The Impact of Nonprofit, Large Landowners on Public Finance in a Fiscally Distressed Municipality: A Case Study of Pittsburgh, Pennsylvania

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Abstract

In 2004, the City of Pittsburgh became an Act 47 distressed community under Pennsylvania's Municipalities Financial Recovery Act. This law placed the City in quasi-bankruptcy with state oversight for fiscal policy. Pittsburgh has faced 60 years of declining population and limited means to expand revenues. The largest and fastest growing employers in the city are in health care and education, both property tax-exempt sectors. What is the role of large tax-exempt landowners on the fiscal capacity of Pittsburgh? How do these landowners affect fiscal structure in the face of the city's current crisis?

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The Impact of Nonprofit, Large Landowners on Public Finance in a Fiscally Distressed Municipality: A Case Study of Pittsburgh, Pennsylvania

Introduction

In the face of the collapse of steel and related manufacturing industries, the City of Pittsburgh in the 1980s embraced an economic development strategy premised on the growth of high technology, health care and hospitals, and university-based research. Over the next two decades, health and education, largely nonprofit sector activities, grew and revealed an unexpected resilience in the city – and region's – economy.

The city of Pittsburgh, however, was not so resilient by other measures. Population continued its decades long decline, while city services expanded to meet new demands. The city of Pittsburgh today is in fiscal distress. The largest and fastest growing employers in the city today are nonprofits, including health care and educational institutions. They are also major landowners. What is the impact of these large institutions as tax-exempt landowners on the fiscal capacity of Pittsburgh? How do these landowners affect fiscal structure in the face of the city's fiscal crisis?

This paper examines the relationship between the growth of the nonprofit sector as the major economic driver in a city and its role as a large landowner in Pittsburgh, Pennsylvania. The relationship is important to understand, and, as we argue, presents a paradox.

The nonprofit sector has been growing nationally both in number and in importance in the past decades. In 2004, 9.4 million people worked in the nonprofit sector, or 7.2 percent of the country's workforce (Salamon and Sokolowski, 2006. p. 3). Between 2002 and 2004, nonprofit employment increased by 5.1 percent in the U.S., compared to a 0.2 percent decline in total employment (Salamon and Sokolowski, 2006, p. 7). In Pennsylvania, nonprofit employment increased by 25 percent between 1993 and 2003, while growth in the for-profit sector in the state grew by only 6.9 percent over the same period (Salamon and Geller, 2005).

Nonprofit organizations today play an increasingly important role in regional economies, including the Pittsburgh region.[1] Dubbed the "meds and eds," these are oftentimes the largest employers and main economic drivers in a city and, oftentimes, a region (Adams 2001).

The impact of nonprofit organizations as large landowners can be narrowed to focus on a few, mainly large nonprofit organizations. Most small nonprofit organizations do not own any real property (Cordes et al, 2002; Anderson et al, 2003); thus, they are less germane to a discussion about nonprofit organizations as landowners, let alone large landowners. Also, in many cities and regions, large nonprofit organizations, especially the "meds and eds," are among the largest employers and largest establishments (Harkavy and Zuckerman, 1999). For example, in Pittsburgh, the University of Pittsburgh Medical Center is the region's largest employer and in Philadelphia, the University of Pennsylvania is the largest private employer in the city and fourth overall.

[1] The Pittsburgh region refers to the 6-county Metropolitan Statistical Area (MSA), unless otherwise stated, including Allegheny, Beaver, Butler, Fayette, Washington, and Westmoreland counties.

Nonprofit organizations, owing to their charitable mission, are exempt from property taxes. This presents a challenge to local governments, which rely on property taxes as a major revenue stream and are hosts to concentrations of tax exempt institutions. What are the implications of these interrelated phenomena on municipal finances – the largest and fastest growing segments of their economies are tax-exempt, large nonprofit organizations?

This research analyzes the role of large, tax-exempt landowners on the fiscal capacity of the City of Pittsburgh. The first section lays out some of the theoretical arguments for what the links between the growth of the nonprofit sector and city finances might be. The next section examines the data available to identify the impact of the nonprofit sector on the city of Pittsburgh's workforce. The following section focuses on the financial condition of the city of Pittsburgh. The last section suggests possible options to revert the current situation.

Data Sources

The study combines multiple data sources to explore the relationship between nonprofit organizations and municipal finances. It uses a case study approach, with the study centered on the city of Pittsburgh, Pennsylvania.

Data on nonprofit organizations are difficult to gather under industrial and occupation classification systems. For instance, the North American Industrial Classification System (NAICS) does not have an industrial sector called nonprofit. This study has developed an unusual data set to focus on employment in nonprofit organizations in Pittsburgh, combining two data sources. First, the analysis uses employment and payroll data derived from unemployment compensation reports, or ES-202 data, obtained from the Pennsylvania Center for Workforce Information and Analysis. ES-202 provides both employment and payroll data for individual establishments in the state. The data are subject to confidentiality requirements, but with appropriate data suppression and review this is a rich source of information on local labor market characteristics. The ES-202 data were matched to data on non-profit organizations from the Internal Revenue Service Business Master File (BMF), a cumulative file containing descriptive information on all active tax-exempt organizations.[2] Individual BMF records for each year were matched with the ES-202 data, producing a dataset of nonprofit organizations with corresponding information on employment and payroll in the organizations from the ES-202 dataset. We then developed tables of information on nonprofit organizations by employment size, payroll, firm size, and industry category by the North American Industry Classification System (NAICS). Data were then broken down geographically into three distinct sub-areas within the Pittsburgh Metropolitan Statistical Area: City of Pittsburgh, Allegheny County, and a 5-county area that represents the remainder of the Pittsburgh MSA.[3] The result is a rich, but not widely available dataset of nonprofit organizations and their employees by a number of standard economic, geographic, and industry classification measures.

