ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

Common Sense for Pittsburgh's Mayoral Candidates

Allegheny Institute for Public Policy

Allegheny Institute Report #09-03
May 2009

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Summary

Voters in the City of Pittsburgh will go to the polls this year to select the person who will occupy the office of Mayor for the next four years. For certain, it is anyone's guess as to what the City will look like in 2014. Will the City's most pressing questions of the day be answered by then? For instance:

- Would a City-County merger deliver real savings to taxpayers?
- Will the City set a course to eventually operate without state oversight?
- Will the Pittsburgh Promise revitalize City schools?
- Can the City tackle its long term legacy costs?
- Can real economic growth—without public subsidies—occur here?

These are questions the Mayoral candidates will have to answer. And in order to provide guidance from a limited government, taxpayer friendly, free market perspective, we have assembled this report to focus on five key areas and offer common sense recommendations for the candidates. Just as Thomas Paine wrote in the opening to his 1775 pamphlet, we likewise offer "nothing more than simple facts, plain arguments, and common sense" to the Mayoral candidates.

Key Issue Areas and Common Sense Recommendations

Issue Area	Common Sense Recommendation
City-County Cooperation	Contract with the County for Savings
Taxes and Spending	Get a Taxpayer Bill of Rights Amendment to the City's Charter
Education	Work to Bring Choice to Pittsburgh's Education System
Legacy Costs	Use a Disciplined, Aggressive Approach to Control Legacy Costs
Economic Development	Adopt a Market-Driven Economic Development Policy

Introduction

This year, Pittsburgh voters will cast ballots for the office of Mayor. The four year term will last until the beginning of 2014.

What will the City look like then? It is very difficult to imagine in light of all the major issues the City faces and all the changes Pittsburgh has undergone in recent years. Declining population and school enrollment, staggering debt and pension liabilities, neighborhoods with high crime, excessive spending, crushing taxes and little net job growth appear to have become intractable and a permanent part of the political and economic landscape. Obviously, how the City deals with these issues will play a huge role in what the City will become by 2014.

Consider too that state oversight will bring more dramatic changes during the next Mayoral term—changes that could have profound impacts on the next decade for the City of Pittsburgh. For instance:

- The 2004 state tax reform package that created the payroll preparation tax, increased the Local Services tax, phased out the business privilege tax, eliminated the mercantile tax, and reduced the parking tax will be complete in 2010;
- The Act 47 Recovery Plan written in 2004 will be revised and will give the City direction on how to deal with the legacy costs of pensions, retiree health care, and debt;
- The Intergovernmental Cooperation Authority (oversight board) will go away in 2011 unless the state legislature extends its term. If it expires, the prohibition on the City petitioning for a commuter tax under Act 47 will expire as well.[1]

Big changes indeed and ones that could remove a good deal of the state intervention that defined the past five years in the City. As a home rule municipality, Pittsburgh is supposed to exercise a bit more independence in its own affairs without direct guidance and limitations by the state. The City's chief executive is the official vested with responsibility for steering the ship.

What are our recommendations for the Mayoral candidates vying for the office? Overall, we feel that the best candidate will be one that realizes City government has to move to a governing posture that is less heavy-handed and intrusive, more open to free market principles in guiding policies with respect to taxation, economic development and non-core services, more restrained in its actions, and more responsible with the resources granted to it by taxpayers.

To that end, this report will focus on five key areas and offer policy recommendations to the candidates based on sound governing principles, effective use of free market ideas and a common sense approach to cost cutting and management.

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[1] Pennsylvania General Assembly--Act 11 of 2004; Act 222 of 2004; Act 187 of 2004; Department of Community and Economic Development, Governor's Center for Local Government Services: Report of the Hearing Officer, May 30, 2008

Five Key Areas
City-County Cooperation
Taxes and Spending
Education
Legacy Costs
Economic Development

As with our 2005 *"Blueprint for the New Mayor"* report, the goal of this common sense platform is to help City government to be more efficient and act in the best interests of taxpayers. In many instances the Mayor will have to act as a persuader, trying to convince the public, the City Council, foundations, businesses and leaders of other governments to undertake needed policy changes.

