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A Market Solution for the City's Deficit Woes

According to recent newspaper reports, the City's fiscal situation has become so bad that the mayor has instructed the City's planning commission and planning department to put development projects that will be exempt from property taxation on the back burner while giving priority to those projects that will be subject to property taxation.

The reason for the decision, we are told, is to minimize any additional tax loss caused by the expansion of tax-exempt entities. Most likely, it will only lengthen the approval process for these facilities. Could it force some business plans that would have created exempt property to fall apart and be replaced by plans for the same property that will involve a taxable enterprise? It is possible; but this is not a viable substitute for encouraging private sector growth by embracing sensible regulations, contracting out services, reducing taxes and generally creating a climate more conducive to business growth.

This alteration in planning commission procedure comes despite the fact that the amount of tax-exempt property, as a share of all property within the city, has decreased from 1993 to 2003. The largest increases in value of exempt property resulted from acquisitions by the public sector, not non-profits. Yet the administration believes this agenda shuffle will help (presumably in conjunction with its request for the General Assembly to pass legislation that will enable the City to collect new taxes) to close a \$60 million budget gap.

Here's another idea.

Pittsburgh owns a great deal of property that is exempt from taxation. According to records from the County's assessment department, the City owned over 9,000 parcels totaling \$657 million in market value in 2003. Obviously this total includes properties dedicated to the provision of municipal services. If we count only the value of parcels that don't serve this purpose--vacant land (not park districts), single- and two-family homes, boarded-up structures, retail, office space, and the like--the total comes to over \$88 million in market value. Not a paltry amount; in fact, it is a sum that could turn into a gold mine for the City and a solution for its fiscal difficulties.

The City could commit to auctioning off this \$88 million over a two-year period. For instance, if the City set a 50 percent target (\$44 million) for sale this year, it could see an immediate infusion of cash. Even if the property sold for below market value, say 75 cents on the dollar, it would receive nearly \$33 million in additional revenues. In addition there would be a future stream of property tax dollars, which could reach over \$356,400 annually based on the \$33 million value and the City's current millage.

Preference could be given to auctioning off the best properties at first, followed by the less desirable parcels as time goes on. Idle parcels that they have held for a period of over five years should immediately be auctioned off. The property auction could go a long way to reducing the City's budget deficit, with any remaining gap closed by spending cuts. The City could buy enough time to get its fiscal house in order without having to levy new, burdensome and job destroying taxes.

Pittsburgh should try to persuade other government owners of property in the City--the Urban Redevelopment Authority (which owned \$150 million in 2003), the School District, Allegheny County, and other authorities--to examine their holdings and determine the properties that could be sold. Although the City would not receive the sale proceeds, they would benefit from the future property tax revenue.

There is no good reason for Pittsburgh or its affiliated agencies to hold residential or commercial property while claiming they want to attract residents and businesses. This plan eliminates the need for more taxes on an already over-taxed city. It achieves the goal of putting more property on the tax rolls to relieve the burden on current taxpayers. It encourages entrepreneurial individuals to put property to its highest and best use. But more importantly, it gets the City out of the land holding business and more focused on its core functions.

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