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[2] BMF data are mostly derived from the IRS Forms 1023 and 1024. UCSUR received the BMR from the National Center for Charitable Statistics (NCCS) at the Urban Institute.

[3] The ES 202 data reflect the six-county Pittsburgh MSA. In 2003, Armstrong County was added to the Pittsburgh MSA; however our ES 202 data do not include Armstrong County. Any reference to the newer 7-county MSA will be noted.

Nonprofit Sector Growth and Its Impacts

The Pittsburgh economy has restructured toward greater reliance on the nonprofit sector. Eight of the top 20 employers in the Pittsburgh region today are nonprofits, including the largest employer UPMC (University of Pittsburgh Medical Center), with 30,957 employees (see Table 1). All eight are medical or educational institutions. Just ten years ago, five the top twenty employers were nonprofits.

Not only are the "meds and eds" the largest employers, they also comprise the bulk of the nonprofit industry in the city of Pittsburgh and the region. In the Pittsburgh region, 65 percent of the region's nonprofit employment is in the healthcare and social assistance sector alone.[4] In the City of Pittsburgh, the comparable figure is 58 percent. Taking the health care and social assistance sector together with education, the City of Pittsburgh's "meds and eds" represent 83 percent of the city's total nonprofit employment. Nationally, health care, social services, and education comprised approximately 87 percent of the nonprofit in 2002 (Salamon and Sokolowski, 2005).

What then is the impact of large nonprofit organizations on a city's revenue and fiscal health? That is a complicated and not easily dissected question. Here we attempt to tease out the various facets through a brief review of the literature. The question is tied to the issue of the exemption on property taxes for charitable institutions on the fiscal side. It is also tied to the formation of nonprofit organizations as partners in a city's growth coalition.

Charitable institutions' property tax exemption is as old as the original settlers, rooted in English law carried to the new world's shores and today a part of law or statute in all fifty states and the District of Columbia (Gallagher 2002). Serving social and public missions, charities' property tax exemption has survived a century and a half of various challenges (Diamond 2002). However, recently the issue has gained wider prominence in the press and among local governments, as municipalities face conditions of fiscal distress and search out new revenue streams. Discussion about changes in the property tax exemption has expanded as cities' fiscal base has changed. Many cities faced and continue to face expansion of services and a declining population base. When this "fiscal squeeze" occurs in the face of the growth of tax exempt organizations, calls for finding ways to tax nonprofits rise (Hall 2003).

Generally, economists have treated property taxes through their analyses of local public finance, with the impact of the property tax exemption focusing on the public sector. Henderson (1985) theorized that the presence of a large public sector can have a distorting effect on local public finance and property tax revenues. He argued that the tax exempt sector grows with tax increases. At lower levels of taxation, tax increases are absorbed by private capital, but at higher levels, tax increases fall on consumers, as the tax exempt sector expands. In particular he developed a model that showed how increasing property tax rates in jurisdictions may end up inducing expansion of tax-exempt sectors, causing shrinkage in taxable sectors.
The displacement of commercial activity limits the ability of that jurisdiction to rely on increasing tax rates as a mechanism to increase revenue. Once cities are understood as open

[4] Health care employment is captured in the larger industrial classification, Health Care and Social Assistance, under the NAICS.

economies where private investment is free to enter or exit, there exists a competition for investment, economic activity and the tax revenue it generates. Inman (1992) described the existence of these “revenue hills” and the existence of revenue maximizing tax rates. Exceeding the theoretical revenue-maximizing maximum tax rate would then result in shrinking a city's tax base and potentially depress tax revenues. Haughwout and Inman (2001) described a general equilibrium model for a city and the result of this fiscal competition Haughwout, Inman, Craig and Luce (2004) estimated the impact of these long-run tax revenue elasticities in four large U.S. cities: Houston, Minneapolis, New York City, and Philadelphia. They concluded that at least three (Houston, Philadelphia and New York) exhausted their capacity to increase revenues via tax rate increases. A large exempt sector could compound the tax elasticity for municipalities by actually displacing non-exempt activity within a jurisdiction.

A counter argument can be brought when considering vacant or derelict properties and the impacts of nonprofit land developers. In these cases, nonprofit organizations may increase property values, and thus increase property taxes in the private sector through their land development activities. Benson (1985: 27-28) categorized two types of nonprofit land developer: Type I are institutions that, in the course of serving their social function, developed new urban lands. Large Type I organizations included medical facilities and universities, with churches comprising smaller, Type I organizations. Type II organizations are nonprofit land developers, such as development agencies, community development corporations, downtown development corporations, and the like. These nonprofit developers play an important role in revitalizing vacant, derelict, and/or environmentally contaminated urban land, when private sector investment is not forthcoming and the public sector can’t afford the project (Dewar and Deitrick 2004). Nonetheless, “the burden of providing city services is still required by the property and the contribution to defray those expenses is not made” (Benson 1985, 37).

Important examples exist in Pittsburgh on this point. One of the very first brownfield projects in the city was the environmental cleanup and transformation of a former J&L steel plant near Pittsburgh’s downtown Golden Triangle district into a university technology and research center. The Pittsburgh Technology Center’s first tenants were research facilities from the University of Pittsburgh and Carnegie Mellon University, relocated from more congested sites in the Oakland neighborhood of Pittsburgh. Public funding for the development included tax increment financing (TIF), which was used to attract private sector investment. The TIF, the city’s first, proved to be successful when the bond was retired early, after 8 years (on a 20 year TIF), and the property now generates $1 million per year in property taxes (URA 2005).

