

# ***POLICY BRIEF***

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## **Can County Corral Authorities?**

Under a proposed resolution (5836-10) before County Council, several of the County's larger special purpose authorities would be studied by an independent panel that could then recommend remedial options including dramatic steps such as privatizing the authorities or bringing their functions "in house" into the unified organizational chart. Considering the services provided by authorities—everything from running buses to providing low income housing and owning airports and stadiums—the financial, governance and operational impacts of such changes would be quite large.

Authorities as quasi-government entities are legally entitled to do many of the things municipalities and counties do as well as many things private corporations can do—sue and be sued, own and condemn property, charge fees for service, have the power of eminent domain, enter into contracts, issue bonds to borrow money, employ workers, manage assets and operations, etc. However, authorities are not permitted to levy taxes. Otherwise they have enormous latitude to conduct business.

Authorities are theoretically very independent from the governing body. Aside from appointing board members there is supposed to be little day-to-day contact or control by elected officials regarding operations and management decisions. These entities were developed in large part to enable government to enlarge its borrowing capacity and to carry out functions off the government's books and to manage those functions with as little political influence and interference as possible—an objective often more honored in the breach than in the observance.

Bear in mind too that authorities create a separation of political convenience for elected officials when unpopular decisions have to be made such as cutting transit routes or raising rates for bus service, water, sewage, or parking. Elected officials have the luxury of denying any responsibility and pointing to the independence of the authorities.

So, the question is: can the County use a study group to recommend authority changes up to and including terminating an authority and then act on those recommendations? That depends upon the law under which an authority came into existence. Under language in the County's administrative code and the 1945 Municipal Authorities Act as well as case law precedence, the incorporating municipality (in this case the County) can dissolve an authority it created under the provisions of the 1945 law by passing legislation so long as there is a clear delineation of how any outstanding debt owed by the authority is to be handled and creditors have accepted the arrangement. Presumably any long term contracts set to expire after the dissolution date would also have to be dealt with satisfactorily, including pension plans with employees and retirees. Dissolution reached in this manner can occur even if the directors of the authority are opposed to such an action.

The 1945 law also spells out processes for termination that can be initiated by the board of the authority (once debt is paid off) and for conveyance of a project from the authority back to the government that established it.

Of the authorities delineated in the Council's proposed independent study panel only the Airport Authority (ACAA) was created under the 1945 statute and that was done in the late 1990s. The Sanitary Authority (ALCOSAN) was created under the 1945 Act, but appointment power is shared with the City of Pittsburgh, who would have to take a similar complimentary action to dissolve the authority.

The Sports and Exhibition Authority (SEA) and the Port Authority (PAT) were created under special state legislation and to dissolve them would require a resolution of County Council expressing their wish to dissolve the authority to be sent to the Governor and the General Assembly where the pertinent statutes would have to be appropriately amended to craft procedures for dissolution. In the case of the SEA, the City would have to be in agreement.

Let's assume for the sake of illustration that the panel is created, recommends folding ACAA, ALCOSAN, PAT, and SEA into the County government organizational chart and the County is successful in dissolving the authorities and making them government run functions. That means the County assumes responsibility for providing the services carried out by these entities and, since none of them are debt free, the responsibility for retiring its share of all authority debt. In the case of the shared authorities that would mean the City would have to agree to pay its share, and in light of its financial situation that could be a deal breaker—unless of course the County generously agreed to take responsibility of all the debt.

While the most recent audited financial statement for the County shows \$664 million in net bonded debt, that number would increase tremendously when the obligations of the four authorities are added in:

**County and Authority Debt**

<b>Governing Body</b>	<b>Long Term Debt (\$,000s)</b>	<b>Per Capita</b>
Allegheny County	\$664,130	\$553
ACAA	\$451,485	\$376
PAT	\$293,313	\$244
SEA	\$356,500	\$297
ALCOSAN	\$270,023	\$225
<i>Total</i>	<i>\$2,035,451</i>	<i>\$1,696</i>

Since SEA and ALCOSAN and County/municipal authorities with shared appointments 50% of the long term debt of these authorities was allocated to the County. If done on a proportional population basis, 75% of these debts would be attributed to the County.

The table shows that when the total or proportionate share of long-term debt of the four authorities is placed on to the County's financial statement the total debt and the per capita burden rises threefold.

That's not to say that the debt does not exist now and that taxpayers are not helping with debt service through the rates they pay for bus rides, for plane tickets, and for water treatment. It is just that the debt is "off ledger" and disguises the breadth and depth of the true size of County government. Bringing them "in house" changes not only the debt picture but the very nature of County government. Elected officials would now be charged with carrying out the duties of these

authorities in addition to overseeing elections, a jail, parks, police, public works, property assessments, health and human services, and a multitude of other services.

On the other hand, what if the panel recommended privatization? Assuming the County officials agreed and acted on the recommendations, approvals from Harrisburg might be harder to come by and getting City agreement to go along might be impossible. Then too, the privatizations would entail a long and tedious process of getting bids and developing contracts and sales agreements.

Short of either dissolution or privatization, the panel might well make recommendations for operational or management changes the County government would want to impose on the authorities. Presumably, the threat of dissolution could induce authority boards to go along with recommended changes. But with a strong board adamantly opposed to the changes, a high stakes standoff might begin wherein the board would, in effect, dare the County to proceed with dissolution efforts. Depending on the relative influence of the board and the County officials with the City, the Legislature and the Governor, the County might well lose its dissolution attempt and then what?

While the County very well might have the better economic or managerial arguments, the politics would not necessarily follow the better arguments, something we see very frequently.

A more reasonable first step would be to have the independent panel be called an expert advisory panel. If it comes up with good suggestions, they can be forwarded to the authorities with no threats of actions the County Council might take if the suggestions are ignored. If the recommendations are well thought out and readily implementable, the authority would be remiss in ignoring them. Two important goals would be accomplished by this process. First, the authorities would know there is a serious body of experts looking at what they are doing and reporting on their activities. That alone could be prompt them to look at themselves harder. Second, the County would be developing a portfolio on authority operations, gaining a clearer understanding of what the authorities are doing and be in a much better position to argue a case for dissolution or privatization at some point in the future if the advisory panel recommendations were summarily dismissed every year.

Suffice to say that, except for the Airport Authority—the only special purpose authority created solely by the County—attempts by the Council to interfere with or influence authority management will be extraordinarily difficult under current state law and the complications of getting the City to go along with interference or drastic changes.

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**Jake Haulk, Ph.D., President**

**Eric Montarti, Senior Policy Analyst**

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
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