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No Case for New Taxes in Pittsburgh

In his latest pitch for imposing new taxes in Pittsburgh, the Mayor resorted to the tired old complaint that too many groups are not bearing their fair share of the City's burden. With the City facing a large shortfall in revenue to be filled in the budget by new, and as yet impermissible taxes, there is understandable urgency to get the Pennsylvania legislature's approval for the proposed payroll and alcohol taxes.

The Mayor's attempt to blame the City's revenue woes on businesses that are exempt from the business privilege tax and tax-exempt real estate owned by non-profit organizations is inaccurate and misleading. The actual causes of inadequate tax revenue growth in the City are: (1) the ten year failure to grow the number of jobs in the City, (2) the virtual absence of growth in taxable real estate values other than through the Countywide revaluations of 2001 and 2002, and (3) no appreciable growth in retail sales. The Mayor fails to mention that the City is the beneficiary of substantial annual revenue ($20 million) from the Regional Asset District and $16 million in state pension aid. Nor does he mention that business privilege tax revenue has grown at least as fast as inflation-- the only revenue category other than parking tax to do so.

Tax-exempt property is always the favorite whipping boy in any discussion of the City's revenue problems. Indeed, the Mayor laments the loss of $70 million owing to the exempt status of hospitals, universities and non-profit organizations. There are two disingenuous aspects to that claim. First of all, government or quasi-government agencies (authorities) own 40 to 45 percent of the $6.6 billion in tax-exempt real property in the City. Therefore, using the Mayor's methodology, the "loss" of revenue due to charitable and non-profits is only $35 to $40 million.

Second, the appropriate way to evaluate the tax-exempt issue is to examine what has been happening over time. After all, the City has had substantial amounts of tax-exempt property for a long time. The question is: Has the share of tax-exempt property increased and what is driving the growth of tax-exempt real estate?

From 1993 to 2003, the value of taxable real estate has risen by 65 percent while the tax-exempt value has climbed 59 percent. The bulk of the gain in both categories is the result of the revaluations of 2001 and 2002. And, since it is illegal for the City to take more than a 5 percent windfall from the two reassessments, the City has been able to realize only $10 million in additional property tax revenue. Furthermore, it is important to note that colleges and universities, the largest non-profit category, saw only a 46 percent increase from 1993 to 2003. That means property owned by colleges and universities has declined as share of the value of tax-exempt property.

Ironically, the largest increase in tax-exempt value has come in the form of Plan B structures, namely the two new stadiums and the new Convention Center. When the Convention Center is completed, the three structures will total almost a billion dollars in value and represent an increase of nearly $800 million above the old stadium and old convention center. The new stadiums alone are responsible for $450 million in additional tax-exempt real estate. Absent the two new stadiums, the value of tax-exempt property would have risen only 35 percent since 2000, the year before Countywide reassessments, and the ratio of exempt property to taxable property would have declined from the 1993 level.

In short, tax-exempt property is no more of a hindrance to revenue now than it was ten years ago and the non-profits are less of "hindrance" than ten years ago. The City should be asking whether the colleges and universities account for more than $16 million in revenues to the City through wage taxes, by supporting City businesses (which help underpin real estate values), through property taxes paid by employees who live in the City, through parking taxes and the revenues from the many thousands of visitors who come to the City because of the colleges and universities. Then it should repeat the exercise with the hospitals.

Finally, it should ask whether the vast expense of new taxpayer funded sports facilities are paying net positive dividends compared to Three Rivers Stadium.

Higher taxes on Pittsburgh's businesses will not solve the City's problems. Unfortunately, combined City and Pittsburgh school taxes are among the highest in a 15-city peer group. The highest tax cities in the peer group have one dubious distinction. They all continue to lose population that in turn, is a powerful negative factor in depressing growth in the property tax base.

Rather than imposing new taxes, Pittsburgh must tighten its belt until the massive debt burden can be worked down. And, it would not hurt to look seriously at privatization and competitive bidding of City functions. Otherwise, the only thing a tax increase will produce is a short-lived boost in revenue followed by an even faster exodus of businesses and tax base.

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