This real estate development stands out for another reason. It was the first large-scale economic development project to embrace new nonprofit organizations as partners in development in the city and thus represented a major change. “The Pittsburgh Technology Center crystallizes the city’s attempt to move toward an economic base characterized by advanced technology and anchored to the city’s two research universities,” Sbragia wrote at the time (1990, p. 61).

Pittsburgh’s civic sector had long been engaged in promoting economic growth and real estate development. Its famous public-private partnership, the Allegheny Conference on Community Development, began in the 1940s through the engagement of business elites with Democratic politicians to improve Pittsburgh’s economic base, environmental quality, and physical renewal

(Lubove 1995). Its major redevelopment strategies were prominently named Renaissance I and II.

By the 1980s, a third partner was added to the development partnership-- the nonprofit sector. Perhaps because of Pittsburgh's tremendously rapid deindustrialization, captured by the loss of over 100,000 manufacturing jobs in less than a decade, the development strategy could no longer rely on Pittsburgh's contracting corporate sector. Dubbed at the time Pittsburgh's "Third Way" (Sbragia 1990), nonprofit organizations, especially research-based universities and health care institutions, became partners in the city's growth coalition, as their economic presence expanded.

Context: Economic Restructuring and the City of Pittsburgh

Nonprofits became engaged in the city's economic development strategy when the corporate sector faced massive restructuring and job loss with global competition and health and education were emerging as the region's growth sectors. For the city of Pittsburgh, this restructuring produced unexpected stable employment levels, but city population continued its decline.

The City of Pittsburgh has lost population continuously since the 1940s (see Table 2). Since the 1950s, population in the city of Pittsburgh declined by 10 percent in all decades. In the five years since the 2000 Census, the city is estimated to have lost another 5 percent of its population. Consequently, though the County also lost population over the same period and only small pockets of the region are growing today (Deitrick and Briem 2005), the City's share of the county and region's population has declined precipitously over these years. Today, the City of Pittsburgh contains just one quarter of the county's population and 13.4 percent of the region's population.

Despite its staggering population losses, the City of Pittsburgh has retained its share of regional employment. The City's "working population" has remained surprisingly consistent over the past decades. In 1964, 309,000 people worked in the City of Pittsburgh. By 2002, the figure was relatively unchanged at 313,400 workers (Ochs 2005). This stability in its employment levels coupled with its decades-long employment loss meant that by 2000, the City's combined "daytime population" of residents plus net commuters of nearly 500,000 was 41 percent higher than its resident population. With a limited ability to tap commuters for tax revenues and a fairly constant working population, the city could not reduce expenses commensurate with its population decline (Ochs, 2005).

Beyond the city limits, in the region and its core county, more people are working today than during the steel years. Economic restructuring has meant that the composition of the labor force has changed dramatically, from increases in women into the working ranks to the growth of nonmanufacturing sectors. And certainly when examining the growing service sector, large, nonprofits institutions, especially the meds and eds, stand out.

In 2004, the nonprofit sector in the city of Pittsburgh averaged 74,243 jobs, representing nearly 25 percent of the city's total employment (see Table 3). The commercial sector represented two-thirds of the jobs in the City of Pittsburgh, with the remainder in government. Between 2002 and 2004, the number of nonprofit jobs in the city of Pittsburgh increased slightly, while government and commercial sector employment dipped.

The share of employment in the nonprofit sector was much higher in the city of Pittsburgh than in either Allegheny County or the Pittsburgh region. Nonprofit employment represented 16 percent of Allegheny County's total jobs and 14 percent of the Pittsburgh region's jobs in 2004 (see Table 4), both figures much lower than the 24.3 percent share for the city of Pittsburgh. The difference, however, is even larger when viewed as a share of total nonprofit jobs. While the City of Pittsburgh contained approximately 29% of the region's total jobs in 2004, and about one-quarter of both the region's commercial (for-profit) and government positions, half of the region's nonprofit jobs were located in the city limits. Thus, though the nonprofit sector is important for the regional economy, the nonprofit sector plays a more prominent role in economy of the City of Pittsburgh compared to the rest of the region. Fully half of the region's nonprofit sector employment is physically located in the central city of Pittsburgh. If the City of Pittsburgh is excluded from the region, the region's nonprofit employment falls to 10.3 percent of the regional total.

Thus, the city of Pittsburgh, despite its population losses, has maintained a steady number of jobs over 40 years. The composition of those jobs, however, has changed markedly as nonprofit organizations have grown in size and relative importance. The city has become specialized vis a vis the region in these nonprofit activities. It now contains 50 percent of the region's nonprofit sector employment, with the remainder nearly evenly divided between the rest of Allegheny County and the other six counties in the region.

Just two industries in both the City and region account for the vast majority of nonprofit jobs in Pittsburgh. First, the health care and social assistance sector is the largest in terms of nonprofit employment in the city of Pittsburgh, its suburbs and the region as a whole. This sector represented nearly 60 percent of nonprofit jobs in the City of Pittsburgh and over 70 percent of nonprofit jobs in the suburbs in 2004 (see Table 5). Second in terms of employment was educational services, which were nearly a quarter of nonprofit employment in the city, but a lower share – 10 percent – in the suburbs. However, together, educational services coupled with health care and social assistance made up 83.2 percent of total nonprofit jobs in the city and 81.5 percent in the suburbs.

