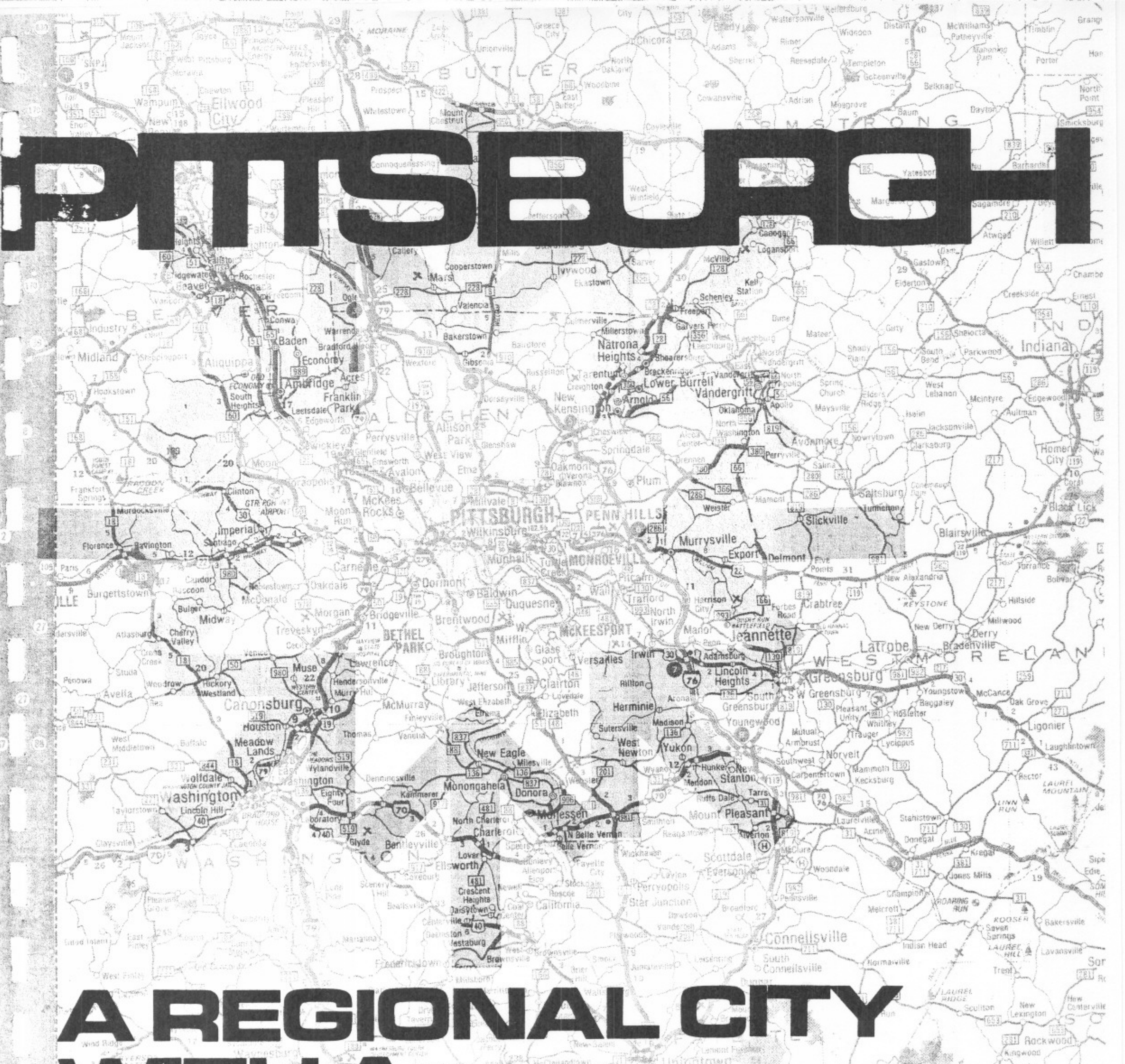
PITTSBURGH



A REGIONAL CITY WITH A LOCAL TAX BASE

THE PENNSYLVANIA ECONOMY LEAGUE, INC.

PENNSYLVANIA ECONOMY LEAGUE, INC., WESTERN DIVISION

EXECUTIVE COMMITTEE

PITTSBURGH: A REGIONAL CITY WITH A LOCAL TAX BASE

An Examination and Projection of the Fiscal Problems Facing the City of Pittsburgh With Special Emphasis on the Impact of Nonresident Users of City Services and Facilities

Prepared by

The Pennsylvania Economy League, Inc.
Western Division

October 1982

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EMERY P. SEDLAK
DIRECTOR

October, 1982

The Honorable Richard S. Caliguiri
Mayor, City of Pittsburgh
City-County Building
Pittsburgh, Pennsylvania 15219

Dear Mayor Caliguiri:

The Pennsylvania Economy League, Inc., is pleased to present the following three-part report which details some of the financial problems facing the City of Pittsburgh and recommends a number of items for your consideration to keep Pittsburgh fiscally sound.

The first part of the report, Phase I, is a financial review and projection of the City's operating funds. The League concluded that under the current revenue and expenditure patterns, the City will face a cumulative deficit of $197 million by 1986.

The second part of the study, Phase II, is a cost/revenue analysis of the impact of nonresident workers, shoppers and users of City services and facilities. For the most part, this effort concentrated on three "regional areas" of the City (Downtown, Oakland, Lower North Side) used heavily by both residents and nonresidents.

