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Report on Tax Revenue from SEA and Stadium Authority Venues Needs Clarification

In mid-December of last year, the City Controller released results of a study showing that over a five-year period, 2009 through 2013 inclusive, properties (and entities using those properties) owned by the Sports and Exhibition Authority and the Stadium Authority had paid $107 million in taxes and fees to the City of Pittsburgh. The study was done at the behest of a 2014 City Council resolution. The revenue figure is based on the Controller's access to the individual tax reports of the various entities. Data was assembled for the amusement tax, earned income tax, business payroll expense tax, facility usage fee, local services tax, and parking tax on "…entities occupying the facilities and land owned by the Sports and Exhibition Authority and the Stadium Authority of the City of Pittsburgh" as specified in the resolution.

The study simply totaled up all the revenue in each category paid by all the entities involved for each of the five years and then added the five yearly six revenue sources to come up with the $107 million figure. The report also includes the statement that very few Pittsburgh tax dollars were used in the construction of the new sports venues, the convention center and the parking and other infrastructure associated with these facilities. And with that, the answer to Council's request was complete. Or was it?

For several reasons these findings are misleading. In the first place it is dismissive to brag that few local resources were needed for these projects. And it is somewhat insulting to say what a wonderful payoff these facilities have produced for Pittsburgh and have no concern about whether the folks who put up most of the money (PA and U.S. taxpayers) are receiving any benefits. After all, over a billion dollars were spent on Heinz Field, PNC Park, the new convention center and related infrastructure. Another $375 million was spent on the new Penguins arena.

Of that $1.45 billion, little was provided explicitly by the City, although local authorities did put up about $50 million while local foundations contributed $16 million. Other private sources, mostly team contributions, added $330 million. All told, taxpayer backed bonds and grants from the Federal and state governments covered a billion dollars of the total outlays. One could also reasonably argue that the $517 million spent on the North Shore Connector would never have happened if the new stadiums had not been built. Of that number 40 percent was state and local dollars and redirected Federal money away from needed highway projects.

That taxpayers, most of who do not live in the City, have paid for the facilities is an important point of criticism but there is a deeper problem with the study. It should be obvious that the revenue produced by each of the taxes examined in the report must be placed in context if one wants to get an idea of how much the new facilities have actually enhanced revenue. Bear in mind that amusement taxes, earned income taxes, parking taxes, and an earlier version of the local services tax were being collected at the sports venues, parking lots and previous convention center before the current facilities were built. There was no business payroll tax but there were mercantile and business privilege taxes that the payroll tax replaced. There was no facility usage fee until 2005, well after the new venues were built.

A better, more appropriate question than the one the Controller was asked by Council to investigate is; "how much did the new facilities add to the revenues of the various taxes compared to what was being collected before? And more pointedly, "what kind of return on all that investment are taxpayers getting?"

So, what happens if we look at estimates of taxes that were being paid prior to the new stadiums and compare them to the recent figures? We will use the 2013 figures since they give the new facilities the highest numbers and the 2000 figures as the last year before the opening of the new stadiums, and well before the new convention center and the new hockey arena. The new sports complexes, the convention center and SEA and Stadium Authority parking facilities produced total revenue from the taxes listed above in the amount of $24,740,000 in 2013.

The largest component of the $24.7 million was amusement tax receipts at $10,967,000, 80 percent of the entire amusement tax collected by the City that year. Amusement tax revenue is almost half the total tax revenue coming from the SEA and Stadium Authority venues. Meanwhile, in 2000, the amusement tax generated $8,256,000 (the tax rate of 5 percent of admission price has not changed over the period). If we assume 80 percent of that came from SEA and the Stadium Authority owned entities that would put amusement tax revenue in 2000 at $6,604,000 from those facilities. Now we know there was inflation over the period, so adjusting for the 30 percent increase in the CPI between 2000 and 2013 makes the 2000 revenue worth $8,585,000 in 2013 dollars. Thus for 2013 compared to 2000, the real net effect of the new facilities on amusement taxes stands at $2,382,000, a far cry from the nearly $11,000,000 touted in the study.