Reflecting this concentration of the region's largest nonprofits in the healthcare and educational arenas, nonprofit workers in the City of Pittsburgh are more likely to work in very large organizations (greater than 1,000 employers) than commercial sector workers (see Table 6). Very large nonprofit organizations employed 58.2 percent of all nonprofit workers in the city of Pittsburgh in 2004. For the private sector, just under 10 percent of private sector workers were employed in very large companies. Small firms with employment under 100 workers employed 50 percent of commercial sector workers, but just 18 percent of nonprofit workers. Thus the majority of nonprofit workers in Pittsburgh are employed by large institutions, mainly meds and eds.[5]

[5] Not surprisingly, in the city of Pittsburgh, which houses many of the region's federal and state offices, along with Allegheny County and City of Pittsburgh government offices, 55 percent of government workers were employed in very large organizations.

Pittsburgh's Fiscal Crisis

Pittsburgh's economic growth is being generated mainly by large, nonprofit organizations which subsequently contribute to the fiscal crisis of the city, in part, by their expansion and tax-exempt status. But other changes, also, have created the crisis. What is the implication of these changes for city finances?

Urban fiscal crisis is exacerbated for the City of Pittsburgh because of its small size relative to Allegheny County and the greater Pittsburgh region. Its physical growth is limited. Expansion by the City of Pittsburgh came to a halt a century ago, long before most major cities would stop expanding, just after it annexed its neighbor Allegheny City in 1907. The referendum that enabled the annexation was actually a split decision. The majority of City of Pittsburgh residents favored annexation while the majority of Allegheny City opposed the referendum. Political backlash from this outcome would lead to organized political efforts that changed the Pennsylvania Constitution limiting annexation (ACIR, 1992). Absent some minor annexations at the beginning of the depression, the City of Pittsburgh's boundaries have not been significantly altered in a century.

By the late 1970s, it became impossible to ignore the escalating strains on City of Pittsburgh finances. These strains would compound themselves through the 1980s, the period of rapid industrial restructuring. The Pennsylvania Economy League documented these strains in its 1984 report *Pittsburgh: A Regional City with a Local Tax Base*. The report predicted dire budgetary problems for the city going into the future. Clearly identified by the report were core problems including structural limitations on city revenue,[6] the high incidence of tax-exempt property within the city, and the escalating costs of local public service provision. It also identified the unsustainability of the city's role as the core funder for a range of regional cultural institutions. Declining population meant a declining tax base yielding city revenues which were no longer adequate to continue operating institutions such as the zoo, aviary, and conservatory, within the city budget.

The strains on the city's finances reached a crisis by the early 1990s. The city's dire conditions were addressed in a number of ways, but none addressed the underlying structural conditions of the unsustainability of the city's fiscal problems. To continue cultural institutions and share their costs, Allegheny County created the Regional Asset District (RAD) in 1994. The RAD imposed an additional 1 percent county sales tax to be used as a revenue source to fund a range of local tax reforms and a number of local organizations and cultural amenities that were once supported primarily by the City of Pittsburgh. The city decided in 1994 to sell off a major asset -- its water department – to stave off an immediate cash crisis, but did not resolve its continuing operating deficits problem. Once the revenue from the sale of the wager department was exhausted a few years later, the city would seek out other one-off revenue sources to fill ongoing budget deficits. Assets that would later be liquidated for cash included the sale of all city tax liens in 1996. These sales deferred for a time what was becoming a perpetual cash crisis for the city, but did not solve the city's structural deficit problems.

[6] These include limits on annexation and forms of taxation, under the Commonwealth of Pennsylvania.

The concentration of tax-exempt properties in the urban core has had a measurable impact on the tax base and overall fiscal capacity of the City of Pittsburgh. Tax exempt properties represent 34 percent of total property in the City of Pittsburgh, including both public and nonprofit sectors, while just 14% of the region was made up of tax-exempt property in 2004 (see Figure 1). Pittsburgh contains a greater concentration of government and non-profit enterprises than are found in cities such as,Philadelphia. The comparable figure for the city (and county) of Philadelphia was 26.6 percent.

The two major areas for the location of tax exempt properties are the central business district (CBD, also called the Golden Triangle) and the Oakland neighborhood, which has the largest concentration of hospitals and universities. Figures 2 and 3 compare tax exempt property in these two areas, by status. In Oakland, most tax exempt property is owned by nonprofit sector organizations, while the tax exempt sector in the CBD is split between government and nonprofit land.

As pointed out by Ochs (2005), the percentage of real estate taxes paid by the ten largest owners of commercial real estate in Pittsburgh has not grown over twenty years, despite population and household decline. This is because a major shift in employment has occurred over that period from employment in private, for profit commercial and industrial firms to not-for-profit entities, such as hospitals and universities. There exists a continuing displacement of commercial for-profit economic activity that compounds the effect of large, non-profit institutions on city finances. This section examines the growth in the tax exempt sector and Pittsburgh's fiscal crisis.

This crisis resounded in 2004, when the City of Pittsburgh became an Act 47 distressed community according to Pennsylvania's Municipalities Financial Recovery Act. This law effectively placed the City in a quasi bankruptcy with state oversight of fiscal policy.

In 2004, real estate tax revenues totaled $120 million (see Figure 4). Constant dollar real estate taxes decreased every year from 1990 to 2001. There were fluctuations over this period, due mostly to the sale of tax liens on city property to commercial companies at a fixed proportion of face value. Much of the revenue collected via these tax lien sales were one-off sources of revenue. The real dollar increase in property tax revenue in 2001 resulted from a one-time, county-wide property reassessment. Since 2001, property tax revenues continued to decline in constant dollars.