The League undertook numerous surveys in order to develop a basis upon which both costs and revenues could be allocated between residents and nonresidents. The surveys documented the extensive nonresident use of City services and facilities.

The League found that the maximum annual nonresident revenue contribution of $9.1 million was significantly less than the $15.8 million annual cost for services provided to nonresidents. It must be pointed out that the revenue estimate included both direct and indirect contributions while the expenditure calculation did not include the cost of many services financed from non-local funds such as Federal Highway aid.

In this second report the League also found that:

- Pittsburgh has an unusually large commuting workforce;
- of the 30 most populous cities, only Boston and San Francisco cover a smaller geographic area;
- a typical Pittsburgh family has a relatively high tax burden;
- Pittsburgh has unusually restrictive taxing powers with respect to nonresidents;
- a substantial amount of the City's most valuable property is tax-exempt.

The third report, Phase III, is an evaluation of selected ways to help resolve the fiscal problems facing the City. As a result of this analysis, the League has made five broad conclusions and recommendations for your consideration and review. These conclusions and recommendations cover the following areas:

1. Cost Control - A reduction in the annual growth rate of expenditures from the current 10.5 percent to a recommended 8 percent would still leave the City facing a cumulative deficit of $96 million by 1986.

2. Increased Nonresident Revenue - The City will require broader taxing powers to face its financial problems. The League's evaluation indicated that either a nonresident wage tax or the City's share of a local sales tax levied on a County-wide or regional basis are reasonable means by which the City can be reimbursed for services provided to nonresidents.

3. Tax-Exempt Property - City taxpayers suffer an unfair burden as a result of the tendency of tax-exempt facilities to concentrate in the Center City. Additional analysis is required to determine a reasonable way by which the City can be equitably reimbursed for services rendered to tax-exempt facilities.

4. Increased User Fees - Additional revenues can and should come from user fees. The League recommends that the City examine the user fee structure in the Water Department, the Department of Parks and Recreation, and the Bureau of Building Inspection.

5. Transfer of Services - The League recommends that the City explore the feasibility of transferring selected park facilities to the County or alternatively, having the County make a contribution to the City for the maintenance of regional park facilities. In addition, the feasibility of selling the water plant to either a private concern or an authority of some type should be explored.

The majority of the research and writing of this report was carried out by James W. Turner, Project Manager. Dr. David K. Hamilton co-authored the writing and research of the second report dealing with the impact of nonresidents. The League research was ably assisted through the extensive efforts of the League's Tax Study Committee.

The League is pleased to have had the opportunity to be of service to assist the City in preparing to meet the financial challenges which loom ahead. It is hoped that the material presented in this report will assist the City in continuing its critical role as the center of the metropolitan area.

Sincerely,

Emery Sedlak

Emery P. Sedlak

EPS/cs

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

Executive Summary

PITTSBURGH: A REGIONAL CITY WITH A LOCAL TAX BASE

An Examination and Projection of the Fiscal Problems Facing the City of Pittsburgh With Special Emphasis on the Impact of Nonresident Users of City Services and Facilities

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Introduction

This report represents, in summary form, the findings of a three-part series which examines the overall fiscal problems facing the City of Pittsburgh.

The first part, Phase I, examines and projects the expected revenue/expenditure gap the City will face over the next five years.

The second report, Phase II, is a cost/revenue analysis of the impact of nonresident workers, shoppers and users of City services and facilities.

The third report, Phase III, evaluates the impact of a number of alternatives which the League recommends that the City should consider to help close the anticipated revenue/expenditure gap.

Phase I - Fiscal Analysis and Projections

Phase I - Conclusion

The League's analysis of the City's operating funds indicates that if expenditures continue to grow at their current rate of approximately 10.5 percent annually, the City will face a cumulative deficit of $197 million by 1986. If the City is successful in reducing its expenditure growth rate to 8.0 percent, it will still face a cumulative revenue/expenditure gap of $96 million by 1986. However, if the City is not successful in controlling costs, and the annual growth rate of expenditures increases to 13.0 percent, the League projects a cumulative deficit in excess of $300 million by 1986.

Revenue Aspects

The period from 1970 to 1978 represents a rather remarkable period of financial stability for Pittsburgh. During this time, the real estate tax was reduced, the earned income tax was eliminated for a period of three years and the retail trade component of the mercantile tax was reduced. All other taxes remained constant.

Since 1978, however, a number of taxes have increased, including: the real estate tax (from 31.5 to 55.0 mills); the earned income tax (from 1.0 percent to 2.125 percent); the real estate transfer tax (from 1.0 percent to 1.5 percent); the business privilege tax (from 5 to 6 mills); the retail trade tax (from 1 to 2 mills); and the parking tax (from 20 percent to 25 percent). The increase in these tax rates is at least partially explained by a number of factors including: high inflation, cutbacks in Federal revenues and increased capital spending.

Another reason for the increase in rates is that there is very little natural growth in the tax revenue without changing the rates. The natural revenue growth has been only about 3 percent annually since 1970. The growth in the real estate tax has been particularly flat. Between 1970 and 1981, the assessed valuation of the City grew at an annual rate of less than 1 percent. This partially explains why the City has placed a greater emphasis on the earned income tax, whose revenues tend to increase without a rate increase.

Expenditure Trends

Overall, the City experienced an average annual growth of 10.5 percent in its operating expenditures between 1976 and 1981. This is in sharp contrast to the natural increase of approximately 3 percent in tax revenues.

