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**Obstacles to Growth in Allegheny County and SW Pennsylvania
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Good morning. It is a pleasure to be with you today.

Obviously, the title of this talk sets a somewhat daunting task. Nonetheless, I will try to explain what I believe are the principal factors constraining economic gains in Allegheny County. I am sure you will have your own list.

I will be throwing a few numbers at you. I will try not to toss out too many since it is difficult to follow when there are a lot of them coming at you.

Let me begin by saying that Allegheny County is not falling apart. Indeed, some parts of the county are doing well. But there are some undeniable problems. The county is still losing population at an alarming rate after 4 decades of declines totaling nearly 400,000 people between 1960 and 2000. That cannot be a good thing. And while some surrounding counties are benefiting from an Allegheny County exodus, it is clear that the bulk of people leaving Allegheny County are not just moving across county lines, they are continuing on to other parts of the state or country. This is confirmed by the ongoing losses in most neighboring counties and the fact that the Pittsburgh metro area as a whole is still losing population.

Here's a key number to keep in mind. Between 2000 and 2006, 59,000 more us residents left Allegheny County than moved in. (that's what the census bureau calls internal migration.) in addition, the county had 9,000 more deaths than births. The one piece of positive news in all the latest data is the finding that almost 14,000 people from other countries moved to Allegheny County. Those immigrants held our overall 6 year population drop to 56,000 give or take a thousand for statistical error. Even so, the county's six year loss represents the lion's share of the region's decline.

You might have seen the recent coverage of the census report showing that the Pittsburgh metro area ranked second behind New Orleans as the biggest loser of population thus far in the decade. Our loss is worse than Cleveland, Buffalo, Dayton or Toledo.

On the other hand, and quite surprisingly, some rust belt metros actually gained population. Indianapolis, Milwaukee, St. Louis for example. Moreover, many metro areas in other parts of the country, especially some southern and western regions continue to rack up enormous population gains thanks to the influx of large numbers of people, both domestic and international. I'll come back to the importance of this phenomenon momentarily.

But first, you will be interested to learn that Allegheny County did not have the biggest migration loss in Pennsylvania. That distinction goes to the great city of brotherly love to the east where a net migration loss of us residents of 133,000 people was posted over the last 6 years. That's almost 10 percent of the 2000 population. Fortunately for Philadelphia's population count, there were 1,800 more births than deaths and 37,000 folks from other country moved into the county. Still, it left Philadelphia with net drop of almost 70,000.

At the same time, however, every county within the Philly metro area except Delaware had big jumps in their population due to in-migration, much of it undoubtedly coming from the mass exodus from Philadelphia County.

When a county such as Allegheny or Philadelphia suffers the magnitude of net internal migration loss as we have seen in recent years, it clearly cries out for explanation. By the way, if population decline in Allegheny County continues at its current pace through the 2010 census, we will be down to only 1.18 million people, a count last seen in 1920.

It certainly says something dramatic about an area when such a large percentage of people pick up and move. It has considerable undesirable consequences as well.

If the person leaving is a work force member, he/she takes away skills and productive capacity that benefit both the person and the community. If the people leaving are retirees moving to warmer, lower tax state, they take away their purchasing power and their tax payments, all of which results in a net loss to the community since most would not have school age children and are not generally much of a user of police, courts and other county and municipal services. And their support of local retailers is gone as well.

But it is not just retirees who are heading out. Over the past decade or so, Allegheny County has experienced a 30,000 person drop in its labor force and a decrease of 27,000 people actually working. That is a truly remarkable number that gets almost no attention.

There can be little doubt that the parts of the county that are losing population and workforce will have weak housing markets with declining prices and a drying up of local retail activity. And the county's tax base is reduced as each of these things happen.

And there are political implications. The loss of 100,000 more people by 2010 will result in the loss of one and three-quarters state house representatives and two-fifths of a state senator. Indeed, western Pennsylvania as a whole is losing legislative representation relative to the eastern part of the state.