City-County Cooperation

Common Sense Recommendation for Mayoral Candidates
#1: Contract with the County for Savings

A lot of time—too much in fact—has been spent trying to develop a scheme to merge the City and County governments that would leave all other municipalities untouched and somehow transform the City into an "urban services district" even though, in the case of the former, it would be unworkable, and, in the case of the latter, is a violation of the uniformity clause of the Pennsylvania Constitution. A recently completed nearly two year long study of the issue failed to produce a clear answer as to why a merger was an absolute must or how the messy details of combining two large governments with different unions and different responsibilities were to be handled.[2]

If the concept were to proceed, more years of legislative hearings are likely, including the possibility of a Constitutional amendment of the state's uniformity clause—a very drawn out and messy process that is likely to fail. And even if it moves past this point, the voters of the County and the City still have to approve it in a referendum. And that has been and will continue to be a non-starter absent major changes in the City's financial situation.

In the meantime, the City and the County have taken baby steps toward combining duplicative services. This past week it was announced that the two governments had saved a combined $6.2 million for taxpayers since engaging in a purchasing pact in 2007. Now there are plans to expand it to cover more commodities and expand the savings.[3]

The City was instructed to turn over their purchasing to the County by the Act 47 plan, and after much resistance it finally gave in. Now imagine trying to completely merge the large duplicative functions like police or public works. That goes without mentioning what to do about functions carried out exclusively by either of the two governments, like fire protection in the City and health and human services by the County.[4]

Instead of trying to merge governments or even departments or functions, the common sense approach would be for the City to get an estimate on what the County would charge the City to provide services each currently offers such as parks and public works. This would be a much quicker and cleaner way to achieve the savings desired by merger proponents.

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[2] The Report of the Citizens Advisory Committee on the Efficiency and Effectiveness of City-County Government "Government for Growth"; Pennsylvania Economy League "A Comparative Analysis of City/County Consolidations", especially Appendix B "Applicability to Pennsylvania"; Rich Lord "City-County Merger Goes Nowhere Fast" Pittsburgh Post-Gazette April 2, 2009

[3] County of Allegheny, City of Pittsburgh joint press release "Onorato and Ravenstahl Announce Extension, Expansion of Joint Purchasing" March 13, 2009

[4] Commonwealth of Pennsylvania, Department of Community and Economic Development, Act 47 Recovery Plan for the City of Pittsburgh Recommendation IG02 "Co-Locate City-County Purchasing Departments"

The City would have to complete a detailed accounting of all the costs related to carrying out a particular municipal service as well as a detailed description of the service being provided and present the information to the County. If the County can offer to do the work cheaper, the two should enter into a contract to have the City turn the service over to the County. The County, in turn, would be given latitude to achieve even more savings in taking over the service. If they wanted to hire City personnel for their expertise, they would be free to do so, but the employees would then work for the County with its pay schedule and benefits package. If the County wanted to look to the private sector to handle the combined service, that too would be on the table. The City would pay the County and be relived of the long-term obligations associated with the personnel that previously carried out the service.

The present state of affairs ("will there or won't there be a merger"?) gives local officials a pass to sit back and wait for the legislature to act while there could be a chance to execute contracts that might deliver some real savings. A common sense recommendation for the Mayoral candidates is to not sit back and wait but to explore the angle of contracting with the County for savings.

Taxes and Spending

Common Sense Recommendation for Mayoral Candidates

#2: Get a Taxpayer Bill of Rights Amendment to the City's Charter

Prior to 2004, the City's tax and spending plans were almost entirely under the direction of successive City Councils and Mayoral administrations. The City, like all home rule municipalities, had to abide by state law regarding what they could tax and rate limits on certain taxes. Beyond that they had almost complete control over the budget.

Since 2004, with a Recovery Team and a state oversight board in place, much of the direction and control over budgetary matters has had a heavy dose of state intervention. There is an Act 47 Recovery Plan, an amended menu of tax types and rates, and annual presentation to the state oversight board whose approval for the budget and five year financial forecast is required.

Two questions arise: first, "when will the City get its budgetary independence back" and second "can they handle the freedom"? Presumably, the state will not relinquish its role until it is convinced that the City can manage its affairs in a fiscally prudent way that stays away from the behavior that caused the financial crisis in the first place.

