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Potential Impact of the Parking Authority Rate Hike Plan

How big of a role has the City's parking system and the parking tax it collects played in the City's tussle with longstanding financial issues and what will be the impact going forward?

Ten years ago, just after being declared fiscally distressed by the state, the City of Pittsburgh raised its parking tax as a way to help with its fiscal woes. Four years ago, after the state had passed legislation on municipal pension plans, the City of Pittsburgh attempted to lease parking garages, meters, and lots as a way to help its troubled pensions. This year, as part of the Act 47 amended recovery plan, the City is hoping a rate hike at Parking Authority garages will lead to more money for the City.

The City had free rein to boost the parking tax (from 31% to 50%) in 2004. Now the tax rate cannot change unless the state alters it. Originally, following the City's hike and as part of the overhaul of most City taxes, state legislation reduced the tax rate from 50 percent in annual steps where it was to settle at 35 percent. The municipal pension reform law, Act 44 of 2009, locked the parking tax at 37.5 percent so long as the City could get their pension funded ratio above 50 percent. The City agreed to dedicate a stream of the parking tax to the pensions through 2041 as a key element in satisfying the 50 percent requirement and the parking tax will remain at its current rate for the indefinite future.

So when the Act 47 team made its second recommendation on revenue it did not say "raise the parking tax" because the tax cannot be raised by the City. It instead stated "Increase Parking Rates at [Parking Authority] Facilities and Transfer Revenue to City". The Authority announced rate hikes this past week, with the first increases effective August 1, 2014.

Though not mentioned, the City cannot direct privately owned garages or lots to raise their rates for parking in order to generate more money for the City in parking tax revenue. However, there is nothing to prevent privately owned facilities from following the higher rates being levied by the Parking Authority at its facilities. Rate hikes at private facilities would translate into more parking tax money for the City as well.

A review of the Authority's recently announced rate increases shows all day rates (4 to 24 hours) rising in the range of 23 to 33 percent. The most recent available Authority annual report covers 2012, and the Authority reported total operating revenues of $48.9 million, with $28.8 million in "parking facility receipts" and $9.6 million in "on street/off street meter receipts". The remainder of the revenue comes from permits, rentals, the parking court (the largest contributor to non-parking fee revenue) and other.

Using parking facility receipts as the best gauge to project how much revenue will rise at locations with rate hikes (based on recent performance we will assume that revenue will be around $30 million for Fiscal Year 2014) and using 25 percent as a reasonable approximation of the weighted average of the parking facility rate hikes, we estimate total parking facility receipts to rise from a $30 million yearly rate to a $37.5 million annual pace. Of course, the City will be benefit from the higher rate of Authority parking revenue over the last five months of 2014 that will raise the 2014 total to $33.13 million.

With the effective parking tax rate at 27.3 percent (the tax owed as a percentage of the parking facility revenue), and, based on the incremental rise in facility receipts from $30 million to $33.13 million, the City could expect to collect around $0.85 million in additional parking taxes this year and $2 million more than currently projected in 2015. The demand for parking in and around Downtown Pittsburgh is very inelastic, meaning most parkers will grin (or grimace) and bear the increase.

The 2012 annual report shows that the Authority handed over $1.3 million in lieu of real estate taxes, $7.3 million in meter, wharf, and parking court payments, and an additional unspecified $1.3 million payment to the City. The City's 2012 budget shows a receipt of $2.6 million from the Authority under intergovernmental revenue. That was higher than what the City reported in 2008 ($1.2 million) and lower than the 2014 budget amount ($3 million). An important question is; what does the Authority do with the money from the rate hike that is not turned over to the City in taxes? After all, it will be the recipient of an additional $5.5 million annual windfall in 2015 as a result of the rate hikes going into effect in August.

Obviously the City would like to have a big portion of that $5 million. While the Act 47 team can direct the City to make the approach to the Authority, it cannot direct the Authority to hand over money other than what is owed in parking taxes or through binding agreements. As mentioned, the parking system was offered up for lease as a way to fund pensions four years ago. When that plan was rejected, the long term promise of parking tax revenue was made, but there was also hope that the payments from the Authority to the City would rise significantly. Not long after the dissolution of the parking lease plan, the current Mayor (who was on Council at the time) responded to the former Mayor that "the [payment in lieu of taxes agreement] needs to increase… [to] $9.3 million dollars in 2012 and beyond in order to cover the hole in the City's budget from diverting parking tax revenue to the pension". As noted above, the in lieu of taxes revenue from the Parking Authority has been well under that amount.

Finally, we must consider what the private garages will do and the impact on parking tax revenue their actions will have. While it is unlikely the private facilities will match the percentage increases in rates announced by the Parking Authority, it would be unreasonable to assume they will leave rates unchanged. Bear in mind that of the $50 million or so collected in parking taxes in the City, in the neighborhood of $40 million is paid by the privately owned parking facilities. Thus a 15 percent rise in rates at the private facilities would boost parking taxes by another $6 million for the City. A 10 percent increase would raise an additional $4 million. Either private parking price hike scenario would provide more annual revenue increase than the Parking Authority will come up with.

All this suggests that the recent move to boost parking rates could easily generate enough new revenue to cover the projected budget deficits the City faces. Certainly, it should take talk of raising property taxes off the table.

Nonetheless, the City must not lose sight of the need to begin very serious cost and payroll reducing efforts over the next few years to rein in its spending per resident that remains well above the spending levels in comparable cities.

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