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Pittsburgh's Taxing Situation

In a recent editorial, the Allegheny Institute posed a question: was 2004 the turnaround year for Pittsburgh? After successive years of deficits, officials placing blame on various parties for the City's problems and "phantom" budgets, the year ended with the City being granted new taxing power to go along with state oversight of its finances.

Notwithstanding the financial package approved by the Legislature in late 2004, troubling trends continue in Pittsburgh. Among them, continuing declines in population and school enrollment, a reluctance to come to grips with spending that is out of line with comparable cities, and a weak job market in the City.

Now comes the City Controller's preliminary Comprehensive Annual Financial Report (CAFR), which gives us a better picture of how the City performed in 2004. On an accrual accounting basis, the City's general fund revenues stood at \$382 million and expenditures were \$402 million--an operating deficit of \$20 million.

Receipts from the eight taxes levied by the City (real estate, earned income, business privilege, mercantile, parking, amusement, occupation privilege, and deed transfer) in 2003 and 2004 tell a lot about the direction of the City's economy in 2004. Thanks to the massive parking tax increase, nearly \$13.5 million more was collected from people who parked in the City last year bringing in a net increase of \$9.1 million in total tax receipts compared to 2003.

City Tax Collections (Budgetary Basis), 2003 and 2004

| Tax | 2003 (thousands) | 2004 (thousands) | Difference (thousands) | Change, % |
|--|-----------------------------|-----------------------------|-----------------------------------|------------------|
| Real Estate | 124,000 | 123,643 | -357 | 0 |
| Earned Income | 46,018 | 45,185 | -833 | -2 |
| Parking | 30,879 | 44,511 | 13,632 | 44 |
| BPT | 42,573 | 39,902 | -2,671 | -6 |
| Deed Transfer | 9,154 | 10,614 | 1,460 | 16 |
| Amusement | 9,462 | 7,714 | -1,748 | -18 |
| Mercantile | 7,814 | 7,500 | -314 | -4 |
| OPT | 3,224 | 3,176 | -48 | -1 |
| Total of Eight Taxes | 273,124 | 282,245 | 9,121 | 3 |
| Total Other (RAD, PILOTs, etc.) | 18,662 | 18,686 | 24 | 0.1 |
| Grand Total | 291,786 | 300,931 | 9,145 | 3 |

In 2004, the revenues from the parking tax surpassed the Business Privilege Tax (BPT) receipts and became the City's third largest revenue source. The only other tax showing an increase in receipts was the deed transfer tax, reflecting a higher volume of transactions, especially of large commercial properties.

Obviously, the increase in parking tax and deed transfer revenue was partially offset by declines in other tax revenues. The drop in real estate tax collections, although small, is nonetheless troubling. The CAFR notes that assessed value in the City fell from \$13.5 billion in 2003 to \$13.2 billion last year. That slippage continues the trend that began in 2002 when assessed value stood at \$14.6 billion. And as we noted in an earlier *Policy Brief (Volume 5, Number 14)* if the County's assessment cap plan withstands a court challenge, the City's assessed value will almost certainly slide even further, and will in all likelihood require an increase in millage just to keep tax revenue level with current collections.

As evidenced by the six percent falloff in Business Privilege Tax (BPT) receipts, 2004 was not a particularly good year for business activity in the City. Although the BPT had previously fallen three times on a year over year basis during the last ten years, the 2004 drop was far larger than earlier declines. Unfortunately, the data do not tell us how much of the decline is due to weaker gross receipts at businesses still in the City and how much is due to the movement of firms out of the City. Regardless of what caused it, a six percent decline in one year is worrisome.

Similarly, the four percent drop in mercantile tax revenues suggests weaker retail activity. The decline no doubt reflects the closings of the Macy-Lazarus and Lord and Taylor stores. In addition, it probably reflects weaker sales at other Pittsburgh retailers affected by the high parking tax and the attendant loss of patronage. Certainly, newly opened retail venues in the City have not offset the generally weaker sales.

Another troubling but somewhat predictable development was the decline in revenues from the earned income tax, which is levied on worker wages and net profits of sole proprietors. A decrease in receipts from this tax points to a weaker overall economy in the City. Likewise, the \$48,000 drop in the \$10 Occupation Privilege Tax collections indicates a loss of jobs in the City in 2004. Compared to a national economy that produced significant job gains and income growth, Pittsburgh's numbers are disconcerting.

These important indicators taken together show that the economic picture in Pittsburgh is far from rosy. Any celebration based on the belief the City has turned the corner is very premature. Without question the parking tax hike is having a deleterious effect on the City's economy that will continue for some time.

Meanwhile, it remains to be seen whether the business payroll tax will generate a net gain in revenue for the City following the elimination of the mercantile tax and the rollback of the Business Privilege Tax to two mils. Unfortunately, there is a very real possibility the payroll tax will drive private sector jobs from the City.

While the City will receive a boost in revenues from the new Emergency and Municipal Services (EMS) tax in 2005, the lack of income and job growth along with the falling real estate tax base will eventually overwhelm the modest gain in tax revenues generated by the EMS tax. In short, the City still needs to take some dramatic steps to break the fall in economic activity and property values. At the top of that list of actions must be a reduction in the City's onerous tax rates, which in turn must be accompanied by substantial cuts in its very high per capita expenditures.

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