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Differences in Municipal Taxes and Spending

As discussions of a City-County merger continue and issues surrounding local economic competitiveness are always a concern, it is worthwhile to examine the taxing and spending levels of the region's municipalities to gain some insight into the differences that could play a role in any potential referendum on a merger and to see if municipal differences might help explain some of the variation in economic growth.

Further, there are a host of state level factors that could weigh heavily on municipal finances in the near future. A partial list would include: (1) the state Supreme Court is still deliberating on whether or not counties can continue to use a base year for assessing real estate, probably the most important source of revenue for counties, municipalities, and school districts; (2) the Governor has proposed allowing counties to enact an optional 1 percent sales tax and revenues would be split with municipalities; and (3) large municipalities without a police force might be forced to pay the state for patrols, create their own force, or seek neighboring coverage.

In order to get an idea of the magnitude of municipal spending and taxing differences we chose a sample of nine large western Pennsylvania municipalities (20,000 or greater population). We obtained detailed data on revenues and spending and compiled a summary shown in the table below. Except for Pittsburgh, the data was obtained from the Governor's Center for Local Government Services municipal statistics database from reports titled "Municipal Annual Audit and Financial Report". The most recent year of data available was 2006, which is a bit dated, but still relevant for comparative purposes. The table below summarizes total revenues and expenditures on a per capita basis.

The most startling revelation found in the data is the enormous range of per capita spending and revenues among the municipalities in the sample. Pittsburgh is at the top of the expenditure list followed closely by McKeesport at \$1,496. Plum, by comparison, is a miniscule \$438 per capita. Pittsburgh also leads the taxes per capita list followed by Monroeville at \$742. Plum was second from bottom on taxes at \$284 per capita. Murrysville, Bethel Park and Peters Township all had per capita expenditures below the sample average of \$1,048. Pittsburgh, McKeesport, Monroeville and Cranberry posted expenditures significantly above the sample average.

**Municipal Revenues and Expenditures
(Ranked by Per Capita Expenditures)**

Municipality	County	Total Per Capita Expenditures	Total Per Capita Police and Fire	Total Per Capita Revenues	Total Per Capita Taxes
Pittsburgh	ALL	1,545	350	1,650	1,131
McKeesport	ALL	1,496	257	1,451	269
Monroeville	ALL	1,270	336	1,302	742
Cranberry	BUT	1,172	144	1,323	413
New Castle	LAW	1,039	172	990	292
Peters	WAS	988	140	1,039	453
Bethel Park	ALL	862	172	923	352
Murrysville	WES	630	150	601	376
Plum	ALL	438	135	446	284
<i>Average</i>		<i>1,048</i>	<i>206</i>	<i>1,081</i>	<i>479</i>

Note on data: Revenues include taxes, licenses, fines/forfeits, interest, state and Federal assistance, charges for services, unclassified operating revenues; Expenditures include general government, public safety, public works, health, recreation, community development, debt service, benefits, insurance, unclassified expenditures, and other financing. City of Pittsburgh data obtained from 2008 CAFR "Statement of Revenues, Expenditures, and Change in Fund Balance, Governmental Funds"

As the data in the table above shows, many municipalities can raise a lot of their revenue from sources other than taxes. What those sources are can be very different and tell much about the direction of the municipality. For instance, Cranberry raised a sizable portion of its non-tax revenue (\$14m) from "charges for services" with \$2 million of that coming from culture and recreation. McKeesport, on the other hand, counted \$9.6 million in "other financing sources" which counts asset sales, transfers between funds, and debt refinancing. Together with the number of taxes levied and the per capita level of taxes collected, these other revenue categories can give an indication of the overall health of the locality.

The massive differences in spending and taxing reflect a variety of factors such as degree of urbanization and population density. Certainly, there is no support in these data for higher density if the object is to lower municipal spending. Taxing and spending levels in Bethel Park and Plum and other Allegheny County municipalities with similar finances will be major obstacles to getting County residents to support a merger with the City with its enormous financial problems and ongoing high levels of spending and taxation.

As far as any conclusions about the impact of municipal taxing and spending on relative economic competitiveness, the data would appear to give a clear nod to Murrysville, Plum and Bethel Park. Certainly, McKeesport, Pittsburgh and Monroeville taxes and spending would, all things equal, be off-putting to in-migration and business growth. Note that each of these municipalities has direct business taxes in some form. New Castle and Cranberry are the only other municipalities in the sample to levy a direct tax on business other than property taxes.

Still, as evidenced by Cranberry's success in recent years, municipal taxes and spending levels are not the only factors affecting growth. Bear in mind that each municipality also is part of a school district. And in Pennsylvania school taxes (for most property owners) are much larger than municipal, with Allegheny County school taxes on average among the highest in the state. Therein undoubtedly lies the biggest explanation of the faster growth of Peters, Murrysville, and Cranberry in recent years as compared to most of Allegheny County's municipalities.

In earlier research, we have shown how Pittsburgh would benefit tremendously by committing itself to spending no more than better-performing cities as well as committing itself through charter amendment to holding per capita expenditures to zero growth after adjusting for inflation.

This analysis has confirmed two important things. One, getting Allegheny County voters to approve a City-County merger will be extremely difficult unless the City makes huge strides in solving its financial problems and cuts spending drastically. Second, the relative economic competitiveness among regional municipalities is a complex issue that must take into account a variety of factors including school taxes, transportation, the regulatory environment and so on. But that does not excuse municipalities from doing everything they can to rein in costs and provide services as efficiently as possible including outsourcing as many services as the law allows and cooperatively working with other municipalities to provide services less expensively.

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