Not surprisingly, the Police and Fire Departments' expenditures constitute the bulk of the total departmental expenditures. While the Police and Fire Departments are the largest, their annual growth rates of 8.9 percent and 7.7 percent respectively are less than many others. The fastest growing department has been the Planning Department (16.1 percent annually). This growth is primarily due to the increased responsibility and increased funds associated with the Community Development Block Grant program. Other major departments with a high growth rate of expenditures include the Controller's Office (14.5 percent), the Supplies Department (11.5 percent), the Water Department (9.8 percent), and Council and City Clerk's Office (9.6 percent).

In addition to departmental expenditures, the fastest growing non-departmental expenditures include Workers and Unemployment Compensation (17.7 percent annually), Social Security (14.8 percent annually) and Group and Health Insurances (12.8 percent annually).

Based upon this data, the League has projected revenues through 1986 using the current 1982 tax rates. Against these revenue projections, the League has developed three sets of expenditure projections as shown in Table 1.

Case 1 of Table 1 represents, in many ways, a "best case" scenario. The revenues are taken from the League's projections and are based upon the 1982 tax rates. On the expenditure side, it is assumed that the City is able to reduce the annual growth rate in

TABLE 1

SUMMARY OF FISCAL PROJECTIONS
CITY OF PITTSBURGH
1982 - 1986

CASE 1 - "BEST CASE"

- Expenditures increase at an annual rate of 8.0 percent while revenues are based upon the 1982 tax rates.

	1982	1983	1984	1985	1986	Cumulative Deficit 1982 - 1986
Resources						
Beginning Balance	$ 28,671,415	$ 27,737,415	$ 17,173,415	$ -	$ -	
Receipts	226,436,000	234,995,000	243,285,000	249,102,000	255,012,000	
Total Receipts	$255,107,415	$ 262,732,415	$ 260,458,415	$ 249,102,000	$ 255,012,000	
Expenditures	$227,370,000	$ 245,559,000	$ 265,204,000	$ 286,420,000	$ 309,334,000	
Ending Balance	$ 27,737,415	$ 17,173,415	$ (4,745,585)	$ (37,318,000)	$ (54,322,000)	$(96,385,585)

CASE 2 - CURRENT SITUATION

- Revenues same as above - Expenditures increase at past years' average of approximately 10.5 percent.

	1982	1983	1984	1985	1986	Cumulative Deficit 1982 - 1986
Resources						
Beginning Balance	$ 28,671,415	$ 22,474,415	$ 410,415	$ -	$ -	
Receipts	226,436,000	234,995,000	243,285,000	249,102,000	255,012,000	
Total Receipts	$255,107,415	$ 257,469,415	$ 243,695,415	$ 249,102,000	$ 255,012,000	
Expenditures	$232,633,000	$ 257,059,000	$ 284,051,000	$ 313,876,000	$ 346,833,000	
Ending Balance	$ 22,474,415	$ 410,415	$ (40,355,585)	$ (64,774,000)	$ (91,821,000)	$(196,950,585)

CASE 3 - "WORST CASE"

- Revenues same as above - Expenditures increase at 13.0 percent annually.

	1982	1983	1984	1985	1986	Cumulative Deficit 1982 - 1986
Resources						
Beginning Balance	$ 28,671,415	$ 17,211,415	$ -	$ -	$ -	
Receipts	226,436,000	234,995,000	243,285,000	249,102,000	255,012,000	
Total Receipts	$255,107,415	$ 252,206,415	$ 243,285,000	$ 249,102,000	$ 255,012,000	
Expenditures	$237,896,000	$ 268,823,000	$ 303,770,000	$ 343,260,000	$ 387,883,000	
Ending Balance	$ 17,211,415	$ (16,616,585)	$ (60,485,000)	$ (94,158,000)	$ (132,871,000)	$(304,130,585)

expenditures from the 10.5 percent rate experienced during the past six years to 8.0 percent. Under this assumption, the City would experience surpluses for 1982 and 1983, and a small deficit of $4.8 million by 1984. However, the expected deficits for 1985 and 1986 would be $37 and $54 million respectively. A cumulative deficit of $96 million would be expected during the entire five-year period.

Case 2 represents the current situation. The projected revenues are the same as above while the expenditures are projected to grow at the 10.5 percent annual rate experienced between 1976 and 1981. Under these conditions, the City can expect a surplus in 1982 and a break-even situation for 1983. However, during the period of 1984 to 1986, the City would face annual deficits of $40, $65 and $92 million respectively. Overall, the City would have a cumulative revenue/expenditure gap of $197 million.

Case 3 indicates the impact when the expenditure growth rate increases to 13 percent. With high inflation, combined with the costs of maintaining and replacing an aging water, sewer and bridge system, plus the unfunded pension liability problem, this type of growth in expenses is not difficult to imagine. The effects of this growth rate are felt by 1983 when a $17 million deficit is expected. This deficit situation grows worse each year and a staggering cumulative deficit exceeding $300 million would occur during the projected period.

Phase II - Nonresident Cost/Revenue Analysis

Phase II - Conclusion

The second component of this study consisted of a cost/revenue analysis on the impact of nonresident workers, shoppers and users of City services and facilities. The League's analysis concluded that while nonresidents contributed $9.1 million in 1980, the City spent $15.8 million to provide services to nonresidents. Thus expenditures exceeded revenues by $6.7 million.