The city's structural deficit increased over the 1990s, when the city increased its spending by amounts greater than any revenue gains. Expenses increased by 2.3 percent per year on average, or $7 million per year, compared to only a 1. 6 percent per year increase in new revenues, or $4 million (Miller 2004). The structural deficit – the difference between revenues and expenses -- increased each and every year.

Projections of Pittsburgh's revenue are equally dire It is important to note that flat property tax revenues do not imply that new construction is not taken into account. New construction will, in itself, increase the City's property base. However, the net change in property revenues will also be affected by routine demolitions and ongoing property appeals. For example, building permits were issued for the construction of 1,983 private residential housing units between 1990 and 2000. Neither new construction nor real estate price appreciation in the Pittsburgh real estate market of approximately 50 percent over the decade provided any noticeable increase in total real estate tax revenues.[7] In the near term it is unlikely there will be a significant change in the rate of new construction activity in the City. In fact there are some indications that the level of new construction activity is trending lower. For 2005, the total estimated construction cost of private residential building permits is at the annual lowest level in a decade. Building permit data such as this is often considered a leading indicator of future construction and overall economic activity.

The only significant increase in City of Pittsburgh property tax revenues resulted from the first mass reassessment of all county property completed in 2000-2001. This resulted in a new assessment base being set for city property and facilitated a one-time windfall increase in property tax revenues. There are no plans to repeat the mass reassessment and the county has implemented a base year property assessment methodology that will prevent any further windfalls without increased millage rates. City property tax revenues in years subsequent to the mass reassessment have already shown a decreasing trend. Given low rates of private construction within the city, and absent further increase in already uncompetitive property tax rates, property tax revenues are not expected to produce net new revenue for the city into the future.

One area that is often used to gain revenues from the charitable sector is with PILOTS – payments in lieu of taxes. In 1985, the Pennsylvania Supreme Court ruled on a decision that allowed cities in Pennsylvania to solicit PILOTS from nonprofit organizations (Glancey, 2002; Leland, 2002). Pittsburgh began collecting PILOTS in the early 1990s, but has not solidified what those payments are annually. Its ability to collect was also limited by subsequent state action that limited municipalities' ability to challenge tax exemptions, what cities used to compel voluntary payments from nonprofits, and today it no longer can mandate PILOTS (Lord 2007).

Conclusion

Pittsburgh's large landowners present a paradox for the City. These large landowners are the City – and region's – largest employers. They emerged out of the region's economic restructuring after the collapse of the steel industry as not only important economic and social forces, but as new partners joining the growth alliance in the region's economic and land development agenda (Lubove, 1995; Ferman 1996). They've partnered in regional brownfields reclamations, bringing older industrial properties back into reuse. They have also expanded their facilities in the city. Nonetheless, their tax exempt status limits the City's revenue through traditional property tax collections. This has occurred as the City has limited means to raise its tax revenues – limits imposed by the state, population decline, and continued service provision to nonresident workers. How the City can manage this paradox has yet to become evident, as its deficit problems continue.

[7] The 50% cumulative appreciation is derived from the Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index.

Adams (2003, p. 585), following her analysis of Philadelphia that showed a lack of public officials' support for their "meds and eds," described Pittsburgh as a city that had "recognized the contribution of meds and eds … in economic regeneration." She also cites Sbragia (1990) who found "the city's future development was clearly intertwined with the agendas of the universities and science center – all nonprofits." Despite their optimism, both authors expressed concerns in their conclusions addressing the questions of cooperation between nonprofits and government continuing in the future and the likely cooperation between the competitive nonprofit health care and educational institutions.

Neither author addressed the issue of taxation. This is the area where "the spirit of cooperation" has probably been most strongly tested in the past decade. A change in taxation possibilities on nonprofits, especially regarding PILOTS, following the long standing HUP case and the 1997 Institutions of Purely Public Charity Act, meant nonprofits did not have to continue previous payments. This remains a contested area between municipal government and nonprofit organizations.

More than twenty years after Pittsburgh's public-private economic development partnership embraced large nonprofit institutions, cities and regions around the world now recognize the important role these large nonprofit institutions play in regional economies (Lester 2006). Are their impacts, however, even broader economically or fiscally? Under the interrelated combination of a declining city and expanding nonprofit sector, city economies that do not change their revenue structures strain financially, as evidenced by the Pittsburgh case.

Examining projections for real estate revenue for the City of Pittsburgh shows little change. The examination of non-profit employment and distribution within the Pittsburgh region suggest that there is a sorting of economic activity differentially affecting for-profit and non-profit enterprises. Uncompetitive city tax rates are not a disincentive for non-profit institutions and their expansion within city limits has continued unabated. To the degree that other economic activity is being displaced within the city, the city can not rely on taxation of for profit enterprises in the future. While we could not empirically test the Henderson thesis, owing to lack of comparable data availability, it seems from the data and figures presented that an intra-regional sorting of for-profit, commercial enterprises and nonprofit institutions is occurring.

Any conclusions here must focus on alternative sources of funds for city revenue. One possibility, though unlikely, is an expansion of shared regional assets and expansion of the RAD, discussed above. Adams (2003, 585) called for a restructuring of municipal tax structures to take advantage of the productivity gains of nonprofit organizations through an earned income tax. In the city of Pittsburgh, the nonprofit sector had a cumulative payroll of over $3 billion in 2004.

Perhaps no city so literally exemplifies the quote: "the bell towers of academia have replaced smokestacks as the drivers of the American urban economy" (CEOs for Cities, cited in Lester 2006). Pittsburgh took the lead in bringing the research-based nonprofit organizations into its growth alliance in the 1980s, because of the rapid pace its economic restructuring undertook at that time. The importance of the nonprofit organizations on the Pittsburgh economy and their leadership role in economic development will continue to expand. Now, however, as the fiscal crisis of the city of Pittsburgh persists, the growth partnership, including the nonprofits, needs to enact better long term solutions to Pittsburgh's financially stability. Pittsburgh may be a counterintuitive case of municipal fiscal distress inducing economic success by attracting and retaining this large and growing nonprofit employment.

