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Allegheny County's New Taxes: The Rest of the Story

A great deal has been written and said about the December enactment of two new taxes in Allegheny County. The case against levying the new drink and car rental taxes was exceptionally strong; the case for levying new taxes was pitifully weak. Indeed, passing the new tax ordinance represents a triumph of politics over good policy. Bear in mind that the original purported reason for the new taxes was to raise the County match required to receive the state's $185 million funding for the Port Authority. But in truth, the County would have only needed about $2 million more to go along with $25 million or so it has been allocating for several years.

Contrary to the widely held belief that the new taxes are a bailout of the Port Authority, the fact is the new taxes were passed to fill a pending $30 million County budget gap. It was politically expedient to let the mistaken view persist. In fact, the bailout of the Port Authority had already been accomplished through the additional state allocation of $55 million more funds (boosting the state total to $185 million) for the agency.

So, why the big hole in the proposed 2008 budget? According to the County's *"Summary of Operating Revenues and Expenditures: 2008 to 2007 Comparison,"* there are two basic reasons. First, there is a projected $23 million decline in non-current real estate tax revenue and a $23 million increase in expenditures, driven mainly by a $7.5 million jump in debt service outlays and a $5 million rise in fringe benefit payments. The dramatic decline in non-current real estate revenue reflects a completion or near completion of the recent round of tax lien sales. In other words, the County was using revenue from one time gains—tax lien sales—to fund current operating expenditures, rather than setting the revenue aside for debt reduction or other long term uses.

Combined, the drop in non-current real estate revenue, a $1.5 million uptick in refunds along with the growth in planned spending would have created a shortfall of $47.5 million. In a partial offset, the County has budgeted a $2 million increase in other governmental assistance ($8.8 million more from the state and $6.8 million less from Washington), nearly $7.3 million more from current real estate collections, $2.5 million more from the Regional Asset District Board for parks, $2 million more from the County's 25 percent share of total RAD tax collections and $3.4 million from something called miscellaneous transfers. Unfortunately for budget makers, that still left a shortfall of $30 million.

And the shortfall could turn out to be larger than predicted. For instance, the projected bump up in current real estate tax revenue depends on getting a near three percent increase in collections in 2008, a far greater annual increase than any that has occurred in recent years. Moreover, retail sales tax collections have been over- estimated in many previous budgets. The $2 million forecast rise is uncertain at best.

Facing an almost certain shortfall of $30 million and unwilling to make hefty spending cuts, County officials felt compelled to go after new taxes. To delay revealing the real motivation for creating new revenue sources, the new taxes were billed as transit taxes. But what we know now is that the new levies were to be used to plug a looming gap in the 2008 budget.

Also not readily or initially apparent—at least to the public—were the reasons for the big budget gap. But now we know. One major reason was the County had been offsetting its lack of revenue growth from normal sources and covering increases in operating expenditures with temporary increases in revenues derived in large part from the sale of tax liens. Not a prudent course to take for the very reason we now see developing. It only postponed the need for spending cuts. The problem is that putting off spending cuts simply makes them harder and more painful the longer they are delayed.

Granted, the Chief Executive has made some strides in trimming County employment and has tried to boost economic growth. The problem is that the County's population is declining, and net new job gains are slight to non-existent. In that environment there is no substitute for looking for dramatic new ways to cut employment and outsource or eliminate non-core activities. For instance, while the payrolls at the Kane Centers have been cut, there should have been a serious effort to privatize the facilities. Similarly, parks operations should been subjected to a Request for Proposals process.

Of course, weakness in the County is not just the fault of County government. School property taxes are the bulk of the local tax burden for most County taxpayers. Allegheny County school districts lead the way in imposing heavy burdens compared to most Pennsylvania counties and certainly compared to other parts of the country. Unfortunately, there is not a lot County officials can do directly to ease that burden. However, they could use some political capital to help get a Pennsylvania law passed that would ban teacher strikes and thereby bring some sanity to school costs as well diminish the outsized power of the education lobby in Harrisburg.

It is no good trying to grow the local economy with government handouts to companies while ignoring the high taxes and poor business environment that deter job growth and drive people away.

Jake Haulk, Ph.D. President

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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