League research also revealed a number of other factors:

-Pittsburgh has an unusually large nonresident commuting workforce;

-Of the 30 most populous cities, only San Francisco and Boston are smaller geographically;

-A substantial amount of the City's most valuable property is tax-exempt;

-Pittsburgh has unusually severe restrictions on its taxing powers with respect to nonresidents;

-A typical family in Pittsburgh has a high tax burden whether compared with other major cities or surrounding municipalities.

Methodology and Assumptions

The main emphasis in this study was to examine the costs and the revenues associated with nonresidents within three selected areas of the City, i.e., areas used heavily by both residents and nonresidents. The areas examined in this analysis, referred to as regional areas, were the Downtown, Oakland and Lower North Side sections.

The methodology generally consisted of calculating the costs of services for these regional areas and the tax revenues generated in them. These costs and revenues were allocated between residents and nonresidents based upon the survey data collected and discussed in the following section. Perhaps the single biggest difference between this analysis and those done in other cities was the fact that extensive surveying was done to gather data where none had existed previously.

The data is from the base year of 1980. All expenditures financed from non-local funds except for Federal Revenue Sharing and State Liquid Fuels revenues were excluded. In addition, expenditures for enterprise activities such as water and sewer were excluded. Lastly, all costs were measured on an average costing basis, i.e., each individual benefiting from a specific service was allocated an equal share of the costs of providing the service.

Surveys

Table 2 highlights the results of the surveys of employment, shopping, medical facilities, educational facilities, cultural activities, recreational events, special events and transportation. These survey results were used extensively in allocating the costs and revenues associated with the regional areas between residents and nonresidents. From this data, a composite regional factor of two-thirds nonresident to one-third resident was determined. This generalized proportion was used to allocate regional costs in cases where a specific survey did not apply.

Revenues

In this analysis, nonresidents were credited with total regional revenues of $9,096,512 from the taxes as shown below:

Tax	Nonresident Contribution
Occupation Privilege	$ 964,992
Parking	4,439,649
Amusement	2,071,271
Mercantile	533,928
Business Privilege	1,086,672
	$9,096,512

TABLE 2

REGIONAL CENTER SURVEY DATA

Subject Area	Survey Results
Employment	56.9 percent of the workforce are nonresidents.
Shopping	60.3 percent of the shoppers in the CBD are nonresidents.
Education	67.0 percent of the college students originate from outside the City limits.
Medical Center	66.8 percent of hospital patients are nonresidents.
Cultural Center	Approximately 70 percent of those attending major cultural activities at Heinz Hall and the Stanley Theater are nonresidents.
Recreation Center	
1. Sports	Approximately 75 percent of Pirate, Penguin and Pitt Panther game attenders and 80 percent of Steeler game attenders are nonresidents.
2. Family Activities	85.1 percent of Zoo attenders, 67.4 percent of Aviary attenders and 62.9 percent of Conservatory attenders are nonresidents.
3. Park System	Approximately 25 percent of the users of major City parks are nonresidents.
Special Events	Nonresidents attend major special events held in the City in the following proportions: -Three Rivers Arts Festival-70.1% -Fourth of July Celebration-58.2% -Three Rivers Regatta-66.7% -The Great Race-72.0%
Transportation	Nonresidents account for 48.9 percent of the regular automobile vehicle miles traveled on City-owned principal and minor arterials.

Occupation Privilege Tax

Of the previous taxes, only the occupation privilege tax payment of $964,992 represents a direct payment by nonresidents to the City.*

Parking Tax

The nonresident parking tax allocation of $4,439,649 represents revenues from parking-related activities including the parking tax, parking meter revenues, parking license fees, fines and wharf rental receipts. Similarly, regional costs were calculated for the collection of the tax, the licensing of lots, the collection of meter revenue and the costs for meter repair and replacement.

Amusement Tax

In 1980, the City received $4,011,662 in amusement tax receipts. Not surprisingly, the major portion of this revenue came from events which were held in Three Rivers Stadium, the Civic Arena, Heinz Hall and the Stanley Theater. As discussed earlier, the League surveyed these facilities to determine resident/nonresident use.

An examination of the amusement tax records revealed that the top 40 payers of the amusement tax contributed $3,760,700 or 93.7 percent of the total amount paid. The League examined each of these top 40 payers and sampled the remaining firms. The appropriate resident/nonresident survey proportion was then applied, resulting in a regional nonresident amusement tax allocation of $2,747,592.

On the expenditure side, the nonresident share of the debt service payments made for the Stadium and Arena came to $676,321. Thus, a net nonresident amusement tax allocation of $2,071,271 was determined.

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*In addition to the $964,992 paid by nonresident employees in the three regional areas, $693,069 was paid by nonresidents working in other parts of the City. This amount was not included in the cost/revenue analysis.

Mercantile Tax

In 1980, after refunds, the City received $2,847,566 in mercantile tax revenue from some 4,600 firms. The League individually reviewed the top 100 firms, which pay 46 percent of the total tax. A stratified sample was used to survey the remaining firms to estimate the total mercantile tax originating from the regional areas. Applying the 60 percent nonresident split obtained from the shopping survey resulted in a nonresident regional mercantile tax allocation of $533,928.

Business Privilege Tax

The business privilege tax, like the mercantile tax, is a gross receipts tax paid directly by the business concern and only indirectly by the purchaser of the service. The types of businesses paying the largest amounts of this tax included such types as: major construction firms, corporate law offices, large office building owners, major advertising firms, and consulting and engineering corporations.