As of now, there is a statutory end date for the oversight board (2011) while Act 47 is open-ended. The removal of "distressed status" will occur at the discretion of the Secretary of Community and Economic Development. Recall that City Council petitioned the Secretary for removal in 2007. The decision then was to continue the "distressed status", but with an adjustment to the Recovery Plan to focus more on legacy costs. By now it is abundantly clear that the City's tenure under Act 47 is not typical, and not at all similar to other municipalities that are in or have been removed from distressed status. There is a distinct possibility that the City could be in some type of oversight for a long time.[5]

If future Mayors have to operate under the state's watchful eye, perhaps a change from the pre-2004 standard operating practices is in order. That is to say the City needs to stop allowing expenditures to grow willy-nilly while lamenting there is never enough tax revenue to fund the City's spending needs.

Having moved from local control to state oversight to envisioning a day when local control might someday return, the common sense thing for Mayoral candidates to do is to ask voters in the City to support a referendum to place a Taxpayer Bill of Rights into the City's Home Rule Charter. The Charter has been amended at least sixteen times since its inception in 1974, many of those amendments dealing with Council and the Mayor's office. There is precedent for the people amending their charter, but this would not tinker around the edges and would instead aim directly at the core of City government.

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[5] City Council Resolution of November 19, 2007 (2007-1949); Department of Community and Economic Development, Report of the Hearing Officer, May 30, 2008

What would be the features of a good Taxpayer Bill of Rights? It would have to contain several elements: extraordinarily large super-majority thresholds (or better still a voter referendum) for raising taxes or implementing new ones authorized by the state, holding expenditures to a rate determined by inflation and population change, and a regular examination of City functions to see if the City, the private or non-profit sector, or another government should be performing them. For instance:

- A unanimous vote of the seated members of Council (or voter referendum) to change the tax rates under the direct control of a City of the Second Class or to levy new taxes authorized for Cities of the Second Class by the General Assembly
- Per capita general fund expenditures shall not increase for three years and thereafter no more than one percentage point less than the year-over-year change in the Consumer Price Index for the Pittsburgh metro area. This provision shall be in place for not less than ten years before any amendment can be made
- Departments, agencies, authorities, and functions shall undergo periodic Sunset review to assess whether the City or its related entities should consider continuing the function
- All City departments shall be subject to zero based budgeting rather than receiving automatic incremental increases

Consider how these charter provisions could affect two events coming during the next Mayoral term.

First, it could reduce the City's projected spending. The current five-year financial forecast shows that the City will spend $437 million this year. With 311,000 people, that translates to $1,408 per capita. By 2013, expenditures are currently projected to grow to $457 million, a five percent increase. Those out-years could be revised upward in coming forecasts but if the City continues to lose population at a rate of one percent per year and stands at 300,000 in 2013, per capita general fund spending would have grown eight percent from this year ($1,408 in 2009 to $1,526 in 2013).[6]

Assuming the City held to a one percent increase in per capita spending each year, per person spending in 2013 would be $1,464 instead of $1,526. At $1,464 per person, the City's budget would be $439 million instead of $457 million, a difference of $19 million. Cumulative savings from 2009 through 2013 at a one percent annual per capita growth versus current projected spending would be $46 million. That money could be returned to City taxpayers, eliminate some nuisance taxes or fees, or provide a reduction in one of the City's major taxes.

Second, it could control increases in existing taxes and the implementation of new ones. The tax changes from the state reform package effectively end next year with the elimination of the business privilege tax and the reduction to the parking tax to 35 percent.

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[6] City of Pittsburgh 2009 Budget and Five Year Financial Forecast

Now assume that down the road the City wanted to increase its real estate tax rate or its wage tax rate. Right now, it takes a simple majority (5 of 9 members) to raise those taxes. With a Taxpayer Bill of Rights in place, it would take all members to make the change happen. Or the Council could opt to put the question on the ballot for the voters to decide. This provides an extra layer of protection for City taxpayers by ensuring that a simple majority cannot run an increase through Council.

Using the charter amendment process to imbed in the City's constitution a taxpayer and business friendly environment would send a clear signal to the world that the City's has abandoned its reckless ways that led to the appointment of two state imposed financial watchdogs. A citizen approved amendment to the Charter would also be a grass-roots approach that would stand in stark contrast to the top-down governance that has characterized the City for decades.