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Table 1. Twenty Largest Employers, Pittsburgh Region, 2006.

Rank	Name	Employees
1	University of Pittsburgh Medical Center	30,957
2	U.S. Government	19,224
3	Commonwealth of Pennsylvania	14,023
4	Giant Eagle, Inc.	12,220
5	West Penn Allegheny Health System	11,462
6	University of Pittsburgh	10,714
7	Wal-Mart Stores, Inc.	9,705
8	Allegheny County	6,607
9	PNC Financial Services Group Inc.	6,568
10	Mellon Financial Corp.[1]	6,300
11	US Airways Group Inc.	5,416
12	Pittsburgh Board of Education	5,245
13	Eat'n Park Hospitality Group Inc.	5,167
14	Highmark Inc.	4,867
15	Carnegie Mellon University	4,556
16	US Steel Corp.	4,000
17	Excela Health	3,413
18	Pittsburgh Mercy Health System[2]	3,356
19	Heritage Valley Health System	3,333
20	United Parcel Service	3,210

[1] Merged with Bank of New York, headquarters moved to New York.
[2] Bought by UPMC.
Source: Pittsburgh Business Times, 2007, p. 172.

Table 2. City of Pittsburgh Population, Change and Share of County and Regional Population, 1940-2005

				Population as Percent of	
Year	Population	Change	Percent	County	Region
1940	671,659	--			--
1950	676,806	5,147	0.8	44.7	--
1960	604,332	-72,474	-10.7	37.1	22.5
1970	520,117	-84,215	-13.9	32.4	19.4
1980	423,938	-96,179	-18.5	29.2	16.5
1990	369,879	-54,059	-12.8	27.7	15.4
2000	334,563	-35,316	-9.5	26.1	14.2
2005	316,718	-17,845	-5.3	25.6	13.4

Source: Census Bureau Decennial Census and Annual Population Estimates

Table 3. Employment by Sector, City of Pittsburgh, 2002-2004

	Employment			Share of Total			Percent Change	
	2002	**2003**	**2004**	**2002**	**2003**	**2004**	**2002-03**	**2003-04**
Commercial	199,994	206,286	202,190	66.1%	66.5%	66.1%	0.7%	-0.6%
Government	31,059	30,357	29,459	10.3%	9.8%	9.6%	-4.6%	-1.6%
Nonprofit	71,718	73,506	74,274	23.7%	23.7%	24.3%	0.1%	2.4%
Total	302,770	310,150	305,923	100.0%	100.0%	100.0%	0.0%	0.0%

Source: PA Labor & Industry, ES 202 and IRS Business Master File
Note: Total may differ with data suppression.

Table 4. Employment by Sector, City of Pittsburgh, Allegheny County, and Pittsburgh MSA, 2004

Sector	City	County	Region
Total employment	305,922	686,380	1,064,279
Commercial Sector	202,190	506,371	797,968
Government Sector	29,459	70,834	118,207
Nonprofit Sector	74,274	109,175	148,104
Share of total employment (percent)	100.0	100.0	100.0
Commercial	66.1	73.8	75.0
Government	9.6	10.3	11.1
Nonprofit	24.3	15.9	13.9
Share of region's jobs, by sector (percent)	28.7	64.5	100.0
Commercial	25.3	63.5	100.0
Government	24.9	59.9	100.0
Nonprofit	50.1	73.7	100.0

Source: PA Labor & Industry, ES 202 and IRS Business Master File.
Note: Total may differ with data suppression.

Table 5. Nonprofit Employment by Industry, City of Pittsburgh, Suburbs* and MSA, 2004

Industry	Employment			Percent of employment shown		
	City of Pittsburgh	Suburbs	Region	City of Pittsburgh	Suburbs	Region
Construction	90	34	123	0.1	0.0	0.1
Retail Trade	71	93	164	0.1	0.1	0.1
Information	519	1,064	1,583	0.7	1.4	1.1
Finance and Insurance	296	233	529	0.4	0.3	0.4
Real Estate, Rental and Leasing	147	124	271	0.2	0.2	0.2
Professional, Scientific, and Technical Services	1,036	246	1,282	1.4	0.3	0.9
Administrative and Support	73	445	518	0.1	0.6	0.3
Educational Services	18,451	7,634	26,084	24.8	10.3	17.6
Health Care and Social Assistance	43,461	52,533	95,994	58.5	71.2	64.8
Arts, Entertainment, & Recreation	2,563	3,628	6,192	3.5	4.9	4.2
Other Services (except Public Administration)	4,798	6,930	11,728	6.5	9.4	7.9
Total (unreported data included in figure)	74,274	73,830	148,104	96.3*	98.8*	97.5*

