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Pittsburgh's Losing Gamble

For a decade or so, the City of Pittsburgh has been staring at a sizable structural deficit. That is, normal, ongoing revenues from taxes, fees and intergovernmental transfers are below expenditures that maintain City services. For years, using revenues from one-time measures such as selling the water department, selling tax liens and debt refinancing, filled the annual budget hole. Little was done to address the large spending items. Adding to the City's difficulties, the Pittsburgh school system's profligate spending and dismal academic performance have encouraged residents to move out of the City and discouraged people and businesses from moving in.

In a monumental roll of the dice, the Administration decided to "grow" the City out of its financial problems by focusing on large public works projects and heavy subsidies to local businesses through tax increment financing, with retailers enjoying significant support. Two new stadiums, a new convention center and a new Lazarus store were the key visible elements in an economic revival in Pittsburgh. The stadiums were built largely with tax dollars (over the objections of the voters), the Convention Center has been financed totally with tax dollars and Lazarus received a considerable subsidy.

This massive (nearly a billion dollars) attempt to boost City tax revenues has failed. This was easily predictable. Taxpayer funded stadiums have never been economic generators. And, in the Pittsburgh case, the need to take significant valuable acreage and buildings off the tax rolls made the gamble even less attractive. Meantime, the new Convention Center is turning into a financial and public relations liability. Failure to rein in spending has boosted the construction cost from the original budget of \$267 million to a current figure of \$350 million and the center is not yet open. And what's worse, we are now being told that major new bookings at the center will require a new hotel at the site. The bad news is that contrary to assurances that an expanded center would cause hotel developers to rush in to take advantage of the facility; private hotel investment is notable only in its refusal to come without a massive subsidy.

The Sports and Exhibition Authority spent so much on construction that it was necessary to encumber much of the hotel tax for debt service, including the extra two percent levy authorized by the state back in 1997. Now there is not enough money to cover projected operations expenses. As a result, the exhibition authority says we need to impose a tax on car rentals in Allegheny County to make up the shortfall. It is worth asking: Would the state legislature have approved the hotel tax increase and appropriated \$150 million to build a new convention center if it had known the project would be delayed for two years as it was held hostage until funding for the new stadiums was obtained, that it would end up costing nearly \$85 million more than originally planned and that the legislature would be asked to approve another tax to bail out the facility before it has even had its grand opening?

And what of Lazarus? After knocking down several buildings including a 20 story office tower and forcing many jobs out of the area, the new department store that was to be the linchpin and catalyst for a downtown retail has been an abject failure.

In light of this series of failed gambles, it is not surprising that the other shoe has finally dropped. Following the recommendations of a yet another task force, the Mayor's 2003 budget contains two new taxes that are to save the City from its budget problems. The first is a one-half percent payroll tax that will apply to ALL employers operating in the City limits. The other is a ten percent tax on alcoholic drinks poured in the City. The new taxes are estimated to raise \$29 million per year. The Mayor is projecting a \$60 million budget shortfall in 2003 and as much as \$70 million the following year —mostly due to large increases in its debt service payments.

In fairness, the administration is recommending merging Fire with Emergency Services to reduce payrolls. Ironically, the rationalization of the size of the public safety departments and the outsourcing should have been undertaken years ago when first recommended by the Competitive Pittsburgh Task Force. The City should also have privatized the garbage collection as the Allegheny Institute argued for in 1996. Both measures could have reduced costs substantially. Instead, inaction on the big spending items and misguided efforts to have the government take charge of economic development have led to a fiscal crisis that will almost certainly require state taxpayers to come to the rescue.

If the General Assembly agrees with the Mayor, all employers in the City will be faced with still higher costs to operate. Many firms with thin profit margins and no overriding need to be located in the City will leave. Over the longer term, higher taxes will worsen revenue growth, not improve it, and the fiscal crisis will return and be even harder to solve.

Raising taxes is at best a temporary palliative that will not solve the City's underlying problems and will in all likelihood make them worse. These proposed tax hikes represent another gamble with the City's future. They are doomed to fail as surely as were the misplaced hopes that new stadiums and an expanded convention center would be the catalyst for rejuvenating the City's fortunes. It is time to stop gambling and move to measures that have a chance at long-term success.

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Note: Recently the Atlas Foundation, whose operations are worldwide in scope, prominently featured the Allegheny Institute in two articles in their latest publication "Highlights". Copies of the articles are available by contacting the Allegheny Institute.

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