ALLEGHENY INSTITUTE FOR PUBLIC POLICY

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2014: Findings on Key Issues

As 2014 draws to a close, we wish our *Policy Brief* readers a healthy and prosperous 2015.

This year saw developments in several critical issues the Allegheny Institute has followed and researched for several years.

- **City Finances**: At the start of 2014 the state had in its hands a recommendation from its fiscal recovery coordinators in Pittsburgh, who have been in that role since 2004, that their work was finished and that a second overseer (the Intergovernmental Cooperation Authority, or the oversight board) could handle the coming years for the City of Pittsburgh and its finances. The newly elected Mayor disagreed and asked the state to keep the Act 47 team in place. The state agreed and a third recovery plan was crafted which recommended a property tax hike, higher parking rates, and fee revisions. Separate from Pittsburgh, the state enacted major changes to the Act 47 statute to try to prevent fiscal distress and limit the amount of time a community can be in distress.
- **Residency Requirements**: Where Pittsburgh police are permitted to live is still up in the air following the City's appeal of a Common Pleas Court decision upholding an arbitration ruling. The arbitration ruling would permit police officers to reside within 25 air miles of Downtown Pittsburgh.
- **Natural Gas Drilling:** Pennsylvania's Governor-elect plans to seek a five percent tax on the market value of natural gas removed from the Marcellus Shale formation per his campaign promise. The plan is to raise at least $1 billion and use the money to fund education. But as our analysis shows, at the trending price of natural gas and the current production levels from these unconventional wells, this ambitious goal will not be reached anytime soon. Furthermore, the legislation authorizing the impact fee (Act 13 of 2012) will become void and those depending on that revenue stream, state agencies, municipalities, and counties to the tune of over $200 million, will fight to be compensated, putting further strain on any severance tax revenues.
- **Metro Area Job Performance**: Employment growth in the Pittsburgh metropolitan statistical area was somewhat weaker, although still fairly good, in 2014. During the first three months, the number of jobs fell slightly, when

compared to the same month in the prior year, before returning to growth through October. Construction had a solid showing for most of the year owing to Act 89 that provided a big increase in road work dollars. That strength started to wane by the fall. Manufacturing suffered year-over-year losses each month during 2014. Surprisingly, the leisure and hospitality sector had 12 month growth of at least five percent from April through September (October was just shy of five percent). In fact, the gains from this sector comprised a large portion of the overall gains to private sector employment each month. There is not enough information within the subsectors to know where these jobs are being created and these are typically not high paying jobs.

- **Education Funding**: The perennial complaints about inequitable school funding in Pennsylvania turns out to be another canard propounded by those who will benefit most from more spending. Our research shows that the state's funding formula takes into account the revenue generating capacity of the various districts across the Commonwealth. The actual problem in the so called lack of equitable funding stems from the fact that wealthy districts can fund almost all of their far above average spending per student from a large local tax base. These richer districts get very little money from the state. For example, in 2012-2013 the Upper Merion District spent about $25,000 per student while receiving only $2,120 per student from the state and raised most of the rest from local sources. Meanwhile, the Duquesne District got $14,264 from state taxpayers and another $1,563 from the Federal government. There is little chance the Legislature can or will ever place a limit on how much districts can raise locally for schools.
- **School Attendance:** One of the disturbing discoveries of 2014 was the Institute's reporting on the egregious attendance problem in some schools that have inexcusably poor academic achievement. Several high schools in the Pittsburgh District report attendance at 80 percent. That means students are missing an average of 36 days per school year. Chronic absenteeism is rampant in Pittsburgh's non-magnet schools. And Pittsburgh is not alone. Can there be any surprise to learn that fewer than 30 percent of 11th graders can score proficient on Algebra 1? In some schools fewer than 10 percent are able. And what's worse? Pittsburgh spends over $21,000 per pupil. Are those who wring their hands over equitable funding worried about the attendance problem? Why do we not hear more about this preposterous situation?
- **Teacher Strikes**: The start of the school year was delayed in the East Allegheny School District as a result of a strike that lasted well into September and reached the maximum number of days permitted by law in order for students to receive 180 days of instruction by June 15th. Our *Policy Brief* in support of the school board's refusal to yield to striking teachers was widely disseminated in the district.
- **Mass Transit Funding**: The state's enactment of an omnibus transportation bill means a substantial revenue boost for the Port Authority with an estimated net increase in operating and capital dollars of close to $600 million through the 2019 fiscal year.
- **Taxicab Competition**: Residents finally got a taste of having an alternative option to the heavily regulated and oft-complained about taxicab providers when

two new ridesharing businesses entered western Pennsylvania in the winter of 2014. Though there was strong support locally, the regulation of taxicabs in Pennsylvania (not including Philadelphia) falls to the Public Utility Commission, which in November decided to use its experimental license capabilities to allow ridesharing in Allegheny County.

- **Airport Performance**: Two new carriers, one small and dedicated to regional service while the other focuses on leisure travel to Florida, have agreed to begin service at Pittsburgh International Airport (PIT). This is a positive development for the airport, but origination and destination traffic for 2014, while an improvement over the previous year, remains low. Owing to two external sources of funds, gaming money and lease money from gas drilling—over and above airport operations—PIT has been able to reduce fees it charges to airlines such as landing and ramp rates. While still higher than comparable airports, reducing fees even further should help make the airport more attractive to airlines and could help boost flight offerings and lower ticket prices—a good way to increase the number of air travelers.

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