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Parking Tax Ruckus in Pittsburgh

Pittsburgh Councilman Motznik has voiced great displeasure at the reluctance of parking lot operators to roll back parking charges to reflect the state mandated reduction in the City's parking tax from 50 to 45 percent that will occur January 1, 2007. The Councilman was quoted as saying, in effect, that the purpose of the tax roll back was not to make operators "rich".

Apparently, a concern for parking customers and how much they are paying to park in the City has recently developed on Council. Some would ask, "Where was that concern three years ago when Council raised the parking tax rate from 31 percent to 50 percent." It is important to remember that at 31 percent, Pittsburgh's parking tax rate was already the highest in the nation, with many cities levying little or no tax on parking. And, in peer group cities around the country the cost to park is and has been substantially lower than in Pittsburgh. Our 2002 report found that the central city area of Pittsburgh was woefully short of parking relative to peer group cities and would naturally have higher parking prices owing to the supply/demand situation. The added tax burden only served to worsen the differential in comparative parking rates between Pittsburgh and other cities.

Nonetheless, needing money and looking for a way to get it from non-residents, the parking tax was viewed by Council as a good proxy for a commuter tax. And, indeed, the tax rate hike did bring in a big increase in parking tax revenues, although there was a drop in the number of cars in the Golden Triangle and near Downtown lots. Owing to the inelasticity of demand for parking by many who work in the City, the rise in parking charges stemming from the tax increase produced the hoped for pickup in tax revenue. However, the tax increase did negatively affect the more casual visitors and some businesses in the Downtown area have suffered because of the higher parking tax. So now that the damage to the City and its reputation caused by the outlandish parking tax rate has happened, the perpetrators of the tax hike are now worried about parking charges.

And the irony does not end here. One of the major owners and operators of parking facilities in Pittsburgh is a City authority, namely, the Parking Authority. The Authority has facilities throughout the City and certainly has a large enough market share to influence prices if it chooses to do so. Indeed, one of the purported reasons for the

existence of the Authority is to provide more affordable parking alternatives and by extension hold down prices at the private, competitive garages and lots.

Thus, it is interesting that the outrage by the Councilman was directed at private operators and not at the Parking Authority. The Council and the Mayor's office, by threat of replacing Board members, should be able to force price reductions at the Parking Authority facilities. If that occurs, the private operators would have to consider a price roll back or perhaps face a loss of business as well as public relations uproar.

Moreover, it is instructive to hearken back to early 2004 when the parking tax levy was boosted to 50 percent. We pointed out on numerous occasions that parking rates would need to go up only 14.5 percent in order for operators to keep the same after-tax amount for themselves. For example: suppose a garage was charging customers \$12 to park for one day when the tax was 31 percent. That would produce a tax of \$2.84 and net revenue for the garage of \$9.16. After the tax rate was raised to 50 percent, the garage would have to lift the daily charge to \$13.75 in order to continue receiving the net of \$9.16. The new total, \$13.75, is 14.5 percent higher than the old charge of \$12. This analysis holds for any level of parking rate.

But what happened? The Parking Authority raised its parking rates by an average 28 percent and many monthly lease rates nearly doubled. Then the authority disingenuously claimed the City's 61 percent hike in the parking tax rate had compelled them to institute the massive and unwarranted increases in their parking rates. Presumably, they figured no one would do the math to determine what a justifiable rate increase would be. And why would they? The City had already demonstrated its willingness to levy a large increase in the already unconscionable high parking tax in utter disregard for the businesses who were pleading that the tax not be raised.

Although subsequent media attention did lead to some adjustments, the Authority remained guilty of hiding behind the tax hike to raise its rates excessively. So, now that the taxes are being forced down 10 percent by legislative mandate, there is an opportunity for the Parking Authority to show some public spiritedness and cut its rates by the amount it unjustifiably over raised them in 2004. Thus, if the average increase was 28 percent then it should cut by at least 14 now. That would still provide some cushion for the inflation that has occurred since 2004.

If operators raised their charges by 14.5 percent or thereabouts after the 2004 tax hike, then the upcoming reduction in the tax rate to 45 percent will result in a modest 3.4 percent gain in their net revenue if they do not lower their parking charges. This modest uptick in revenue will probably not be enough to cover cost inflation over the nearly three years since the tax hike. And because the tax increase forced a far-above-inflation jump of 14.5 percent in parking rates that resulted in flat to lower parking space usage, further inflation driven advances in their parking charges would have been difficult to sustain or justify to the public.

Here's the solution if the City Council is truly concerned about high parking costs in Pittsburgh. The law requiring the roll back in the taxes to 45 percent in 2007 and to 35 percent by 2011 does not prohibit the City from making deeper reductions. If the City can find spending reductions, which it most assuredly should, it can cut the tax much further while getting agreement from parking operators to lower parking rates significantly. For example, if the Council lowered the tax back to 30 percent, parking rates could fall by about 15 percent and operators could benefit from a pickup in business to help offset the effects of inflation on unit costs. And Council should insist that the Parking Authority lead the way.

Granted, this will cause a reduction in City revenues but it will send a strong signal to businesses and visitors that Pittsburgh is eager to put out the welcome mat for them. Further, the City should begin looking at having the Parking Authority garages sold to a private firm or firms and use the proceeds of the sale—beyond the funds needed to pay off Authority debt—exclusively to pay down the City's own debt. There is no need for a public entity to control so much of the City's parking. What is needed is more competition through normal market forces.

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