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Council Balks at Bailout

After years of asking for financial assistance from Harrisburg, the General Assembly recently passed an aid package that gives the City the type of tax reform it requested, bringing a net revenue increase of \$18 million to Pittsburgh's coffers next year with additional revenues and tax reform through 2010.

It was a protracted, arduous process involving numerous tax and spending proposals coming from City leaders, community groups, state officials; two state overseers with concurrent plans; and numerous revisions of budgets and forecasts. But in the end a package was approved by the legislature and signed into law by the Governor.

The final legislative package altered five taxes: the business privilege tax, the mercantile tax, the occupational privilege tax, the amusement tax, and the wage tax on visiting professional athletes. Other taxes such as the property tax levied by the City were not affected by the plan. Currently, Pittsburgh is collecting \$64.6 million from the affected taxes. Due to the unfair nature of the business privilege tax (it taxes gross revenue, not profits) and the occupational privilege tax (\$10 per year regardless of income), City officials wanted a more broadly based business tax and a higher occupational privilege tax. They got both.

The General Assembly permitted a \$52 annual occupational privilege tax--renamed Emergency and Municipal Services Tax--that exempts workers making \$12,000 or less a year. The plan reduces the business privilege tax by two-thirds immediately and phases it out completely over the next five years.

**Tax Changes for Pittsburgh
 (in millions)**

Tax	2004 Budget	2005 General Assembly
Business Privilege	\$ 43.2	\$ 14.2
Mercantile	\$ 7.4	0
Occupation Privilege	\$ 3.2	\$ 11.8
Payroll	0	\$ 41.2
Athlete Wage	\$ 0.8	\$ 2.4
Amusement	\$ 10	\$ 9.3
RAD from Schools	0	\$ 4
<i>Total</i>	<i>\$ 64.6</i>	<i>\$ 82.9</i>
<i>Net above current</i>		<i>\$ 18.3</i>

Meanwhile, the mercantile tax is eliminated immediately and the amusement tax has been cut in half for non-profits. Also, there will be a non-resident sports facility usage fee that will tap the salaries of visiting professional athletes at a rate of 3 percent. Lastly, a payroll tax of 0.55 percent is to be levied on private companies and the for-profit activities of non-profit organizations. Revenue from the payroll tax is estimated at \$41.2 million.

Taken together with the provision that ends the requirement that the City give \$4 million of its RAD sales tax proceeds to the high spending Pittsburgh School District, the aid package results in a net increase in revenues of \$18.3 million above what the City is collecting now.

In addition, the state has set up a plan to give the City a greater share of the local wage tax over a three-year period by lowering the school district's share. Moreover, with the revenues promised from the provisions in the gambling legislation--\$17.6 million--the City should be on a path to solvency if they control costs.

How has the City Council reacted to the package? Predictably, many of them did not like it because it did not provide the type of reform they believe the City needs, which is their way of saying "not enough revenue". Council has decided for the time being to stall the cuts prescribed by the Act 47 coordinator that are required for the City to receive the new revenues. Presumably the idea is to kill the necessary spending cuts and still go to Court to petition for a commuter tax under Act 47.

This is not only a counterproductive path to take, but also an impossible one. That's because Section 123 of Act 47 states that "after a municipality has adopted a [recovery plan], it may petition the court...to increase its rates of taxation...beyond maximum rates provided by law". Shrewd lawyers might try to argue otherwise, but adoption of the plan means adoption of the plan, cuts and all. Without approving the cuts, the plan has not been adopted as required by Act 47. Thus, the Council will not be eligible to petition the Court for a commuter tax. Similarly, talk of getting the new revenue from the legislative aid package without approving the required spending cuts assumes unwisely that the Oversight Board will not carry through on its promise to withhold the new revenue until the Act 47 cuts are made.

In short, as of this writing, City Council is playing a very dangerous and risky game, apparently hoping against hope that large amounts of new money will be magically forthcoming and they can avoid making the needed spending cuts and attendant layoffs.

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