Why am I talking so much about migration? It is very simple. There is no more powerful or direct indicator of how a place is doing and how it is perceived than whether people stay or leave. So we must ask; why are so many people still leaving Allegheny County? Three key items that might explain moving decision come to mind.

Number one: good paying, career oriented jobs, especially for folks just starting out or not too old to make a major move to improve their earnings capacity and lifetime accomplishments. Clearly, there are both push components and pull components in those factors. Parts of the country that are growing and where jobs are being created at a rapid rate offer more and better opportunities to land a good job and will therefore attract a lot of jobseekers from other areas. For example, Mecklenburg and Wake Counties in NC have each added over 130,000 new residents in just the last 6 years—huge percentage gains. A very large part of those population gains is a direct reflection of the tens of thousands of jobs being created in the region since 2000. Bear in mind that growth begets growth. Jobs bring more people. More people foster more jobs and so it goes.

It's simple enough. Grow the good jobs, attract workers. A surefire recipe for economic success. Not too hard to figure out. Indeed, that is exactly what happened in Allegheny County for decades starting in the 1870s right through World War II.

Sadly, for a long time, Allegheny County and most of the contiguous counties have been doing a very poor job of expanding private sector employment. And more recently during the last several years the seven county metro area-- of which Allegheny County is more than half and is clearly the region's linchpin-- has had unbelievably lackluster record of producing jobs. Indeed, from February 2000 to February 2007, there has been no net increase in the number of private sector payroll jobs in the metro area. That is a stunning development in light of the growth that is happening elsewhere in the country.

Further, the job growth that has occurred has been primarily found in health care, education and eating and drinking places. Meantime, manufacturing jobs have continued to slide, falling by more than 30,000 and more than offset health care gains. Similarly, transportation sector losses have offset eating and drinking increases. There have been very modest gains in the finance sector but retailing is in a tailspin no doubt reflecting the decline in population. .

Unfortunately, on balance we seem to be growing jobs that pay less than the ones we are losing. That is certainly one of the main ingredients in the mix of factors producing a net outflow of residents from the county and region.

The second factor driving people to leave is a combination of characteristics that fall under the general heading of quality and cost of living. of course, those would have to include climate, ease of getting around, condition of one's neighborhood and last, but not least, taxes. Transportation deficiencies also plague the region, e.g., parkway east, route 28, parkway west and so on.

There can be little doubt that high property taxes in Allegheny County are a principal reason for folks moving out. School taxes in many Allegheny County districts are double the rate they would pay on comparable homes in other regional counties and several times what they would pay in many sun belt states for comparably valued homes.

But the important thing to keep in mind is that the same onerous tax burdens that afflict residents also affect businesses. A very slow rate of startups of new businesses in the county is surely due in large measure to the tax structure and tax levels in Allegheny County.

Why is that important? A recent study by the small business administration found that the pace of new business starts was a key variable explaining the differences in income and job growth rates among the states. The faster the rate of new business starts, the faster the growth of income and jobs and vice versa. Thus, it comes as no surprise to learn that with an anemic pace of new business starts that job growth in Allegheny is weak and that resident, young as well as retired, are headed out.

But then one has to ask, why are taxes so high in Allegheny County? There is no way around it. The short answer is that school and government spending are too high across the county, especially in the City of Pittsburgh. Per student outlays in most school districts are higher than the statewide average and far above the national level. Unhappily, with the coming jump in money needed to fund teacher pensions, school taxes are set to go much higher all across the state but more in Allegheny County where teacher pay average is well above the state level.

For municipalities with police and fire departments, you are well aware of the impact of Act 111. That act has been a major element in the financial crisis facing the city of Pittsburgh and the predicament faced by many others around the Commonwealth.

There can be no getting around the facts. Act 111 needs to be reformed to bring a better balance of power to the bargaining table with public safety unions. This ranks right along with eliminating the right of teachers to strike as a holding the key to slowing and possibly reversing the rise of expenditures that ultimately must be covered by boosting tax rates or finding new things to tax.