The League developed a sampling plan in which the first 400 accounts were individually reviewed and only those regional accounts from parking garages, medical services and educational institutions were included. These amounts were allocated to nonresidents on the basis of the surveys previously discussed. All other accounts in this group were excluded in an effort to exclude those firms which primarily pay this tax as a result of their business dealings with other firms.

The remainder of the accounts were sampled and all revenue originating from firms located in the regional areas was included. This revenue was then split between residents and nonresidents using the employment survey.

As a result, $1,086,672 was credited to nonresidents as their share of the business privilege tax originating from the regional areas.

Property Tax

For 1980, the League estimates that approximately $16 million in property tax revenues originated from the regional areas. Nonresidents were not credited with any property tax, however, for three major reasons.

First, the League excluded from this analysis the costs for property-related services such as building inspection, environmental services (refuse), land use control, housing, two-thirds of fire protection, capital costs for water and sewage, etc. While it would take a detailed study to calculate the exact costs of these excluded services, the League's estimate indicates that the costs for excluded services comes close to matching the property tax revenue.

Secondly, any allocation of the property tax revenues would have to consider the property taxes lost as a result of tax-exempt property. The League's analysis revealed that in the regional areas, two-thirds of the growth in assessed values between 1950 and 1980 was in tax-exempt property. By 1980, almost half of the assessed value in the regional areas consisted of tax-exempt property.

Third, a review of the prevailing economic theories concerning the ultimate incidence of the property tax revealed that very little could be assumed to be passed along to the nonresidents being studied in this analysis. Since Pittsburgh is a major corporate center, a large portion of the property tax would be passed along to customers all over the nation and thus exported out of this area.

Expenditures

As a result of this analysis, nonresidents were allocated a cost of $15,810,558 for the services provided by the departments shown below:

Department	Nonresident Allocation
Police	$ 5,531,525
Fire	863,828
Public Works	3,372,506
Parks and Recreation	2,661,079
Capital Costs	2,870,367
All Others	511,253
	$15,810,558

These costs did not include water or sewage costs nor services financed from non-local sources such as Federal Highway funds. The non-departmental fringe benefit costs plus the indirect costs for those departments providing support services (e.g., Supplies, Personnel) were allocated back into the departments such as Police and Fire which provide direct services. This was accomplished through the use of an indirect cost study that Arthur Young & Company completed in 1980.

Police Costs

Because police officers are assigned on an area basis to various precincts throughout the City, the basic approach in allocating police costs was to calculate a cost per officer and to determine the number of officers serving the regional areas under consideration. These regional police costs were then allocated between residents and nonresidents on the basis of the composite regional survey discussed earlier.

This resulted in a regional nonresident allocation of $5,531,525 for police protection services.

Fire Department

As was done with the Police Department, the basic strategy for the Fire Department revolved around the calculation of a unit cost per fire fighter. The cost for each fire company was then determined by applying the cost per fire fighter to the number of fire fighters assigned to the company.

The regional costs for each company were then calculated based upon the number of service calls to the region as a percent of their total service calls. This process resulted in a regional cost of $3,885,284. However, since a primary focus of a fire department is to protect property, only one-third of the regional costs, or $1,295,096, were allocated between residents and nonresidents. Applying the composite regional survey resulted in a nonresident regional charge of $863,828 for fire protection services.

Public Works Department

Unlike the methodology used for most other departments, where costs were collected for the three regional areas, this methodology was not considered practical for the Public Works Department. Obviously, the roadways utilized by nonresidents traveling to the regional areas (or elsewhere) extend throughout the City. Therefore, this section concentrated on calculating the costs associated with City-owned and maintained principal and minor arterials such as Fifth Avenue and Smithfield Street. The costs for the major thruways were included even if located outside of the three regional areas. On the other hand, the costs for maintaining the local connector streets located within the regional areas were excluded.

This Department was divided into the categories of Supervisory Offices, Traffic Control, Painting and Signing, and Street Maintenance. The costs for each of these categories applicable to the City-owned or maintained principal and minor arterial system were determined.

As a result of this process, total eligible costs of $6,896,740 were calculated. The road survey was used to allocate these costs, resulting in a nonresident charge of $3,372,506 for the services provided by the Public Works Department.

Parks and Recreation

In examining the services provided by the Department of Parks and Recreation, there were three major categories for which costs were estimated. The first category included the three eastern parks (Schenley, Highland and Frick) which are utilized by both residents and nonresidents. The second category included the major recreational facilities (Zoo, Aviary and Conservatory). The last category included those costs associated with the planning of major civic events such as the Arts Festival, Fourth of July Celebration, Regatta and the Great Race.

These costs were then allocated between residents and nonresidents based upon the appropriate survey, resulting in a nonresident allocation of $2,661,079.

Capital Costs

In 1980, the City paid $22,611,813 in debt service payments which represented that year's share of the principal and interest payments for previous capital spending.

The League examined the projects financed from new project authorization bond funds in this analysis. Because the types of capital projects can vary dramatically from year to year, the League utilized the three-year average figures from the 1979, 1980, and 1981 Capital Budgets. To allocate capital costs, each department was examined in a manner similar to the method used with the operating costs. Each capital project for each department was individually reviewed. In many cases, projects listed in the Capital Budget were never undertaken. These projects were excluded.