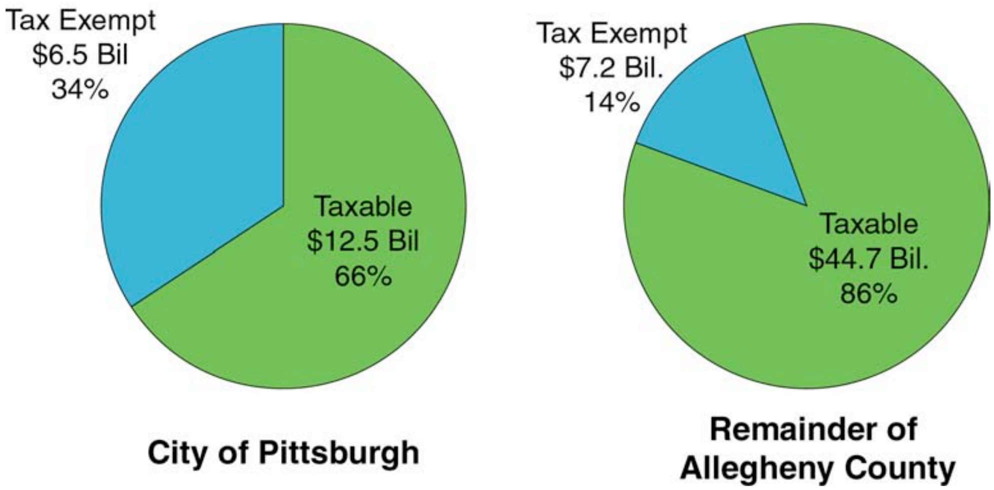
* "Suburbs" include all the MSA region outside the City of Pittsburgh
Source: PA Labor & Industry, ES 202 and IRS Business Master File
Note: Total may differ with data suppression.

Table 6. Size of Establishment by Sectors, City of Pittsburgh, 2002-04 (average)

	Commercial*	Government	Nonprofit
1-49	37.1%	8.6%	11.3%
50-99	13.5%	9.8%	6.5%
100-249	18.0%	15.3%	10.5%
250-499	11.2%	6.5%	7.7%
500-999	10.8%	26.0%	5.7%
1000+	9.5%	55.0%	58.2%

* For profit businesses.
Source: PA Labor & Industry, ES 202 and IRS Business Master File
Note: Total may differ with data suppression.

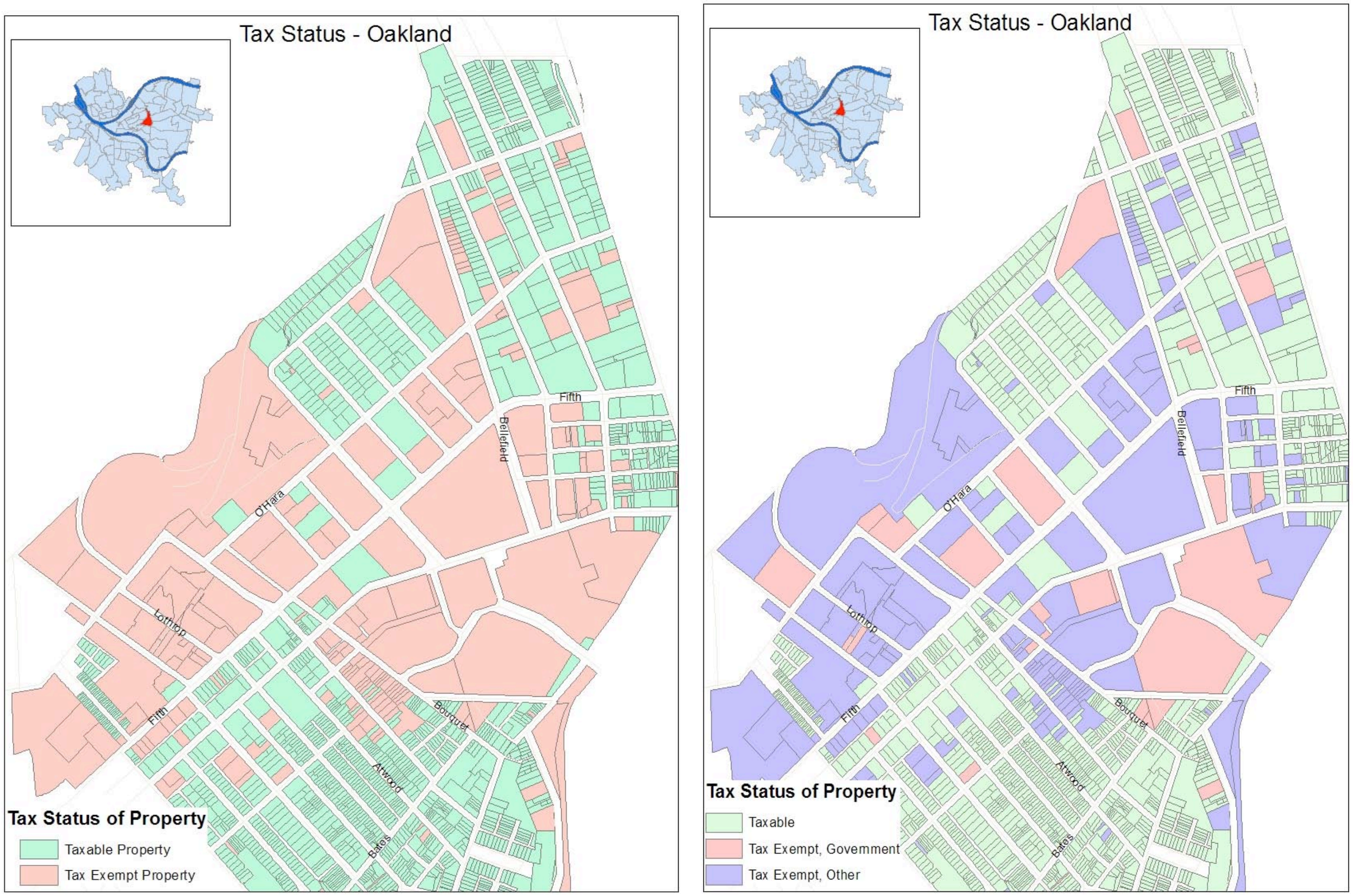
Figure 1. Tax Exempt and Taxable Property in the City of Pittsburgh and Remainder of Allegheny County, 2002/2003*.



