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10% Drink Tax Analysis: Allegheny County Council Fiction vs. Facts

FACT Calls Property Tax Argument Supporting Drink Tax Pure Fiction

PITTSBURGH, PA - MAY 22, 2008 – Friends Against Counterproductive Taxation (FACT – <http://www.stopdrinktax.com>) have called into question the credibility of County Executive Dan Onorato and County Council by exposing the untruths and fictional predictions that were conjured up about the controversial 10% Drink Tax passed in December 2007.

Since FACT's campaign to STOP THE DRINK TAX kicked off in September, 2007, County Executive Dan Onorato, Council President Rich Fitzgerald and others attacked the group's credibility with untruths.

However, FACT states that the County Executive and County Council's credibility should be questioned because they are spreading lies, untruths, fictional predictions - call it what you like - to muddy the Drink Tax debate and it's time to reveal the truth. For example:

1. FICTION: The County needed a \$28 million tax increase to fund transit.

FACT: The increased funding requirement for transit was less than \$2 million. The drink tax was merely enforced for cynical political reasons. At one point, it appeared that Mr. Onorato had abandoned this baseless argument, but has revived it recently as his other defenses have deteriorated. The real reason for the tax appears to be that the County confronts a structural annual fiscal imbalance approximating \$50 million that likely derives from the confluence of the assessments freeze and inflation.

2. FICTION: Eliminating the Drink Tax would demand a property tax increase.

FACT: This statement reflects a failure of leadership. Several alternatives have been identified -- some in meetings convened by Mr. Fitzgerald to arrange a repeal of the drink tax, at none of which was a property tax increase mentioned. Here are a few options:

- Reduce County expenditures and properly accounting for funds received from County authorities and pursuing repayment of funds due from authorities
- Reassess all properties properly and address the exemption for certain properties currently classified as tax-exempt
- Increase fees long-ago overrun by inflation
- Revise the taxation structure for alcohol beverages statewide
- Properly address gaming revenues

FACT believes in fair and equitable taxation, but many homes throughout the region are incorrectly assessed. In a recent WTAE-TV investigation, it was found hundreds of properties are under assessed in richer parts of the community. For example, Steelers Coach Mike Tomlin paid \$1.8 million for his 9,200-square-foot mansion in Shadyside last year, but it is assessed at \$1.1 million. That saves Tomlin \$20,000 a year in property taxes. But retired steelworker George Ross, who lives in a 1,200-square-foot ranch in Duquesne, paid \$19,000 last year for his house, but it's assessed at \$32,000. That means Ross pays nearly \$500 a year more in taxes than if the house was assessed at market value.



3. FICTION: The entire 10% Drink Tax was required to generate the revenue Dan Onorato claimed to need.

FACT: It was easy to see that 10% rate would overtax County taxpayers. It was predicted (by FACT general counsel Cris Hoel and by CONSAD Research Corporation, which published the only known economic impact study concerning Mr. Onorato's drink tax). Even the most cursory research would have established beyond reasonable doubt that the 10% rate would generate nearly twice the revenue Mr. Onorato and Mr. Fitzgerald claimed to need. So which is worse: Mr. Onorato didn't do his homework, or he knowingly overtaxed the citizens of Allegheny County?

4. FICTION: It is still too early, in May, to determine whether the 10% rate would overtax county taxpayers.

FACT: Revenues from the first quarter of 2008 (relatively weak months in the seasonal alcohol beverage industry) show that the 10% rate will generate at least \$40 million, likely \$50 million, and perhaps more. FACT members offered Mr. Onorato \$40 million in exchange for 2008 drink tax remittances (a transaction that would resemble a customary tax anticipation loan). Mr. Onorato asked, "Why would you do that?" Our reply: "Because we would like to make a \$10 million profit." Drink Tax defenders claim this is "just a theory" and that we must "wait and see" until year-end. By similar logic, the calendar is "just a theory" and we must wait six months to determine whether Christmas is immediately followed by New Year's Day.

5. FICTION: It was going to be a "poured" drink tax.

FACT: Mr. Onorato repeatedly described this tax as a "poured" drink tax. After County Council approved the ordinance, however, Mr. Onorato revealed that take-out beer would be covered by his tax too.

6. FICTION: If the Drink Tax is eliminated, Mr. Onorato will be required to increase property taxes by 25% to balance his budget.