As a result of this process, nonresidents were allocated $2,870,367 in capital costs. The majority of these costs ($2,332,858) resulted from road projects of the Public Works Department. The Parks Department accounted for $446,332 and miscellaneous activities accounted for the remaining $91,177.

Other Costs

In a similar manner, nonresidents were allocated a total cost of $511,253 as a result of services provided by the Departments of Emergency Medical Services, Planning, and City Development, plus costs for Street Lighting, Carnegie Library and the Human Relations Commission.

Total Costs

As a result of this process, nonresidents were allocated total costs of $15,810,558. This figure exceeds the nonresident revenue calculation of $9,096,512 by $6,714,046, or 74 percent. In addition to the cost/revenue analysis discussed above, the League's research revealed a number of other important considerations.

Large Commuting Workforce

While the census data for 1980 is not yet available, a review of the 1960 and 1970 figures for 30 of the largest cities in the United States revealed that Pittsburgh's nonresident commuting workforce is one of the highest in the nation. Only six of the 30 cities reviewed had a higher percentage and Pittsburgh's 1970 percentage of 52.3 percent was substantially above the median figure of 38.1 percent.

Small Size

Pittsburgh is also unusual in that the City limits encompass a relatively small area. A review of the 30 most populous cities revealed that only San Francisco and Boston are smaller geographically. Pittsburgh ranked last in terms of the percent of the SMSA population residing within the Center City. In fact, Pittsburgh is the regional center of an area over 50 times its size and more than five times its population.

Tax-Exempt Property

As the hub of the Pittsburgh regional area, it is not surprising that Pittsburgh is also the focal point for educational, medical, cultural and governmental facilities. All of these facilities are tax-exempt, resulting in a much higher percentage of tax-exempt property than in a typical, adjoining municipality.

This can result in a situation where a tax-exempt facility which is beneficial to the entire region may be viewed critically by City officials for fear of further deteriorating the tax base.

Limited Taxing Powers

The three conditions mentioned above (large number of commuters, small area, tax-exempt property) combine with the City's limited taxing powers with regard to nonresidents to place severe restrictions on the City's ability to adequately finance necessary services.

It is unusual for a major urban center such as Pittsburgh to have such severe restrictions on its taxing powers. In 1980, the League surveyed 20 selected non-Sunbelt cities to determine whether nonresidents were subject to City taxation and, if so, what taxing mechanisms were utilized. Sixteen of the 20 cities surveyed had the legislative authority for one or more of the following:

-to levy a wage/payroll tax on nonresidents;

-to levy a general sales tax;

-to participate in a County or State-wide system of sharing revenue produced from a wage or sales tax.

High Tax Burden

A 1979 tax burden comparison of the nation's 30 largest cities done in Washington, D. C., revealed that Pittsburgh had the sixth highest tax burden for a typical family of four with an income of $22,500. Locally, a League analysis of Allegheny County municipalities indicated that a typical Pittsburgh family would have the third highest local tax burden.

Phase III - An Evaluation of Selected Alternatives

The third and last report reviews and evaluates a number of ways to improve the City's finances. Each alternative is reviewed in conjunction with the major criteria applied to tax/revenue proposals. The issues discussed in this last report are: a nonresident wage tax, a local sales tax, tax-exempt property, user fees, and the transfer of services.

Tax/Revenue Criteria

When reviewing any tax or revenue proposal, it is important to keep certain criteria in mind. While there may be no such thing as a perfect tax, it is clear that some taxes are much worse than others.

In general a "good tax" is one which is paid by those receiving services and by those with the financial capacity to pay. A good tax should be equitable for those paying the tax, it should not induce individuals or firms to locate elsewhere, and it should provide a reasonably stable source of revenue with the capacity to increase as the economy expands.

In more technical terms, the above paragraph can be restated to indicate that a good tax is one which is consistent with the principles of benefits received, ability to pay, equity considerations, neutrality or economic efficiency, and revenue productivity and growth. Each of these criteria was considered in the evaluation of new revenue ideas.

Nonresident Wage Tax

The League's examination of the use of a nonresident wage tax revealed that this is no longer an unusual tax. Major cities such as New York, Cleveland, Detroit, St. Louis and Philadelphia are permitted to tax a portion of the income earned by nonresidents working within the City. In addition to the major municipalities, local jurisdictions in Alabama, California, Indiana and Kentucky have the authority to levy nonresident wage taxes.

This tax has been found to be consistent with the tax criteria discussed earlier, especially the benefits received principle. The League estimated that a nonresident wage tax of 1/4 percent, coupled with the elimination of the occupation privilege tax, would result in a net revenue gain to the City of approximately $6.7 million from nonresident workers.

The tax is clearly a case of taxation without representation. However, taxation without representation is not only legal but common. In Pennsylvania, the nonresident wage tax in Philadelphia and the occupation privilege tax in the rest of the State are examples of nonresident taxation. In the remainder of the United States, it is a relatively common occurrence to tax nonresidents through either a wage tax or a local sales tax.

Local Sales Tax

The use of a local sales tax is a common practice throughout the United States. Today there are at least 29 states permitting the use of a local sales tax.

The League reviewed the total sales tax rates in the 30 most populous cities. The six percent rate in Pittsburgh, which is levied and collected solely by the State, is not excessive when compared to the total rate applicable to other major cities. When exemptions are considered, Pennsylvania's six percent sales tax imposes less of a sales tax burden than that which is imposed in most other major cities. This is due to the fact that Pennsylvania is one of the few states where food, medicine and clothing are exempt from sales taxes.