Education

Common Sense Recommendation for Mayoral Candidates
#3: Work to Bring Choice to Pittsburgh's Education System

A good public school system can be, and often is, an important factor in the overall economic success of a city. At the same time, one thing is certain; bad school systems chase people with school age children away. If Pittsburgh is to reverse the decades' long trend of population loss, the City's poorly performing grotesquely expensive school district must stop being a deterrent to the City's prosperity. However, unlike other City issues, education does not fall under the Mayor's purview and there is little the Mayor can do directly to control or affect the schools since the District is a creature of the Commonwealth and has an elected Board to govern it. Nonetheless, the Mayor can use the "bully pulpit" powers of his office to lead the charge for changes that can redound positively to the education of Pittsburgh's children.

We have described and analyzed the Pittsburgh Public School District and its problems on numerous occasions. The District is plagued by rising expenses, poor performance, and declining enrollment. On a per pupil basis the District's general fund expenditures are currently above $20,000 a year, among the very highest levels in the state. Philadelphia spends less than Pittsburgh at $15,000 per pupil while the state average is just over $13,400. Pittsburgh's per pupil expenditures are even further out of line when compared to other cities around the country such as Charlotte ($9,000), Houston ($8,000), and Omaha ($9,000).[7]

Latest scores on the state achievement test (PSSA) revealed that only 53 percent of 11th grade students scored at the proficient level on state reading levels and only 44 percent scored at grade level in math. At several of the District's high schools the fraction of 11th grade students reaching proficiency falls below 20 percent. With scores this low, very few families with school-aged children will consider moving into the City unless they can afford private school tuition.

In an attempt to combat the problem of declining enrollment and to raise the academic achievement of students, the current administration in 2006 unveiled the Pittsburgh Promise, a college scholarship program for graduates of Pittsburgh Public Schools. Again, as we have documented, the Promise has not lived up to expectations for stopping the decline in enrollment or boosting lackluster academic performance.

In a situation this dire with all the negative effects the schools are having on the City, it is incumbent on Pittsburgh's Mayor to offer a dramatic departure for improving education opportunities for the City's children. And make no mistake, that should be the priority—not the teachers' union, not the school board and not the superintendent.

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[7] Pittsburgh Public Schools, 2009 Budget. School expenditures for other districts obtained from respective school district websites.

The Mayor could push the Board to adopt the No Excuses approach to education and push for more charter schools. No Excuses programs emphasize decision making latitude for principals in personnel decisions and accountability for performance; a belief that all students can and will learn; and an academic program that is constantly evaluated and rigorously tested. This approach has been successful in other urban school districts around the country.

The Mayor can also learn from the Milwaukee model and begin a program to provide scholarships for students to attend private or parochial schools of their choice such as the Extra Mile schools run by the Catholic Diocese and the Extra Mile Foundation. The Mayor should go to the business and foundation community and raise financial and moral support for such a program. The Mayor should also invite other education organizations such as Knowledge is Power to bring their highly successful programs to Pittsburgh. The introduction of meaningful competition could be the step needed to spur significant and positive changes to public education in Pittsburgh.

All the spending, all the programs, all the efforts of many years have been unable to turn the Pittsburgh schools around. And, there is little indication that a major turn for the better is waiting around the corner. Action is needed now. The Mayor can lead the charge to bring real change to education in Pittsburgh. The parents who truly want their kids to have a shot at a good education deserve better than the current system can offer. The moral and the wise thing to do is to break the stranglehold of the public education establishment and focus on true educational reforms by providing real choices.

After all, the primary obligation of the Mayor is to the welfare of the citizens of the City, including its children. Kowtowing to the powerful special interests that waste money and cheat kids out of a chance to learn must end. The taxpayers will be grateful as will thousands of parents who currently have no choice but to put up with the status quo or move out of the City.