FACT: County property tax revenues approximate \$250 million; one quarter of that is \$62.5 million. Mr. Onorato budgeted less than half that amount from drink tax revenues in the county's 2008 budget. His scare tactic consequently missed the mark by approximately 100%.

7. FICTION: Mr. Onorato would not do anything that would make the County uncompetitive, and the Drink Tax would not harm the County's hospitality industry.

FACT: Mr. Onorato claimed that the Drink Tax would not make the County uncompetitive and that the hospitality industry was exaggerating the harm to be inflicted by his 10% Drink Tax. Economic data from the first four months of the Drink Tax established that he was mistaken or misleading County residents. Pennsylvania Liquor Control Board sales figures (a lagging indicator) demonstrate a substantial reduction in alcohol purchases by Allegheny County liquor licensees from the moment the drink tax was imposed, coupled with a corresponding substantial increase in purchases by licensees located in the contiguous counties. Each of these circumstances is unique across the entire Commonwealth of Pennsylvania. Standard industry guidelines indicate that the lost economic activity for Allegheny County consequent to the 10% Drink Tax will exceed \$50 million.

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8. FICTION: Mr. Onorato and the Drink Tax's defenders on County Council were committed to implementing an alternative.

FACT: Mr. Onorato and nearly every County Council member have publicly stated that the Drink Tax is a "bad tax" and declared that they were committed to finding an alternative revenue source for the County. Council members provided assurances in private meetings, and voted 14-0-1 during a public meeting to pursue alternatives. Mr. Onorato and Mr. Fitzgerald also pledged to monitor remittances and to adjust the Drink Tax rate "immediately" if revenues overran their budget figures on Drink Tax collections (as the Post-Gazette urged editorially in December 2007). Instead, Mr. Onorato and Mr. Fitzgerald have actively thwarted every effort to eliminate or even to reduce the Drink Tax. Mr. Onorato told the hospitality industry during the spring that he would push for video poker licensing to generate revenue and enable him to rescind the drink tax; to date he has not even conducted the promised press conference.

9. FICTION: Mr. Onorato did not know, when directing Council members to enact the ordinance in December, that an unbudgeted \$20 million windfall would arrive on New Year's Eve (in the form of a wire transfer whose sender mysteriously possessed wiring instructions for).

FACT: Mr. Onorato and the County Manager coordinated that payment (including accounting treatment) with the airport authority and state officials. This money was not restricted to certain uses ("debt service reduction"), as Mr. Onorato had claimed, but instead has been placed in a general county fund used to pay general expenses. Similar "slush fund" transfers are expected in the future. Read on.

10. FICTION: Mr. Onorato never asked Harrisburg legislators to enable him to impose a 10% Drink Tax; it was forced on him by the state legislature.

FACT: Mr. Onorato has never identified, despite repeated requests, those who ostensibly rammed this tax down his throat. Instead, he vaguely suggests "ask Rep. Frankel" or "ask Sen. Logan." State legislators have told FACT that Mr. Onorato actively requested the Drink Tax (although he reportedly promised that he would never impose a 10% Drink Tax, but instead would limit the tax rate to a few percent), to the exclusion of other prospective revenue sources.

Against this background, FACT acknowledges that the Drink Tax debate has been marred by misleading, cynical and demonstrably false arguments. For Mr. Onorato to be ascribing these falsehoods to FACT, however, is vivid hypocrisy. Perhaps that is why Mr. Onorato backed out of a scheduled FACE TO FACE debate on KDKA Radio.

ABOUT FACT

FACT (Friends Against Counterproductive Taxation) is a local 501 c 6 business league incorporated in Pennsylvania to promote the interests of, and in particular to educate the public and elected officials with respect to, southwestern Pennsylvania's hospitality industry. It is a growing group of Allegheny County restaurateurs who have come together to stand as one to support, protect and defend their industry; those who work for them, those who provide products for them, those who provide the service for them and the consumers (customers) who support them. FACT recognizes the contribution the hospitality industry; guests, servers, owners and operators alike makes, on a daily basis, to the region's employment, tax base and overall impact on economic development. For more information visit www.stopdrinktax.com to learn more about membership and contributing to efforts to inform, educate and promote the interests on the hospitality industry of Allegheny County.