POLICY BRIEF

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City Property Tax Revenues Not Growing

In a previous *Policy Brief (Volume 6, Number 52)* we discussed the trend facing the City's wage tax. Now we examine the largest revenue source for the City, the real estate tax. Its rate is 10.8 mills ($10.80 for every $1,000 of assessed value) and has been at that level since 2001 when the City abandoned its two-tier rate, in which land value was taxed at five times the rate of structures.

In the mayoral financial forecast of 2004, the projection was made that, following what was to be a reassessment in 2006, the City would "show some growth followed by stagnant collections for the following two years" mimicking the pattern following the 2002 reassessment.

City Real Estate Taxes, Budget Amounts

Year	Budget Amounts (000s)
2006	124,758
2007	123,998

City of Pittsburgh 2007 Budget, General Fund Revenues

The stagnation appears to have started a bit earlier than planned as reflected by the amount the City is budgeting for current and delinquent taxes in 2007. That number is down almost $1 million from the $124.7 million they expect to bring in through the end of 2006, much of that shortfall due to projected drop in delinquent collections. The City is budgeting for a $257,000 increase in current collections, a paltry increase of 0.2 percent above the 2006 figure of $121,000,000.

As a side note, no elected City official has commented on the County's base year plan and the apparent end to reassessments. Although unpopular, the Countywide reassessments in 2001 and 2002 boosted taxable value and collections for the City, pushing revenues up $8 million dollars from 2000 to 2002.

City Real Estate Assessed Value and Tax Revenues, 2000-2005

Year	Assessed Value of Taxable Property (000s)	Year Over Year % Change	Tax Collections (000s)	Year Over Year % Change
2000	11,307,273		114,543	
2001	14,198,125	26	120,838	5
2002	15,047,863	6	122,284	1
2003	14,461,041	-4	124,000	1
2004	13,237,682	-9	123,576	-0.3
2005	13,234,645	-.02	124,516	1

2006 Comprehensive Annual Financial Report, City Controller's Office

Clearly, the recent trend in assessed value runs counter to the grandiose promises made by boosters that the City could just build its way out of its long-term, systemic problems with structures like new stadiums, a new convention center, and a subsidized department store as the centerpiece. Amazingly, the 2005 assessed value of taxable real estate was nearly $2 billion below the 2002 level.

Since 2003 City property tax collections are essentially flat. During the 2003-2005 period, the Northeast CPI grew 7 percent from 2003 to 2005 while City property tax revenue increased a mere one percent. Thus, revenue growth has trailed far behind inflation. Moreover, based on the high-watermark 2002 value and the City's millage rate, collections would have been expected to be $162 million, but the actual revenue was only $122 million. Why? One reason is the use of Tax Increment Financing for major development projects, which requires diversion of tax funds to pay for construction bonds rather than going to City coffers.

Nearly every major development in the last fifteen years—the Mellon and PNC operations centers, the Heinz distribution center, SouthSide Works, Home Depot, and others—were granted TIFs. In some deals, it was 100 percent of the new taxes whereas in recent deals the City has retained a portion of the new taxes up front. Then too, senior citizen and many other exemptions, along with discounts for early payment of taxes and assessment appeals, account for a sizable portion of the difference between the base calculation and actual collections.

The lack of growth in assessed real estate value tracks closely with the other demographic and economic factors: negative population growth, little or no job growth, an aging residential housing stock, and a very slow rate of private sector construction. This is the City's real problem on several fronts. The absence of growth in private sector real estate value is a near perfect reflection of Pittsburgh's anemic economy. Stimulating construction through tax subsidies or TIFs for retail, office and residential buildings is a fool's errand. A lesson the City seems incapable of learning.

The failure to grow collections from the two largest generators of tax revenues is a warning signal to the City. Depending on gaming and state beneficence to supply funds to makeup for the shortfall in the key revenue sources is an unwise strategy. Getting serious about cutting spending and downsizing the government would be a better approach but, until the next acute crisis arrives, that will not happen.

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