This includes properties that were actually foreclosed upon, but it also reflects properties in various stages of foreclosure proceedings and may include parcels where foreclosure proceedings were initiated but later discontinued.

Foreclosure filings were matched to the number of housing units in each municipality in Allegheny County. The overall rate of distressed properties in Allegheny County was 15.9 properties per 1,000 housing units.

The table lists the municipalities with the highest incidence of foreclosure proceedings. Six municipalities have 30 or more distressed parcels per 1,000 housing units: McDonald Borough (Allegheny County part), Mount Oliver, Oakdale, Glenfield, Elizabeth Borough, and Penn Hills. Other than the City of Pittsburgh, Penn Hills had the largest number of distressed properties in Allegheny County.

Deutsch Bank is the largest titleholder of properties with foreclosure-related legal proceedings in Allegheny County (see Table 2). Ten institutions hold roughly a third of all distressed parcels.

Pennsylvania's Department of Banking and the Pennsylvania Legislature are taking action on mortgage reform bills, and the Pennsylvania Housing Finance Agency offers assistance to borrowers in trouble with mortgage payments, among other programs. With record levels of mortgage foreclosure, both the commonwealth and county need to consider additional means to mitigate against the accelerating levels of distress in the housing arena. ■

Our New Design

This issue of PEQ marks a new design and layout. We hope you enjoy the changes.

Parcels with Foreclosure Proceedings Per 1,000 Housing Units Allegheny County Municipalities, 2006 to November 2007

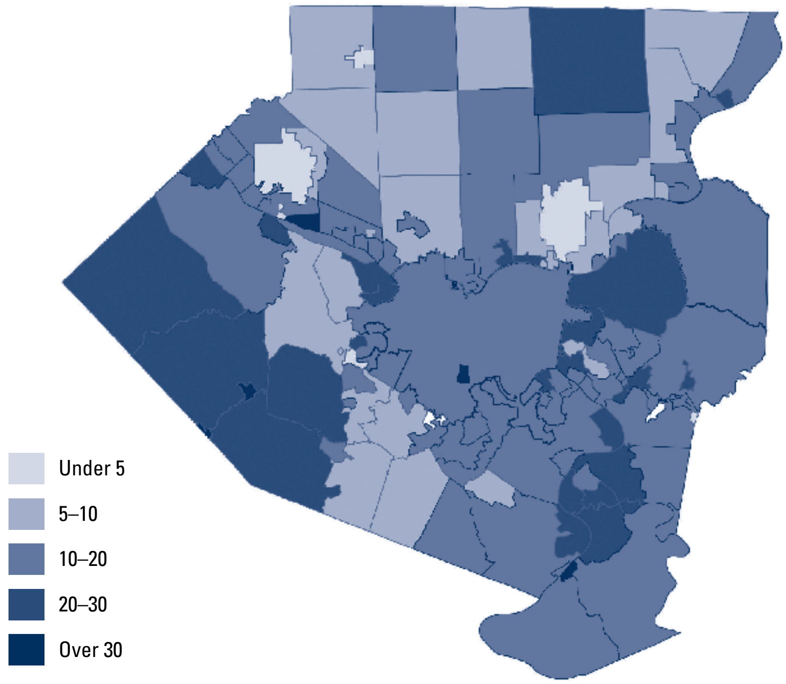


Table 2. Titleholders of Parcels with Foreclosure-Related Legal Proceedings, Allegheny County, 2006 to November 2007

	Percent of All Parcels with Foreclosure Filings
Deutsche Bank National Trust Company	6.7%
Wells Fargo Bank N.A.	6.0%
Countrywide Home Loans Inc.	4.8%
Citimortgage Inc.	3.0%
Bank of New York	3.0%
Mortgage Electronic Registration Systems Inc.	2.6%
U.S. Bank National Association	2.5%
Washington Mutual Bank F.A.	1.9%
Chase Home Finance LLC	1.8%
National City Mortgage Company	1.8%
Washington Mutual Bank	1.4%
JP Morgan Chase Bank	1.4%
PHH Mortgage Corporation	1.4%
Midfirst Bank	1.2%
LaSalle Bank National Association	1.2%
Household Finance Consumer Discount Company	1.2%
Wells Fargo Bank NA	1.1%
Beneficial Consumer Discount Company	1.1%
First Commonwealth Bank	1.1%
National City Bank	1.0%

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