POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

September 11, 2003 **Volume 3, Number 42**

Pittsburgh's Financial Crisis: What the State Should Do

Defenders and excusers of Pittsburgh's financial troubles have tried over the last few years to pin the problems on a variety of groups, including tax-exempt non-profits, businesses that are exempt from the Business Privilege Tax (BPT), non-residents of the City who utilize services but don't pay for them, and the lack of support from the Commonwealth of Pennsylvania. As we will show, these claims are demonstrably untrue.

Non-Profits: From 1993 to 2003, the assessed value of all tax-exempt property as a share of total assessed value in the City fell from 34 percent to 33 percent. During the period total assessed value rose 63 percent and taxable property value increased 65 percent. Meanwhile, the non-profit assessed value moved just 55 percent higher, which means the share of total value represented by non-profits fell over the period. Moreover, the fastest growth in tax-exempt property was created by the construction of two new stadiums and a convention center, including the shifting of huge amounts of land and structures off the tax rolls to accommodate the new construction. Combined, the new structures represent a $775 million increase in tax-exempt assessed value above that of the demolished structures.

The BPT: The argument that too many of the City's big companies are exempt from the business privilege tax is a red herring. Those exemptions were adopted by the legislature decades ago in order to encourage business expansion. These companies have invested in the City because of the exemptions. While the exemptions might have been inadvisable public policy when they were enacted, they have been in place a long time and investments have been carried out with the understanding that the company would be exempt from the BPT. Eliminating the exemption now would be punitive and represent a breach of trust.

More importantly, removing the exemption could well start an exodus of companies and jobs from the City. In addition, this removal would require a lot of legislative hearings as to whether the manufacturing and financial exemptions could be eliminated for just one municipality. In the event the removal has to be statewide, it could lead to very undesirable results across the Commonwealth.

Non-residents: Another favorite sound bite of the City's defenders is that commuters, visitors and suburbanites are not paying their fair share toward meeting the City's operating costs. Again, this is completely wrong.

Last November, the Allegheny Institute produced a conservative estimate of the amount of tax revenues the City receives directly and indirectly attributable to commuters, visitors and suburbanites. Using information from 2001, which was the latest complete set of required data at the time of our calculations, we determined that commuters, visitors and suburbanites accounted for $108 million of Pittsburgh's tax collections. That amount of revenue would have paid for almost two- thirds of the City's 2001 public safety expenses—the service the City's defenders argue the visitors should help pay for.

Since most visitors are in the City a third of the day or less and account for very small percentage of police and fire calls, they are more than covering their fair share of the Pittsburgh's public safety costs. Our estimate includes parking taxes, amusement taxes, occupation privilege taxes, the Regional Asset District (RAD) tax, and the pro-rated share of property and business privilege taxes paid by firms whose business operations depend on hiring or selling to non-Pittsburgh residents--businesses that would not exist at their current levels without the large numbers of people who come to the City each day.

Commonwealth: As far as the assertion by City officials that the Commonwealth has failed to help is concerned, the facts show the exact opposite is true. The state has been extremely generous, although not wisely so, in providing $150 million for two stadiums and $174 million to date for the new convention center. It should also be mentioned that the convention center has already cost $100 million more than the original budget of $269 million. No wonder the City and its authorities are always crying poor. They cannot control themselves when it comes to spending the taxpayers' money and can therefore never get enough.

And lest we forget, it was the state legislature that passed the RAD enabling legislation to help the City. The legislature also passed the Regional Renaissance bill that increased the allowable hotel tax in Allegheny County to support the new convention center and called for a referendum on a local half percent sales tax in 11 counties to help fund new stadiums. All this was done in very large part to assist the City. Now we are being told if the legislature will just allow more taxes the City will solve its problems.

The evidence is very clear: insufficient tax revenue in Pittsburgh is not the problem. The problems can be traced to the City's failure to rein in public safety and other categories of spending along with its total disregard for the many recommendations that have been made to address its difficulties. Public safety spending increased from $76 million in 1984 to $200 million in 2002. This represents a doubling of the inflation-adjusted per-capita spending over the period. The Competitive Pittsburgh Task Force in 1996 called attention to the overspending on police, fire and crossing guards and recommended major downsizing efforts at that time. None of those recommendations were carried out.

It is wishful thinking to believe that if the City has more revenue it will suddenly get its house in order. Instead, it must get its house in order and then it will not need additional taxes. If the legislature wants to help the City and other municipalities, it should set about reforming the state's binding arbitration laws, which are overly generous in favor of unions. We recommend Act 111 be altered to require that arbitration take into account market realities such as the financial situation of the municipality, inflation, productivity, size of work force, pay and benefit levels in economically and demographically comparable cities. Absent such reform, even bankruptcy would not solve the problem of excessive and irrational awards by arbitrators.

Jake Haulk, Ph.D. President

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org