And don't get me started on the Port Authority with its outlandish and extravagant spending together with gross inefficiencies and mindless building of unnecessary transit structures such as the Wabash Tunnel. Those costs must be met at the fare box or by taxpayers. Without question we are not getting nearly the level of service we ought to be getting for the money that has been spent and is currently being spent.

The regional gurus of the past have told us that if we would put in a local option tax of one percent and use half to take care of our regional assets, we would see great things happen to our economy. We built stadiums and a new convention center with tax dollars. We heavily subsidized the Lazarus store-- a \$56 million dollar building that was recently sold to a developer for \$8 or \$9 million to be redeveloped. Now we are being told that a new Penguins arena is just the ticket to keep our young people here. How sad.

The state, the county and the city have dumped countless millions into projects that were little more than fanciful, wishful thinking. Precious tax dollars that should have stayed in taxpayer pockets.

That is not to say that no good things have happened. Obviously there have been some success stories and promising developments. But we must look at the whole picture and it is not very good.

Now those same folks who led us to RAD, new stadiums, a new convention center, Lazarus, etc. want us to believe that the reason we cannot grow is that we have too many municipalities and that consolidation would go a long way toward curing what ails us. Duplication is expensive they say, look at all the money that could be saved with a consolidated government.

I would like every municipal official who believes that to ask him or herself how much his municipality, borough or township spends per capita to provide government services to residents and commercial interests. Then I would ask them if they know how much Pittsburgh or Philadelphia spends per capita. Pittsburgh spends \$1350 and has seriously unfunded pension liabilities. Philadelphia spends at least that much and has serious unfunded pension liabilities. Indeed, those two cities account for 70 percent of all unfunded liabilities in the state.

Bigger is not necessarily better. Philadelphia is the consolidator's dream, there is only one municipality and it is essentially the only government. There are some county offices with no real jobs or money to spend. Yet by the reckoning of its own people, it is not a good place live as indicated by the 133,000 who took flight over the last 6 years. And it is certainly not a cost effective combined government, with expenditures that make Allegheny County and its municipalities look like pikers.

There are many reasons for that and we need not go into them here. Suffice to say that you should beware the cry of those who want to consolidate. It is hard, it is time consuming and it offers little advantage to most. That is not to argue that there are no instances where a voluntary merging of political entities might be a good thing. But talk of merging Pittsburgh and the County must remain a non-starter. By the same token where two or more communities want to try it, let them give it a go. But there should be no state mandated consolidation.

I did a little analysis testing whether the number of municipalities in a county was correlated with the population change. The answer is no. there is no significant statistical relationship linking the two. Nor was there a significant correlation between the number of people per municipality and population change.

Allegheny County has 130 municipalities; its population fell 4.4 percent over the last 6 years. Philadelphia has one municipality and its population fell by 4.3 percent over the same period. Remember that 133,000 residents departed Philly for greener pastures-- an absolutely astonishing figure for a city not devastated by a natural disaster.

To sum up:

The picture here is not good from the standpoint of jobs and population. If we want to change that there is a lot that needs to be done to rein in spending and make the area more attractive to business. That is, other than just handing them taxpayer cash.

- 1) End the right of teachers to strike and start reining in school spending. we are going to be hit with significant tax hikes to pay for teacher pensions.
- 2) Reform Act 111 to require arbitrators to look at compensation, benefits and working hours and conditions of comparably situated police and fire departments. Also require that the financial condition of the municipality be taken onto account. At a minimum those two changes need to be made.
- 3) Stop using TIFs for retail or entertainment developments.
- 4) Quit using tax dollars to help companies move within the county.
- 5) Work to get legislation requiring a referendum for all tax rate increases, no exceptions.
- 6) Stop wasting money on things such as the Wabash Tunnel, the north shore connector.
- 7) Stop overspending on projects like the convention center
- 8) Outsource or privatize as many non-core government functions as possible
- 9) Be very leery of new state programs that sound good but that inevitably produce more bureaucracy and more cost with far fewer benefits than promised.