The most frequently stated objection to a local sales tax is that it may be regressive. In Pennsylvania, as a result of the extensive exemptions, the regressive nature of the tax has been greatly improved.

The most serious drawback to a local sales tax is that if it is levied in an isolated municipality, especially a central city, it will have an adverse impact on sales. This has been shown to be true in numerous studies throughout the United States. However, it has also been concluded that much of this loss can be reduced by enlarging the area of the tax. The mimimum area in which this tax could be levied would be Allegheny County. However, in an urbanized area like the Pittsburgh SMSA, it may be better to levy the tax on a regional basis in an area which is larger than Allegheny County.

The League has estimated that the City of Pittsburgh would gain an additional $16.7 million from City retail establishments if a one percent sales tax were levied in Allegheny County. The use of either a nonresident wage tax or a local sales tax would require State legislation.

Tax-Exempt Property

The growth of tax-exempt property has become a major problem in Pittsburgh. City-wide, approximately 35 percent of the total assessed value is classified as tax-exempt. In the three regional areas it is 46 percent and has been increasing steadily over the last 25 years.

With the continuing evolution to a service-centered society, it is expected that the amount and value of tax-exempt property will increase. The tax-exempt land alone (excluding the buildings) represented lost revenues exceeding $11 million in 1982. It is clear that tax-exempt institutions such as the universities and hospitals benefit the entire metropolitan area. Unfortunately, the costs of servicing these facilities remains primarily with the local government where they are located.

A survey from the League's Philadelphia office revealed that payments in lieu of taxes are not yet commonplace. Boston recently imposed a fire service fee on exempt properties and Detroit imposes special charges for police and fire services for certain cultural institutions. California makes use of benefit assessments to finance certain operating costs. Only a handful of states were found to have state programs which provide for payments in lieu of taxes.

Under current State law, the City can levy a service fee only if it is applicable to all property owners, both taxable and exempt. It may ultimately be necessary to levy service fees on property-related services, such as fire protection, as the only means of having exempt organizations directly contribute for City services.

It is clear that the City should be reimbursed in some manner for the expenses associated with tax-exempt properties/facilities. However, until more and better data is available, it not clear as to the best way in which to do this.

User Fees

User fees are becoming a popular alternative to general tax increases. While this report did not examine Pittsburgh's user fees in any detail, it is clear that improvements can be made.

The City must establish a water rate which covers all operating costs, both direct and indirect, as well as the capital costs necessary to keep the system in good running order.

The user fees collected by the Parks and Recreation Department may require a close look. The Phase II report indicated that the total revenue from the Zoo, Aviary and Conservatory was less than 25 percent of the total operating costs.

The Bureau of Building Inspection is another area where the permit fees do not come close to matching costs.

User fees are in strict accordance with the benefits received principle. They are also a means by which the City can recover costs from nonresidents using such facilities as the Zoo, Aviary and Conservatory.

Transferring Functions

Facilities, such as the Zoo, which are little-used by City residents, may more appropriately belong at the County level of government. A major factor hindering this type of administration relocation is the major financial problem facing Allegheny County. Probably a less costly and more feasible alternative for the County would be to make a contribution to the City because of the County-wide importance and use of these regional facilities.

The water plant is another facility which could possibly be transferred to the private sector or to a governmental authority. The sale of this system could provide capital to finance other major projects. In addition, the removal of the rate-making process from political considerations may permit the rate to rise in a reasonable manner to a level such that the system pays its own way and the capital infrastructure is placed on a regular replacement cycle.

In both of the above cases, a significant amount of additional investigation and research would be required to fully explore the feasibility of either option. Nonetheless, each option, if successfully completed, would improve the City's fiscal situation.

Conclusions and Recommendations

The League has developed five major conclusions and recommendations as a result of its efforts in all three phases of this project.

First, it is extremely important for the City to control the growth rate of its operating expenditures. THEREFORE, THE LEAGUE RECOMMENDS THAT *the City establish a goal of limiting the overall annual growth in operating expenditures to 8 percent or less.* The successful implementation of this recommendation will still leave a cumulative revenue/expenditure gap of $96 million to be financed over the next five years.

Second, additional revenues should equitably come from the nonresidents who work, shop and utilize City services and facilities. The nonresident cost/revenue analysis indicated that nonresidents benefit extensively from the services provided by the City. Furthermore, the revenues derived from nonresident users of services and facilities are much less than the costs of providing services to them. THEREFORE, THE LEAGUE RECOMMENDS THAT *the City be given broader taxing powers.* League policy does not permit it to recommend which taxes should be sought. However, the League has evaluated two likely sources, namely, a nonresident wage tax and a local sales tax. Either of these taxes could provide the City with a significant increase in revenues and help ease the approaching financial problems. These taxes also represent reasonable means by which nonresidents can contribute towards the costs of services from which they benefit.

Both of these taxes would require State approval. In the case of a local sales tax, it should be levied on a County-wide or regional basis to minimize the loss of sales which would occur if a City-only sales tax were levied.

Third, City taxpayers are saddled with an unfair burden as a result of the tax-exempt status enjoyed by a significant portion of properties and facilities within the Center City. THEREFORE, THE LEAGUE RECOMMENDS THAT *the City thoroughly examine the role and impact of the tax-exempt properties.* This analysis should include a categorization of the types of tax-exempt properties, a review of the growth of exempt properties, an examination of the feasibility of using a fee system for property-related services such as fire protection, and an analysis of the impact of having nongovernmental tax-exempt institutions pay a tax on the land they own (not the buildings) or pay a portion of the total tax liability.