Legacy Costs

Common Sense Recommendation for Mayoral Candidates
#4: Use a Disciplined, Aggressive Approach to Control Legacy Costs

Legacy costs—pensions, retiree health care, general obligation debt, and long-term workers' compensation liabilities—hang like a millstone around the City's neck. Consider these numbers from the 2008 Controller's audit:

- The three pension funds combined had $375 million in assets set aside to cover $899 million in liabilities (a funded ratio of 42%) before the economic downturn. There are more retirees collecting pensions (4,538) than active workers currently working and vested in the plans (3,248).
- Though not required to do so, there are no assets set aside to pay over $320 million in retiree health care obligations.
- Net bonded debt is around $762 million, resulting in a per person burden of $2,277.
- Accrued unfunded workers' compensation is around $121 million.[8]

There have been attempts to deal with these costs. For instance, lifetime retiree health care for police and fire was eliminated for those employees hired after June of 2004. The City has reduced some of its long-term debt and could get it lower if it does not borrow any more money in the coming decade. The oversight board commissioned a study of workers' compensation and made recommendations. As a broad strategy, the City's Act 47 plan is being rewritten in order to focus on legacy costs.

In the meantime, the latest attempt to get a large bundle of cash set aside for legacy costs occurred when the Mayor announced that he was directing the City's Parking Authority to entertain the possibility of leasing their garages and lots for an upfront payment. Similar to the state's proposed Turnpike lease, the City would take the payment to retire the Authority's debt (about $100 million) and put the remainder into the pension funds. The City hopes to net about $300 to $400 million after paying off the debt for the deal to be worthwhile.[9]

So it is clear that the strategy for dealing with legacy costs is twofold: one, get a large infusion of cash to put toward the costs and two, work on systemic reforms to change the nature of long-term obligations. There are things that the City itself can do, while other changes must come from the state.

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[8] City of Pittsburgh Office of City Controller, Comprehensive Annual Financial Report for the year ended December 31, 2007

[9] Rich Lord "Ravenstahl Wants to Turn Parking into Pensions" Pittsburgh Post-Gazette January 19, 2009; Pittsburgh Parking Authority "Request for Proposals from Consultants for Infrastructure Moneitization"

If the garage plan comes to pass, the City should be encouraged to move other assets under its control or that of its related authorities that own real assets (Water and Sewer and Urban Redevelopment) in order to provide the cash infusion for the obligations mentioned above.

While it may sound like the City is looking under cushions for loose change, there is a great deal of precedent in other states and cities looking to relieve themselves of assets representing functions that could be handled privately and with market forces. There is a sizable component of parking handled by private operators in the City, and the Parking Authority has in years past contracted with private operators to manage some of their garages.

Selling assets not only brings in cash, it also shrinks the size and presence of City government and its authorities relative to the rest of the City. Take the parking garage deal as an example: if the garages and lots are moved to the private sector, all that would be left for the City to oversee would be any rate and maintenance provisions that would likely be contained in a lease agreement. That would not require the Parking Authority's board, administrative structure, or employees.

Again, the key to this recommendation is to not just look for revenue and then stop. If that was all that was needed, then the City's pension bond sales in the 1990s would have ensured a sustained period of solid pension balances. All it did was swap long term debt for healthier pensions, the latter only showing a brief break from its illness.

That's why the second step of making changes under the City's control is a necessary one. The Act 47 process ensures that no collective bargaining agreement negotiated during its existence can violate the terms of the plan. So as contracts come up for renegotiation it is imperative that the City work to get the changes to pay and benefits conducive to financial stability, including less lucrative benefit packages for new employees. When possible, new employees, regardless of type, should be enrolled in defined contribution type plans instead of defined benefit plans. This is where the state might have to help by setting phase-in dates for municipal pension plan enrollment.

But the City also has to keep an eye towards reducing the overall size of its workforce so that the accumulation of pension benefits is limited and the incidence of workers' compensation is minimized. Consolidating or contracting with the County, as was mentioned in a previous *Brief,* would be a good step in this direction and privatizing services, including garbage collection (which has a very high incidence of workers' compensation claims) also works toward the goal of curbing the growth in additional obligations.

It is fair to say that the legacy costs have a deep and wide impact on everything the City does or plans to do in the near future. Paying for debt and retiree health care out of general revenue means those dollars are not available for providing basic services. The common sense approach for Mayoral candidates is to attack the problem through a disciplined, aggressive approach.

Economic Development

Common Sense Recommendation for Mayoral Candidates

#5: Adopt a Market-Driven Economic Development Policy

Economic development in the City of Pittsburgh has been driven by government subsidies and directives putting taxpayers (City, County and state) in the role of venture capitalist. This wrongheaded approach has produced minimal tangible economic benefits for the City. The City needs to abandon its long running love affair with government as developer in favor of a market-driven approach that encourages and relies on private initiatives and investment.

