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**College Students: Welcome to Taxburgh**

The Mayor of Pittsburgh is trying to levy a new tax on college and university tuition to shore up the City's calamitous legacy costs. A City Council member has countered with another proposal. That plan calls for a negotiation of payments in lieu of taxes based on the value of land on which colleges and universities sit and the value of City services provided to the students at these institutions. Neither idea is very encouraging to the City's education institutions and offers more proof that Pittsburgh is a tax happy city, unfriendly to businesses, residents, and visitors. This effort could come to a screeching halt if the Intergovernmental Cooperation Authority refuses to approve the City's proposed 2010 budget.

The Mayor's plan derives from Act 511, the state law granting permission to municipalities the right to tax certain privileges. For years the City taxed the privilege of doing business as well as the privilege of working and earning a paycheck within its borders. The Mayor is now suggesting that going to college in the City is a privilege and should be taxed. The difference is that the business privilege and occupation privilege taxes are based on earnings and not simply on one's presence. What's next, taxing the privilege of breathing in the City?

And does anyone really think that this new tax would be the end of it? Recall that in 1993 the RAD tax was passed largely to relieve the City of responsibility for funding regional assets and hailed at the time as a great panacea for the City's woes. And in 2004 the Legislature granted Pittsburgh the authority to levy a payroll preparation tax on for-profit firms and organizations and increase the occupational privilege tax (now called the local services tax (LST)) from \$10 to \$52 annually. Moreover, the City was granted a share of the school district's wage tax and is now allowed to keep \$4 million in RAD tax money formerly forwarded to the school district. These measures, as well as the City's entry into Act 47 financial distress status, apparently did not right Pittsburgh's finances.

And why did all of this not work? The City has not addressed the root of its problem— spending. It would have been far better if the Mayor would have used this new tax creativity to cut expenditures. Without reducing spending and lowering the growth of legacy costs there will never be enough tax revenue. But as we have seen and will continue to see, the City's unions and a large proportion of the voters in the City simply will not countenance the amount of spending reduction necessary to right the City's financial ship. It's easier to go after college kids and non-residents who don't vote than to upset residents who do.

Beyond those arguments, there are inherent flaws in the Mayor's plan. Applying a one percent tax on tuition will have a greater impact on those attending more expensive schools than those attending less expensive universities. The implication is that those attending Carnegie Mellon are consuming far more City services than students at Community College. Thus, the tuition tax lacks the basic equity that principles of taxation require.

The Mayor's plan will also adversely affect those attending for-profit trade schools. These schools already pay property taxes on buildings they own or through the rent they pay. They also pay the myriad of taxes the City levies on businesses. These taxes are built into the cost of the school and are already reflected in tuition. Applying the tuition tax to trade school students amounts to double taxation.

City Council's approach, put forth by Councilman Burgess, is superior to the Mayor's plan to levy an education privilege tax on students based on the tuition they pay. Mr. Burgess would at least try to determine the value of City services used by students. However, his plan falls short for several reasons.

First, the Burgess plan would base the estimate of student service use on what the City spends on other residents. But this obviously misses the mark. Most colleges have their own campus police forces and effectively replace City police for routine patrols and non-felony investigations. Then too, how many campus fires have City fireman responded to in recent years?

Large institutions and commercial establishments also pay separately for garbage collection so one of the City's most expensive services provided to residents is not consumed by students. Beyond these drawbacks, the City cannot provide services to the students without providing services to the faculty and administrative staff. And since many of them live in the City and pay taxes, the estimate for students would have to take that into account—a very messy problem at best.

Using the spending on residents as a measure of the amount spent per student is simply not a meaningful way to approach this issue.

At the same time, how does Mr. Burgess intend to estimate the tax revenue paid directly or indirectly by students? Many students live off campus in nearby housing and pay rent to property owners who in turn pay a portion of that rent to the City, County and school district. Their presence creates purchasing power to support shops, dining and tavern facilities that simply would not exist without that spending. Those businesses pay property taxes, license fees, LST taxes, wage taxes and payroll preparation taxes to the City. Indeed, many students are employed in the City and pay wage and LST taxes to Pittsburgh, undoubtedly at levels that exceed their usage of City services.

Finally, evaluating the value of land for the tax exempt institutions will present enormous theoretical and practical problems. The land derives a great deal of its value because of the presence of the institutions and the people, businesses and housing facilities needed to support the institutions. After all property owned by colleges and universities has never been assessed so there is no precedent. Assessors cannot use the income method since these institutions of higher learning are non-profit. There are no comparables since many of the buildings are unique and quite old.

In short, unless or until some organization with the resources and public confidence necessary carries out a full blown, credible study of the taxes paid and services used by these institutions, all the talk of education privilege taxes or land taxes should be put on hold.

City officials are afraid to raise taxes on residents because they vote. But these residents are the primary beneficiaries of services and have tacitly supported and condoned the buildup of outsized spending and overly generous employee benefits hoping that when the bill comes due someone

else would pick up the tab. The City is afraid to cut spending and seek cost savings because the unions won't accept them. Thus, the City is constantly looking to find new ways of raising revenue and looks to guests and visitors (non-voters) and make them the scapegoats for the City's problems. It is time for the City to face up to its self inflicted problems and tackle head on the results of years of irresponsibility.

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**Jake Haulk, Ph.D., President**

**Frank Gamrat, Ph.D., Senior Res. Assoc.**

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd. * Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
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