POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

January 29, 2004 **Volume 4, Number 4**

Pittsburgh Taxes--Too High and Too Many

During the past year or so, we have heard over and over that the City needs additional revenue sources and that it has an out-of-date tax structure. Before accepting these claims, it is instructive to compare Pittsburgh's revenue situation with the revenues in the cities of similar size across the country. As we shall show, Pittsburgh does not compare favorably.

By way of background, a recent Allegheny Institute Policy Brief pointed out that Pittsburgh's general fund spending is far higher--on a per capita basis--than the average of cities with similar-sized populations. These cities have populations ranging from 305,000 to 380,000. Using a slightly expanded list of nine cities (Anaheim, Arlington TX, Cincinnati, Colorado Springs, Pittsburgh, Raleigh, St. Louis, Tampa, and Wichita) we calculate the average per resident outlays for this group to be $756, more than $350 below Pittsburgh's $1,112.

That means Pittsburgh could reduce its expenditures by more than $100 million by cutting per capita spending to a level in line with the peer group norm. Reductions of half that amount would eliminate deficits for the foreseeable future.

Similarly, using 2002 general fund budget data from the comparable cities across the country, we determined that the average per resident burden from all tax levies is $513. Pittsburgh's per resident tax burden stands at a stunning $854, a difference of $341 or 66 percent compared to the peer-city average. Thus, tax revenues collected by Pittsburgh are more than $100 million greater than they would be if Pittsburgh's per resident revenues matched the norm in peer group cities.

Interestingly, Pittsburgh's revenue from non-tax sources (service fees, fines, licenses, etc) is $240 per resident while the peer-city average is about the same at $239. So, Pittsburgh businesses and residents are no better off with respect to non-tax payments than citizens in other cities.

Besides having a far more burdensome total tax levy, Pittsburgh also collects revenues from many more sources than a typical comparably sized city. Currently, Pittsburgh levies an amusement tax, a parking tax, a business privilege tax, an occupation privilege tax, a mercantile tax and a deed transfer tax in addition to an income tax and a property tax. While one other city (Anaheim) has a property transfer tax, none of the peer group cities impose a gross receipts tax (business privilege or mercantile), occupation tax, amusement tax, or parking tax. These unique-to-Pittsburgh taxes account for over $100 million in revenues. True, some cities tax motor vehicles, hotel stays, business payrolls, and other activities, but typically they rely on a combination of property, sales, and/or income taxes for the bulk of their revenue.

It is important to note that the three cities in the group with the highest tax burdens per resident--Pittsburgh, Cincinnati, and St. Louis--are all experiencing population loss and have per capita incomes well below the average of the other six cities. What a devastating combination, lower

incomes and higher tax burdens. It is little wonder that population in these cities continues to drop. This is especially true in Pittsburgh where the extremely high tax burden imposed on property owners and income earners by the outrageously expensive, poorly performing school district continues to provide residents with plenty of incentive to leave.

In short, Pittsburgh's problem is that it taxes too much and from too many sources. Rather than devoting time trying to figure out how to shift tax burdens or find new sources of revenue, the recently appointed Act 47 coordinator should focus on ways to reduce both spending and taxes to levels more in line with Pittsburgh's peer cities. Pittsburgh's long-term ability to compete in attracting and retaining people and businesses will depend heavily on a successful transition to a much lower cost and lower tax government. If the coordinator chooses to focus on revenue enhancements, the City will never climb out of its financial morass.

Any attempt to avoid dealing with Pittsburgh's exorbitant spending by putting new taxes on commuters and visitors will be counterproductive and lead to a downward spiral in the City's economy.

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