Fourth, additional revenues can be obtained from user fees. THEREFORE, THE LEAGUE RECOMMENDS THAT *the City examine its entire user fee structure.* This analysis would examine fees currently assessed by Parks and Recreation, the Water Department, Building Inspection, and other departments.

Fifth, there is justification for the transfer of City-provided services to other agencies. THEREFORE, THE LEAGUE RECOMMENDS THAT *the City explore with the County the possibility of either transferring selected park facilities to the County or, alternatively, having the County make a contribution to the City for the maintenance of regional facilities.* IN ADDITION, THE LEAGUE RECOMMENDS THAT *the City explore the long range implications and possibilities of selling the water system to either a private concern or an authority of some type.*

Financial Impact of Selected Alternative Revenue Combinations

Table 3 illustrates the impact that the implementation of selected combinations of the above-stated recommendations would have on the City's fiscal situation. The first example, Case 1, assumes that a nonresident wage tax at 1/4 percent is levied in 1983, and that by 1984 a service fee applicable to tax-exempt properties and increased user fees are available. These three items would result in increased revenues of $59.8 million by 1986. This would still leave a projected revenue/expenditure gap of $36.6 million to be funded either by reducing the growth rate in expenditures below the eight percent level used in this table or by increasing existing revenues. To finance this $36.6 million gap from real estate taxes would require an almost 50 percent increase in the current rates over the next five years.

Case 2 assumes that a local sales tax is enacted instead of a nonresident wage tax. Because of the complexity involved in establishing this tax, it is assumed that it would not be implemented prior to 1984. The sales tax plus the tax-exempt property fee and increased user fees would result in increased revenues of $89.4 million. This would leave an unfilled revenue/expenditure gap of $7.0 million to be financed from current sources.

Case 3 assumes that the City is not granted increased taxing power. Under this situation the only new revenue would come from the tax-exempt property fee and increased user fees. Both of these items would require a great deal of research before they could be implemented, and therefore, it is expected that the new revenue would not be available prior to 1984. The total revenue of $27.9 million is $68.5 million short of the projected gap of $96.4 million. To fund this deficit from the real estate tax would require an increase of approximately 90 percent over the 1982 rates.

This table illustrates the three critical components necessary to keep the City's fiscal house in order. First and foremost, it is essential that the City keep a tight rein on the growth rate of its expenditures. The past years' annual growth rate trend of 10.5 percent must be reduced to 8.0 percent or less to prevent the projected deficits from becoming beyond control.

Secondly, it is important that the City's taxing powers be broadened. The League's second report, Phase II, reviewed the financial problems associated with providing services to a large nonresident population. The availability of a nonresident wage tax would help Pittsburgh as well as many of the older industrial communities which have a large nonresident worker population. Alternatively, a local sales tax would also improve the City's finances and would provide a means by which nonresidents contribute for services received. To avoid major dislocations, however, a local sales tax would have to be levied on a County-wide or regional basis. Depending upon the manner of distribution, this tax could form the basis of providing fiscal relief to the City, the County and the smaller municipalities in Allegheny County.

Third, it is important for the City to explore other ways to improve their financial situation. This includes the expanded use of user fees, the possible use of fees for property-related services which would apply to both taxable and exempt properties, and the feasibility of transferring services to non-City agencies.

In this report, the League has reviewed a number of ways to improve the City's finances. While there are undoubtedly many other possibilities which can and should be examined, it is hoped that the material presented in this report will assist the City in continuing its critical role as the center of the metropolitan area.

TABLE 3

ALTERNATIVE REVENUE COMBINATIONS
(Millions)

Case 1 - Nonresident Wage Tax

New Revenue Item	1983	1984	1985	1986	Total
Nonresident Wage Tax	$7.17	$ 7.67	$ 8.21	$ 8.78	$31.83
Tax-Exempt Property Fee (Fire)	-	5.83	6.30	6.80	18.93
User Fees	-	3.00	3.00	3.00	9.00
Total	$7.17	$16.50	$17.51	$18.58	$59.76

Cumulative Deficit (8.0%) - New Revenue = Remaining Revenue/Expenditure Gap
$96.39 million - $59.76 million = $36.63 million

Case 2 - Local Sales Tax

New Revenue Item	1983	1984	1985	1986	Total
Local Sales Tax	$ -	$19.12	$20.46	$21.89	$61.47
Tax-Exempt Property Fee (Fire)	-	5.83	6.30	6.80	18.93
User Fees	-	3.00	3.00	3.00	9.00
Total	$ -	$27.95	$29.76	$31.69	$89.40

Cumulative Deficit (8.0%) - New Revenue = Remaining Revenue/Expenditure Gap
$96.39 million - $89.4 million = $6.99 million

Case 3 - Neither a Nonresident Wage or a Local Sales Tax

New Revenue Item	1983	1984	1985	1986	Total
Tax-Exempt Property Fee (Fire)	$ -	$ 5.83	$ 6.30	$ 6.80	$18.93
User Fees	-	3.00	3.00	3.00	9.00
Total	$ -	$ 8.83	$ 9.30	$ 9.80	$27.93

Cumulative Deficit (8.0%) - New Revenue = Remaining Revenue/Expenditure Gap
$96.39 million - $27.93 million = $68.46 million