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2004: A Turnaround Year for Pittsburgh?

The end of a year is an appropriate time to reflect on the events of the past twelve months. This is especially true this year for the City of Pittsburgh. Many will see 2004 as a watershed year for the City and possibly a turning point for the morose financial picture that has plagued it for years.

To help with its fiscal problems, the City petitioned the state for new and higher taxes. After the City agreed to Act 47 and Oversight Board cost cutting recommendations, the Legislature granted this request with a higher occupation privilege and a new payroll tax. Beginning in 2005, workers in the City will pay a $52 Emergencies Services Tax (formerly the occupational privilege tax). Those earning less than $12,000 annually will be eligible for a $42 refund. The for-profit business community will be subject to a new payroll tax that completely replaces the mercantile tax and significantly reduces the business privilege tax—which will be phased out in five years. As a condition for these changes to the City's taxing powers, the City had to adopt significant near term and long term spending cuts.

While the City took important steps in fixing its financial woes, there are many trends in Pittsburgh that are tied to the City's business and tax climate that are still very worrisome. It is important that City officials and the oversight board not rest on their oars. Consider the following:

- Population decline in the City shows no sign of abating. The latest estimate for the City of Pittsburgh's population stood at 325,337 in July of 2003. This was down 2,600 from July of the previous year and over 9,000 since the 2000 Census.
- Mirroring the City's decline in population is enrollment in the Pittsburgh Public Schools. 2003-04 enrollment was 34,167—6,000 fewer students than in 1997. This trend is forecast to continue over the coming years.
- In 2000, there were approximately 324,400 people working in the city. By 2004, that number had declined to roughly 320,000.
- Office vacancy rates provide a strong indication of the economic vitality in the City. In 2001, Pittsburgh's central business district vacancy rate stood at 13 percent. By 2002 the rate had risen to 17.2 percent and by the third quarter of 2004 had climbed to 18.1 percent. The national average in the third quarter of 2004 was 15.3 percent. Bear in mind that there has been no appreciable increase in Pittsburgh's downtown office space that could have raised vacancy rates.
- Due to the decline in occupancy levels, rents are falling and the value of office buildings is dropping rapidly. Dominion Tower, once a premier address in the City, is scheduled for Sheriff's sale. Purchased in 2000 for $82 million, the building is now listed at $53 million.
- The countywide taxes that are tied to the City's "growth" strategy of entertainment and retail development are growing at a negligible rate. The year-to-date hotel/motel tax

collections (January-November) are up a mere 4 percent over the similar time frame in 2001. Meanwhile, revenue from the Regional Asset District sales tax—which funds many of the cultural and recreational venues in the City—stood at a slim 1 percent above last year's level. In fact, sales tax revenues have not reached the levels achieved in 2000. Despite massive amounts of retail construction throughout the County, including heavily subsidized ventures in the City, sales tax revenues and taxable sales remain flat.

Clearly, these trends point to the need for the City to take several additional steps. First, and foremost, the City needs to get its levels of spending and taxes down to more sensible and sustainable levels. The 2005 budget stands at $425 million, or about $1,300 per resident. Per resident spending has grown too high and needs to come down dramatically. Aggressive outsourcing, privatization and merging services with the County are absolutely essential.

Also needed is a continued look at the City's authorities as part and parcel of a long-term slimmed down City. Mention has been made that the Stadium Authority may be the first to go. Others, such as the Urban Redevelopment Authority, should sell off assets and downsize, returning properties to the tax rolls and using proceeds from property sales to help the City pay off its debts.

And, most appropriate would be an abandonment of the top-down government-driven economic development strategy that has been embraced here for far too long. On this recommendation, our optimism is cautiously guarded.

We wish Pittsburgh a prosperous 2005 and beyond. If the recommended steps are taken, our wishes have a much better chance of becoming reality.

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