* Total assessed value of taxable properties within a municipality is obtained from the Pennsylvania State Tax Equalization Board and represent 2002 assessment dollars. Total assessed value of exempt properties are from 2003 and do not include utilities. LORL notes that since governments are not compensated for exempt properties, tax assessors report those assessments are often inaccurate.

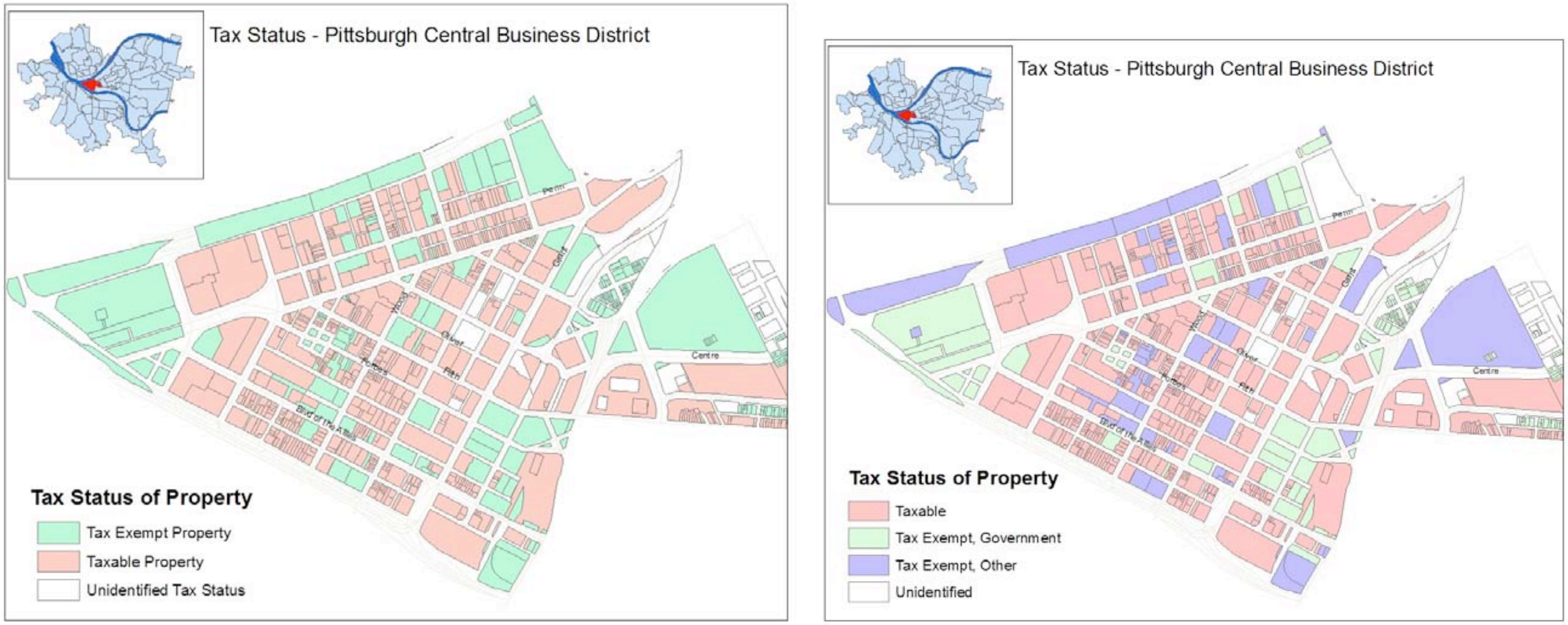
Source: Pennsylvania Legislative Office of Research Liaison (LORL), 2004.

Figure 2.



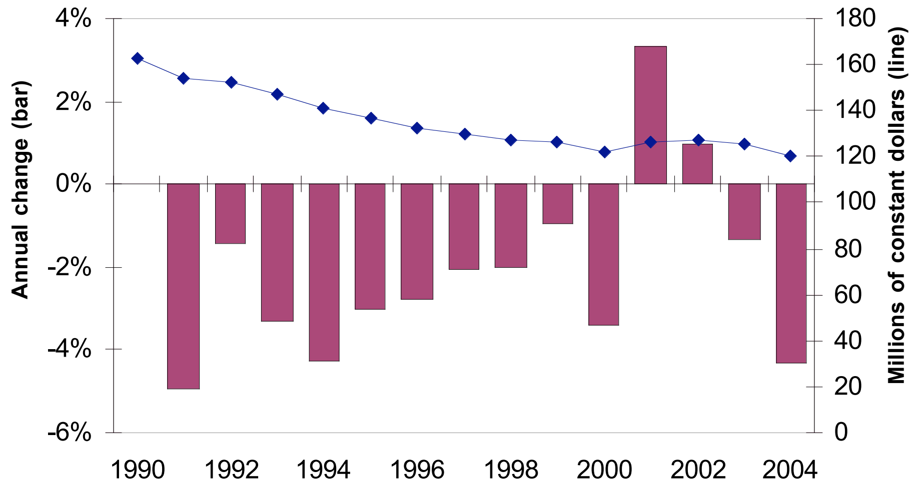
Source: Allegheny County Office of Property Assessments, 2005.

Figure 3.



Source: Allegheny County, Office of Property Assessments, 2005.

Figure 4. Real Estate Tax Revenues, City of Pittsburgh, 1990-2004 (millions of 2004 dollars)



Note: 2001 increase in tax revenues reflects one-time, county-wide property reassessment.