Issue Summary

Pittsburgh's Tax Picture

The Issue:

The 2004 state legislative reform package made significant changes to the taxes levied by the City. While those changes resulted in a net increase in revenue of $17 million in 2005, the long term trends of slow job and population growth continue to manifest themselves in tax collections, especially in real estate and wage collections.

What We Know:

Prior to reform, the City levied eight major taxes—real estate, wage, business privilege, parking, mercantile, amusement, deed transfer, and occupational privilege. Here is how the state reform package affected these taxes:

- *Real Estate*—Unaffected by reform.
- *Deed Transfer*—Unaffected by reform.
- *Amusement*—Unaffected by reform.
- *Wage*—Increased from 1 percent to 1.1 percent in 2007 as a result of a shift of a tenth of a percent from the 2 percent share levied by the City school district. This shift continues through 2009 when the City rate will be 1.25 percent. A City resident subject to the tax will still pay 3 percent in total to the City and the schools like they do currently, just in a different proportion.
- *Business privilege*—Rate decreased from 6 mills to 2 mills in 2005 and 2006. In 2007, the rate was lowered to 1 mill and will remain there until 2010 when the tax will expire.
- *Parking*—The reform package outlines a gradual phase down by 15 percentage points spread over the years 2007 through 2010 when the rate will fall to 35 percent.
- *Mercantile*—Eliminated in 2005.
- *Occupational Privilege*—The previous rate of $10 was increased to $52, renamed the Emergency and Municipal Services Tax, and the exemption level set at $12,000.

The reform package also created a new tax on the payrolls of for-profit businesses in the City, which garnered $37 million in 2005. With the increase in the EMS netting $13 million, the combined increase was $50 million. This was offset by the elimination of the mercantile tax ($7 million) and the cut in the business privilege rate ($26 million), resulting in a net gain of $17 million from the changes.

But even with these changes and projections that total revenues for the City are expected to grow by $100 million from 2000 to $452 million in 2011, the City has not really turned the corner. The City's two largest revenues—taxes on real estate and wages—are lower than previous highs reached earlier in the decade. In fact, except for countywide reassessments in 2001 and 2002, real estate revenues are stagnant. Moreover, taxable property value was actually lower in 2005 than it was in 2002. Meanwhile, the number of City residents who are employed (and subject to the wage tax) fell 2 percent from 2000 through 2005 and is down 6 percent since 1996. Coupled with a smaller population in the City, there is not much positive to see in the City's revenue picture over the past few years.

Recommendations:

Following the enactment of major change in the City's tax structure in 2004, it is unlikely further substantial tax reform will be enacted by the legislature anytime soon. That means the prescription for keeping the City within its means—well within its means is preferable. It simply must come to grips with its spending. The City still faces enormous financial obstacles in the form of pensions, debt, health care, and worker's compensation costs. Bringing operations spending levels down to put Pittsburgh more in line with better performing cities will allow the City to begin to free up funds to deal with the difficult remaining problems.

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