In a speech before the Pittsburgh Downtown Partnership, Mayor Ravenstahl claimed the City was undergoing another renaissance, basing that assertion on the number of large scale projects ($10 million or greater) receiving building permits in 2008. [10]

However, upon closer inspection and removing duplicate permits for several projects, the actual value of large scale permits was determined to be much lower than the figure quoted by the Mayor. Furthermore when broken into private, public, non-profit education and subsidized projects revealed that only one purely private project is being undertaken—the new casino. Moreover, the building permit value of the casino covers more than half of 2008's total. The value of taxpayer subsidized projects and government-built projects accounts for more than one-third. Universities and hospitals, that in one form or another relies on government largess, round out the total.

Taxpayer subsidized projects have dominated the recent history of City development—from new sports stadiums to department stores to mixed use developments such as the PNC Tower. Very frequently, subsidies beget still more subsidies. For example the Lazarus Department Store was heavily laden with subsidies ($48 million) and failed completely to live up to City officials' promises. It opened and closed five years later. The building sold at a deep discount and is currently finding new life as a mixed-use residential project—complete with tax abatements and additional taxpayer help via the City's Urban Redevelopment Authority.

While the list of subsidized projects is long, their economic benefits are not. Lazarus did not revitalize the Downtown retail corridor. In fact one would be hard pressed to find any palpable of success from any of the subsidized developments that have taken place over the last decade. It's also a safe bet that current economic development efforts, focusing on residential and mixed use developments, will also fall short of promised economic benefits.

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[10] City of Pittsburgh press release "Mayor Unveils Plans for Market Square, Highlights Pittsburgh's Growth" February 17, 2009

Using City local services tax data (the $52 emergency services tax formerly known as the occupational privilege tax) a reasonable approximation of how many people work in Pittsburgh can be obtained. In 2000, 324,400 workers paid the tax while the most recent data for 2007 shows a decline to 315,130. And that number is undoubtedly being propped up by significant employment increases in the health and education sectors—which have not been the major recipients of the City's economic development subsidies.

Furthermore the City's tax base has not been growing despite the flurry of subsidized activity. The City's real estate tax revenue has fallen since 2006 and is projected to grow by less than 1 percent per year over the next five years. Likewise the City's budget is predicting little growth, about one and a half percent per year, in the earned income tax paid by City residents.

The Mayor needs to change the course of economic development from government-driven, government-subsidized projects to one guided by the free market. Unfortunately many developers have become accustomed to and expect government subsidies. That attitude must be addressed and changed.

The Mayor's first job must be a full frontal assault on the City's expenditures and the government's overly deferential posture toward public sector unions. The second step is to encourage real competition for the City's public schools and focus attention on the egregiously high per student expenditures in the district. With expenditure cuts or containment, tax rates can be reduced. That is the single best economic development tool in the mayor's tool kit.

Third, the Mayor must rid the system of any perception of the pay to play relationships and work to eliminate burdensome labor regulations such as prevailing wage. Fourth, begin packaging City owned properties and selling them at auction to developers.

In short, the Mayor needs to make it clear through word and deed that business as usual is no longer operative in Pittsburgh. The City needs a radical departure from past practices.

Conclusion

Imagine two different scenarios of life in the City in 2014: on the present course, the City and County might still be debating how to merge; City spending will have grown while population might have fallen more, increasing the per capita burden on those remaining in the City; some families will have opted to stay in the City schools to get the Promise money, but without the threat of outside competition the schools themselves have little incentive to improve; the City might still be burdened by legacy costs; and economic development might still be driven through a top-down approach.

Contrast that with the City executing contracts with the County to provide services now, possibly at a smaller overall cost without waiting for a metropolitan solution; protecting its citizens through a Taxpayer Bill of Rights which limits spending growth and tax burden; offering plenty of options for parents to choose the best educational path for their children; setting legacy costs on a path to reduction and stemming further accumulation of additional ones; and encouraging the marketplace to drive growth instead of the political system.

Clearly, the coming years are critical ones and it is up to the Mayoral candidates to offer their vision of the City: we hope that this report has added to the exchange of ideas.