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Golden Oldie #3: Parking Rates

This coming Saturday rates at Pittsburgh Parking Authority garages and lots are going up for the second consecutive year. The most recent Act 47 recovery plan directed the City to request the Authority raise rates since higher rates translate into higher parking tax revenue for the City primarily because of the inelastic demand for parking. In May of 2015 the City collected $5.2 million in parking taxes from Authority and privately owned facilities—the highest month of tax collections since the August 2014 boost in rates. Collections since the August 2014 rate hike are up about $400,000 over the period from August 2013 through May 2014.

The City no longer has direct control over its parking tax rate due to the overhaul of City taxes in the last decade. So what did we have to say about the 2004 parking tax increase that placed the rate at 50 percent? This *Brief* from 2004 *"Pittsburgh's Parking Tax Will Not Solve Spending Problem" (Volume 4, Number 2)* offered a reaction to that tax hike, which became a precursor to Act 47 and state oversight.

City Council appears to be on the verge of passing a $390 million budget for 2004. While this represents an improvement over the Mayor's proposed $407 million budget, it only strengthens two notions: first the City has the power to balance its budget without distressed status; and secondly, it still has not grappled with more serious issues such as union contracts, outsourcing and selling off assets, preferring instead to go after more revenue.

Council's budget restores some police personnel, prevents the layoff of 99 City workers, funds an amateur athletic program and amenities such as the Oliver Bath House and Mellon Park tennis bubble. All this is being done primarily through an increase in the City's parking tax from 31 percent to 50 percent.

Council estimates that increasing the parking tax rate by 61 percent will boost revenues $3 million above previous revenue projections. While recognizing that the rate increase will cause a reduction in the number of people parking in the city, previous experience suggests that the percentage drop in parking will not offset the higher tax rate.

In our study of Pittsburgh parking (August 2002) we indicated that if it currently costs $10 to park, the City receives $2.37 and the garage operator receives $7.63. Raising the rate from 31 to 50 percent raises the tax from $2.37 to $3.82 (50 percent of $7.63). Therefore if the garage owner passes the tax completely onto the customer, then the total fee will rise from $10 to $11.45—a 14.5 percent cost increase for the customers.

Indeed, the 14.5 percent increase holds regardless of the parking charge the customer now faces. If the garage owner is unable to pass along the full amount of the tax, the customer will see an increase of something less than 14.5 percent.

The last time the parking tax rate was increased, from 26 to 31 percent in 1998, parking tax revenues increased by more than $5 million. In fact, the 31 percent rate has garnered the city approximately $30 million yearly since 1998. Therefore, it is reasonable to assume that boosting the parking tax rate by 19 percentage points will increase revenues by $15 million annually, at least in the short run. Over time, the failure of the downtown area to prosper will lead to a decline in parking revenues, even at the higher rate.

This latest budget demonstrates that the city still has financial flexibility with or without distressed status--which increasingly looks like a mistake. In fact, more flexibility remains since the City could still raise the property tax rate or wage tax rate for Pittsburgh residents. It is worth noting that the Pittsburgh School District has lowered its millage rate 0.61 mills (court ordered) thus enabling the City to increase its millage by that amount without placing any additional burden on Pittsburgh property owners.

The problem is that City government has yet to show the resolve necessary to fix its financial troubles. Instead of tackling the tough issues such as municipal unions and public safety spending, the City complains about the unfairness of its tax structure and how suburbanites do not pay their fair share. But the real issue is not revenues. The real problem is spending.

A look at eight similarly sized cities (in terms of population): Pittsburgh, Minneapolis, St. Louis, Anaheim, Cincinnati, Tampa, Raleigh, and Arlington TX, shows how Pittsburgh spending and staffing levels compare to peer cities. The average combined staffing level for police and fire for the eight cities is 4.4 per 1,000 residents. Pittsburgh has the highest number of police and fire per 1,000 residents (6.1). Likewise, Pittsburgh spends $541 per capita on police and fire, well above the eight-city average of $402.

A look at total general fund spending reveals that the average eight-city general fund expenditures per capita are $805 while Pittsburgh's general fund spending is $1,112--$307 higher than the average. If Pittsburgh were spending at the average, they would spend $100 million less ($307x 327,898 residents) and would, at current revenue levels, be operating with a surplus. Instead of tax increases, they could be talking about tax cuts.

City Council needs to get tougher on spending issues and work to get voluntary concessions from its unions. Furthermore, the Mayor and the Council should be lobbying the General Assembly to revise the binding arbitration law (Act 111) to provide a more level playing field in future arbitration cases. The revisions would require arbitrators to consider issues such as staffing levels and compensation rates in like-sized cities as well as the municipality's ability to pay.

Regardless of the short-term solutions offered in Council's approved budget, Pittsburgh's problems with spending will persist until there is a serious effort to bring the City's expenditures per capita in line with those of similar sized cities that are thriving economically.

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