The next highest tax revenue in 2013 comes from the parking tax with $7,117,000 attributed to the SEA and Stadium Authority owned parking facilities, 14 percent of the City's $52,000,000 total parking tax revenue. The study says this is the revenue collected from the 23 garages and lots owned by the two authorities. There is no indication in the report that the revenue is solely collected during sporting events, i.e., it includes all parking taxes collected at those facilities.

In 2000, the total parking tax collected was $30,960,000. Since the parking tax rate was 37.5 percent in 2013 and only 31 percent in 2000, the 2000 revenue when adjusted to reflect the higher tax rate would have been $37,452,000. Assuming 12 percent of this was from SEA and Stadium lots, their 2000 share of total would have been $4,484,000, and then adjusted for a conservatively estimated parking price rise of 20 percent between 2000 and 2013, the 2000 collection would be $5,392,000 in 2013 dollars. Thus, the real net increase in parking tax collections from these facilities over what they would have been in the pre-new stadium construction period is actually only $1,725,000.

Granted the assumptions of 12 percent for the share of total parking taxes paid by SEA and Stadium Authority facilities and 20 percent increase to the pretax parking price might be off a little from the actuals, either high or low, but the point is made. The net impact of the Regional Renaissance plan construction on parking taxes, just as it was on amusement taxes, is much smaller than the numbers included in the study.

Because the amounts received from the earned income tax and the local service tax are so small, $509,000 and $171,000 respectively, the differences with the adjusted 2000 numbers reduce their net impact compared to the pre-construction numbers to less than $120,000 each.

The business payroll expense tax presents a problem for comparison purposes because it did not exist in 2000. The tax was phased in after 2004 to replace the mercantile tax and business privilege tax. In 2013, the tax brought in $54,511,000 of which only $1,844,000 is attributable to the sports facilities, convention center and SEA and Stadium Authority parking. This implies taxable payroll expense of $354 million, and for the City, total payrolls of about $10.5 billion.

In 2000, total mercantile and business privilege taxes stood at $51,053,000. When the two taxes were completely phased out in 2011, the business payroll tax had reached $50,641,000. There were a few years between 2006 and 2010 when the combined payroll tax and privilege tax produced about $55,000,000. However, there is no way to estimate what the properties owned by the SEA and Stadium Authority were paying in the two nuisance taxes without a large number of assumptions that would make a specific result questionable. Nevertheless, it is undoubtedly the case that if the payroll tax had been in place in the pre-construction era, the net impact of the $1.4 billion building spree on payroll tax revenue would be less than the $1,844,000 figure in the Controller's report.

Likewise, the facility usage fee came into existence well after the new construction and in 2013 produced $4.2 million. Thus, there can be no direct or indirect comparisons with the preconstruction period. So, we have to give the report the $4 million since it would be unfeasible to estimate what the usage fee revenue would have been if it had been in place in 2000.

All told then rather than the $24.7 million impact on revenues in 2013, the net impact compared to the 2000 tax revenues is more on the order of $10 million and almost half of that is attributable to a fee that did not exist prior to 2005.

And then there are the costs not accounted for by the study. For one, $55 million worth of property was taken off the tax rolls in the late 1990s to build the North Shore projects. Assuming the value of that real estate would have increased along with the average value of commercial property in the City, these properties would now be assessed at $123 million. That means the City and school district are giving up over $2 million combined in real estate taxes annually. The lost real estate tax effect for the properties acquired for the Penguins arena was not calculated but it is likely to be significant as well.

All this is by way of pointing out that it is not sound policy to focus exclusively on revenue being received from these facilities without taking into account the revenue that existed before and any additional costs incurred in the form of foregone tax revenue. That is if one wants to know what the actual tax revenue impact of the construction has been.

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