

POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

January 13, 2010

Volume 10, Number 3

Pittsburgh Tax Revenue: A Better Approach

When Pittsburgh's plans to use projected tuition tax revenues were denied by the Oversight Board, the resulting loss of \$15 million in projected revenue for 2010 necessitated some reworking of the budget to meet the balanced budget mandate. One of the revenue sources picked for enhancement was delinquent tax collections. Instead of the \$4.4 million anticipated in the earlier budget, the City boosted the amount to be collected by \$2 million. The amended budget notes that "in anticipation of aggressive collection from a new agent," the 2010 collection would rise to \$6.4 million.

The new agent referred to in the budget document is a private company already employed to collect back taxes owed to Allegheny County. The company will add delinquent City, school, and Water and Sewer Authority bills to its efforts. How serious is the agency likely to be in going after delinquents? One City Council member noted that the City was "...essentially handing a baseball bat to the tax collector and saying, 'be more aggressive.'"

Just how forceful the collection agency will be depends heavily on the level of public outcry and pushback by those owing back taxes or water bills. But it is fair to say that if the City is going to push forward to collect money from overdue bills it ought to expand the tougher approach to the other sources of taxes it already collects by strengthening efforts to ensure correctness and fairness across the board. This would stand in sharp contrast to its previous modus operandi of appealing to Harrisburg for new taxes or higher allowable rates on existing taxes.

The foremost example that leaps immediately to mind is the real estate tax, which accounts for \$127 million in general fund revenues for the City. Given the level of dependence on property tax (it represents 30 percent of all general fund revenue, tax and non-tax), one would think that the City would be doing everything in its power to guarantee that the County produces timely and accurate assessments. Instead, the City remained silent and did nothing during the nearly five year battle over the County's base year system. It did comment, albeit quietly and somewhat surreptitiously, in the 2009 budget message when the Mayor wrote:

Like all other municipalities in Allegheny County, the City of Pittsburgh is faced with the prospect of little or no growth in this largest revenue source due to the County's use of a base year assessment system... The base year assessment system also fails to reflect changes in property values, suppresses growth, and leads to inaccurate assessments and disproportionate taxation throughout the City.

The last point in the statement about disproportionate taxation goes to the heart of the fairness question and uniformity issue the Supreme Court ultimately cited in tossing out the County's base year system.

However, to its discredit, the City never felt the level of outrage necessary to prod it into joining the lawsuit against the base year or filing its own lawsuit. Assuming the City truly believed its claim about disproportionate (unfair) taxation, it should have worked much harder on behalf of its taxpayers who are over assessed or correctly assessed and are thereby forced to carry an inequitable share of the tax burden while the under assessed properties pay less than they should.

Add to that the City's policy of encouraging development that takes property off of the tax rolls completely and replaces it with very expensive structures such as PNC Park, Heinz Field, the new Convention Center, and the new Penguins Arena to mention some really large examples—well over a billion dollars worth of buildings. Likewise, the City has engaged in massive subsidies for private development such as Lazarus using Tax Increment Financing, low cost loans, etc., that have failed miserably to earn a return for taxpayers. Indeed, several of these subsidies have resulted in huge losses.

Achieving solvency for Pittsburgh is probably more in its own hands than most people might realize. Tough enforcement of overdue tax collection is a start, but there also needs to be a shift toward making sure the City is collecting taxes fairly and uniformly from its tax base. Perhaps revenues would rise enough to permit a tax rate cut, something the City needs.

Still, when all is said and done, there is simply no substitute for freezing—or even reducing—spending. Generating more revenue through available sources without raising tax rates is helpful but is not a permanent solution if spending is not controlled much more rigorously than anything yet undertaken by the City government. A continuation of the same old policies will inevitably lead to future attempts to find new sources of tax revenue such as college students, hospital patients, or people parking in Downtown.

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