POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

June 10, 2003 **Volume 3, Number 27**

A No Tax Plan for Pittsburgh

One of the most important issues the General Assembly will face in coming days is deciding what type of assistance the Commonwealth will extend to the City of Pittsburgh in light of its $60 million deficit and the very real possibility that it will run out of cash sometime this fall. Many have been quick to suggest a menu of tax increases to solve the problem.

Before it approves any new tax or increases any existing ones, the legislature might consider the following when deliberating the Pittsburgh situation.

First, the City has not succeeded in keeping its expenditures under control. According to the 2001 Comprehensive Financial Report for the City, government personnel declined by 601 full-time budgeted positions, or 12 percent, from 1992 to 2001. However, expenditures have not fallen. Over the same period, total government expenditures increased over $84 million, or 22 percent, to $474 million in 2001. The City has reduced outlays on public works and recreation, but those decreases pale in comparison to the jumps in spending on general government (85%), debt service (70%), and public safety (33%).

Second, the City has not followed common sense recommendations to control its expenditures or to enhance revenues without raising taxes. Time and again the City has ignored suggestions to privatize its garbage collection, sell its asphalt plant, downsize fire stations, control police salaries (which were recently found to be the highest in the nation among major cities), or close underutilized City assets such as pools or recreation centers. Nor has the City shown any interest in our recommendation to auction off any of the vast properties it holds. Only recently, and in the face of bankruptcy, has there been any progress on a proposed Fire Bureau-Emergency Services merger.

The reason for the reluctance to introduce competition or turn some functions over to the private sector is clear: entrenched public sector unions don't want to compete or lose their positions and have resisted any change that would deliver some control over costs. Those unions are unlikely to ever make concessions as long as there is a prospect for higher taxes.

Third, despite efforts to grow the City through publicly financed development, these plans have not panned out. The City has embarked on an effort to bring about a third renaissance by using a variety of mechanisms that almost always involve the use of tax dollars to stimulate growth. From Plan B to various projects in City neighborhoods, to efforts to revitalize retailing in Downtown to marketing the City's established assets, few of these projects have actually resulted in a creation of net new jobs, new City residents, or attracted visitors from the larger metropolitan area or neighboring states. Its expanding ownership of buildings and land within the City limits actually crowds out the private sector--which could turn some of this property into productive and taxable parcels. As we have demonstrated, the notion that non-profits are a problem because of their tax-exempt status is not true. For instance, the share of non-profit property value as a percent of total value has decreased over the last decade.

Lastly, and most important, new or higher taxes will damage the City. Proposals to eliminate exemptions to the business privilege tax, create a new payroll tax and a drink tax, or force payments in lieu of taxes from non-profits will harm the City's prospects for attracting the entrepreneurial activity needed to lift it out of its predicament. The legislative removal of exemptions to the gross receipts tax will certainly cost the businesses that have made investments in the City because of those exemptions. A new payroll tax will harm all employers, including non-profits. A drink tax will hurt restaurants, bars, hotels, and social events held within the City. These harmful effects will drive more businesses out of the City, creating even more severe financial problems in the future.

The Governor and General Assembly could make an offer to the City. Thanks to the recent award of nearly $900 million in new federal funding to the state, the Commonwealth has some funds to help Pittsburgh. Here is the offer: For the 2003-2004 fiscal year, the Commonwealth will contribute $1 for every $1 the City cuts spending; In the 2004-2005 fiscal year, the state will contribute $1 for every $2 in spending cuts. After that, the City will be on its own--no more state help. If Pittsburgh fails to show that it can achieve a balanced budget by that time, the state would require it to file for distressed status under Act 47. This would be a last time bailout offer. It will cost much less than the next bailout that will inevitably be required in a couple of years if higher taxes are approved.

Alternatively, the Legislature could simply require a referendum on all tax increases in the City.

Finally, the Governor's task force proposal of an oversight Board will not accomplish fiscal discipline because it is unlikely the Board will withhold revenues raised by new taxes if the City fails to reduce expenditures as required. The time has come to force the hand of decision makers in City government to radically change the direction of Pittsburgh's finances.

Jake Haulk, Ph.D. President **Eric Montarti, Policy Analyst**

For more information about this and other topics, please visit our website:
www.alleghenyinstitute.org

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 305* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org