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Municipalities' Share of RAD Tax Revenue

In 1994 Allegheny County imposed a one percent local sales tax allowed under 1993's Act 77, the legislation creating the Allegheny Regional Asset District. Act 77 mandates that 25 percent of the revenue collected be distributed to the County and 25 percent to its municipalities with the requirement that it be used primarily to reduce other taxes, with a few other permissible uses.

For most of the 1994-2015 period, 128 of the 130 County's municipalities have received a share of the funds. Two municipalities, Trafford and McDonald, do not participate. Over the period, a total of $801 million was shared by the municipalities. All sales tax and municipal distribution data are taken from the RAD board web site.

The share of the revenue a municipality receives is calculated by multiplying the total amount available for distribution by a factor designated as the ratio of its weighted tax revenue and the sum of the weighted tax revenues of all municipalities. Weighted tax revenue is specified as the municipality's total tax revenue from all sources divided by the ratio of the per capita market value of real property in the municipality and the per capita market value of all County property. All population figures are taken from the latest Census figures available, currently the 2010 numbers.

In simplest terms the formula means that a municipality's share factor will, all other things equal, be larger the greater its tax revenue and will be larger the smaller its per capita market value of real property. Thus, municipalities with large tax revenues will tend to receive more than municipalities with small revenues. However, the weighting formula will boost the share of municipalities that are poorer in terms of market value of real estate per resident above what it would be if its tax revenue alone were the factor and conversely the formula will act to reduce the share for municipalities that are wealthier in terms of market value of property per capita.

To investigate how accurately the formula is being applied this report examined the details of the sales tax revenue distribution. The first step was to calculate each municipality's share of the sales tax revenue distributed over the last five years as well as the for the cumulative shares for periods 1994-2010 and 1994-2015. One interesting fact emerges quickly. The City of Pittsburgh received 52 percent of all the dollars distributed during the first 17 (1994-2010) years of the program and 50 percent of all the money distributed over the 1994-2015 period. However, the City's share has been falling in recent years and by 2015 stood at 42 percent.

For the entire period 1994-2015, the municipalities with the seven highest per capita sales tax allocations include Braddock Borough, Clairton, Duquesne, McKeesport, Mt. Oliver, Pittsburgh, and Rankin. All had per capita cumulative distributions over the 22 years of over $1,000 with Braddock, Rankin, and Duquesne above $1,400, Pittsburgh at $1,321, Clairton $1,200, McKeesport $1,121, and Mt. Oliver at $1,003. At the low end, the seven lowest per capita cumulative distributions went to Ohio Township, Pine Township, Sewickley Hills, Frazer, Franklin Park, Marshall and Robinson. All received totals of under $200 over the 22 years except Robinson which received $209. Of the remaining municipalities, 40 received between $500 and $1,000 while 74 received between $209 and $500 per capita.

Note that the per capita taxable property averaged $25,000 for the seven highest per capita RAD tax recipients (only $18,000 if Pittsburgh is excluded) while the seven lowest per capita recipients had average per capita taxable property of $155,000. Thus, the impact of the distribution formula's weighting scheme is readily apparent.

The simple average per capita cumulative for all 128 municipalities was $483. The weighted average (actual total dollars distributed divided by all 128 municipality residents) per capita was $655. This gap is due largely to the fact Pittsburgh received over half of all the sales tax revenue distributed during the period since the beginning of the program and its tax revenue and population count are so large relative to the other municipalities—larger than the ten next largest municipalities combined.

The next task was to evaluate whether the per capita distributions were close to what the legislated procedure should produce.

By using the formula in a reverse fashion, that it is to say, using it to solve for the effective sum of weighted tax revenues as opposed to calculating the amount to be distributed, it is possible to evaluate whether a municipality is receiving more or less than it should be—or the right amount. The four other components of the distribution formula are easily obtained for the seven municipalities that rank at the top of per capita distributions and the seven with the lowest.

Using this procedure reveals that for the 2015 allocations, results for two of the 14 municipalities examined suggest they received more than the legislatively mandated formula entitled them to. But they were fairly small boroughs and the amounts of money were small compared to the total amount distributed. The one municipality getting significantly fewer dollars than the formula says it should was tiny Frazer Township. Interestingly, the Frazer distributions since 2010 have been roughly a third of the average distribution from 1994 through 2010.

The remaining municipalities in the 14 selected for study had 2015 allocations that were within ten percent or so of the amount an accurate application of the mandated formula would be expected to produce. Bear in mind that deviations from ideal results are inevitable due to inaccuracies in estimates of market value of real estate caused by the County's frozen assessments, self-reported municipal tax revenues, and the use of five year old population counts. Ironically, the RAD distributions are included in the tax revenue used to calculate the share factor. Inevitably, this will create serious distortions over time, especially in the cases of poor, small municipalities whose RAD tax distribution is a large fraction of their total tax revenue.

Finally, it is important to note the changes in municipal shares that have occurred starting in 2011 through 2015. Overall, dollars available to distribute rose 11 percent from $41.9 million to $46.6 million. There were some big winners in dollar amounts and some big winners in the percentage increase in dollars received.

The most dramatic change was in the distributions going to Pittsburgh. Although the dollar amount for the City rose $98,000 (0.5%) from 2011 to 2015, the share of total funds distributed fell by ten percent. If the City share had remained at the level of the first 22 years, Pittsburgh would have received $23.5 million in 2015, instead of the $19.98 million it actually received. This would have left only $23.1 million for other municipalities instead of the $26.6 million that actually occurred, a difference of $3.5 million.

The diminution of the Pittsburgh share over the last several years has been accompanied by significant gains in shares for some municipalities and large dollar increases for some. Clearly, the weighted tax revenue of the City has fallen relative to the sum of weighted tax revenue for all municipalities. This cannot be blamed on the County reassessment because the Pittsburgh share was declining before the reassessment. And since population numbers are set to the 2010 Census they cannot be the explanation. It is possible however that the significant declines in City population from the Census of 1990 to 2000 and then from 2000 to 2010 could have lowered the City's weighted tax revenue from the 1994 to 2000 period to 2000 to 2010 and then again in the years since 2010.

Penn Hills, with an increase of $408,425 or 30 percent over the 2011 to 2015 period, was the biggest gainer in dollar terms. Clairton was second with a gain of $201,752 or 50 percent during the period. Bethel Park posted the third largest dollar rise at $ 180,000 or 40 percent. Six other municipalities enjoyed distribution gains of over $100,000 including; Moon (up 41%), Mt. Lebanon (up 20%), Munhall (up 32%), Rankin (up 66%), Upper St. Clair (up 34%), South Fayette (up 59%) and Ross (up 41%). Thus, each of these experienced gains well in excess of the overall 11 percent growth in total tax revenue distributed.

106 municipalities had increases in distributed funds from 2011 to 2015 of over ten percent. Of these thirteen municipalities received increases of over 50 percent, but none reached the $100,000 dollar mark in actual dollar increases. Ninety three of the municipalities had gains in the range of ten through 49 percent. Eleven saw their

allocations rise from one percent through nine percent while three had no change in share. Meanwhile, five municipalities saw their distribution amounts fall led by Braddock at 28 percent and Duquesne at 17 percent.

A table with all the dollar values and share changes has been posted on the Institute web site.

In summation, while the formula for distributing the sales tax revenue is apparently working reasonably well, it has a major drawback. To wit, much of the data used is outdated or subject to errors. Failure to keep market values of property up to date and using Census data that can be as much as ten years out of date are real problems for accurate calculations. A new, simpler formula that uses more up to date data is needed to rectify these problems. That will be the subject of a future *Policy Brief*.

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