ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

Allegheny Institute Issue Summaries

Allegheny Institute for Public Policy

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Introduction

This report consists of a compilation of our new publication, "*Issue Summaries*."

These summaries are succinct accounts of key policy issues facing Pittsburgh, Allegheny County and, in some cases, the state of Pennsylvania. All contain a statement briefly describing the policy issue, an overview of what the Allegheny Institute has learned about the topic through extensive research over the years, our conclusions and recommendations about what should be done regarding the issue, and finally a list of reports and *Policy Briefs* we have written that address the topic. All references are accessible on the Institute website.

This initial compilation contains eleven summaries. Future hardcopy, bound compilations will be published as our research and analyses continue to produce sufficient material for additional policy issues to be summarized.

The summaries can be also found on the website at;

http://www.alleghenyinstitute.org/summaries.php

Online summaries will be updated and revised as the situation warrants.

Pittsburgh Public Schools

The Issue:

The Pittsburgh Public School system is too expensive, with general fund expenditures of more than $18,000 per pupil. For these outlays, taxpayers are not getting a decent return as the district's pupils continue to rank near the bottom of academic achievement across the state. As a result of high taxes and poor academic performance, the district continues to lose students with enrollment falling below 30,000 in 2006, from 38,500 in 2001.

What We Know:

Pittsburgh's per pupil spending is out of line with other major cities such as Chicago, Orlando, San Diego, and Boston. In 2005, those cities had an average per pupil spending of $10,500 with the highest being Orlando at $12,800. Pittsburgh's per pupil amount was 59 percent higher than the average of those cities.

Pittsburgh schools allocate more than half their budgets to expenditures other than administration and instruction. Benchmark cities spent 60 percent or more on administration and instruction. For example it was learned that in 2003, four custodial workers, whose base salaries were below $40,000 were actually paid in excess of $90,000 in 2004. A total of 11 custodians earned more than $80,000 that year—in large part due to overtime. Nearly 10 percent of the employees (390) collected more than 100 percent of their base pay in overtime. In addition to the massive amounts of overtime, many employees are entitled to other pay that is tied to longevity and education. These overly generous compensation packages reflect a breakdown in managerial and financial control.

It is important to note that state funding contributes 40 percent, or more than $200 million, of the total revenues coming into the Pittsburgh Public Schools.

Despite the high levels of expenditures, students in the Pittsburgh Public Schools are not performing well. Students continue to lag behind state and county averages in both reading and math proficiencies. For eleventh-grade students, those closest to graduating, less than 51 percent scored proficient on the state's PSSA test, while 40.2 percent scored proficient in math. Overall the district ranks near the bottom of the state in both reading and math proficiencies—a travesty given the amount taxpayers pour into the district.

Recommendations:

The spending of Pittsburgh Public schools should be in line with those of other major cities. Per-pupil spending needs to be reduced to at least $12,500, with proper adjustments for inflation and enrollment changes.

Spending on compensation packages needs to be given serious consideration. A 2005 audit found that Pittsburgh's total outlays per staff member in 2002 stood at $97,800 while the average for Midwestern cities Toledo, Kansas City, and Milwaukee, averaged about $72,000.

- A better approach for Pittsburgh Public Schools would be a "No Excuses" philosophy. This philosophy emphasizes discipline in the classroom, gives principals the latitude to hire and fire teachers, and stresses the fact that children will master the material taught. In a "No Excuses" school, each child is expected to learn and progress educationally. No excuses from students, teachers, or principals are acceptable. Frequent testing to provide feedback is mandatory.
- The District should also encourage the creation of a wide range of Charter Schools that could provide a variety of educational options for parents to choose from as well as creating competition for the non-charter schools.

Allegheny Institute References:

Pittsburgh Schools: Preposterously Expensive But Still Unable to Hold Students. *Policy Brief:* Volume 6, No.61. http://www.alleghenyinstitute.org/briefs/vol6no61.pdf.

Pittsburgh School Audit Was a Waste of Tax Dollars. *Policy Brief*: Volume 5, No.25. http://www.alleghenyinstitute.org/briefs/vol5no25.pdf

Pittsburgh Schools: Unconscionable Spending. *Policy Brief*: Volume 4, No.43. http://www.alleghenyinstitute.org/briefs/vol4no43.pdf

Defenders of Spending: Give it up. *Policy Brief*: Volume 4, No.47. http://www.alleghenyinstitute.org/briefs/vol4no47.pdf

Another Lame Education Study Group. *Policy Brief*: Volume 4, No.9. http://www.alleghenyinstitute.org/briefs/vol4no9.pdf

Time to Really Fix Pittsburgh Schools. *Policy Brief*: Volume 4, No.33. http://www.alleghenyinstitute.org/briefs/vol4no33.pdf

A Pittsburgh Educational Proposal. *Policy Brief*: Volume 3, No.47. http://www.alleghenyinstitute.org/briefs/vol3no47.pdf

Pittsburgh Schools: $15,500 Per Student and Rising. *Policy Brief*: Volume 3, No.51. http://www.alleghenyinstitute.org/briefs/vol3no51.pdf

Pittsburgh's $18,500 Student. *Policy Brief*: Volume 2, No.15. http://www.alleghenyinstitute.org/briefs/vol2no15.pdf

Pittsburgh Public Schools Need a "No Excuses" Approach. *Policy Brief*: Volume 2, No.50. http://www.alleghenyinstitute.org/briefs/vol2no50.pdf

Act 47 and Pittsburgh

The Issue:

There are eleven criteria for determining if a municipality can be declared distressed under Act 47 (Financially Distressed Municipalities Act of 1987). They range from the municipality maintaining a deficit over a three-year period, to missing payroll for 30 days, to a decreased level of municipal service from the preceding fiscal year. They all focus on the municipality missing payments to creditors, employees, authorities, or bond holders.

Given that the municipality has missed payments, there are ten groups or officials with the authority to seek distressed status. The list includes the municipality's chief executive, the state's Department of Community and Economic Development, a creditor whom the municipality owes $10,000 or more, and ten percent of the number of electors of the municipality that voted in the last election.

What We Know:

Regardless of the conditions present or who filed the petition, one thing is clear—Act 47 is not meant to be a permanent situation. DCED appoints an overseer who is to guide the community through changes designed to stabilize its financial outlook and thus exit financial distress. Across the Commonwealth, twenty-two municipalities have entered the Act 47 program since its inception in 1987. Allegheny County is home to nine or forty-one percent of those declaring distressed status—including the City of Pittsburgh.

Five Boroughs have successfully exited the program. Three of the five (Wilkinsburg—10 years, East Pittsburgh—7, and North Braddock—8) are from Allegheny County. Act 47 was primarily designed to help smaller municipalities, such as the ones who have left the designation, get a fresh start. The state, through DCED assists financially through grants and loans to help the smaller communities cover debts and obligations while working on a reorganization plan. Boroughs are allowed to exit when the loans are paid back and can balance their budgets.

In order to regain fiscal control, the recovery plans of the three local Boroughs included:

- Selling assets and using the proceeds to help the borough. Selling parcels owned by the boroughs accomplished two things. It provided an infusion of cash and put the property back on the tax rolls, thus increasing the tax base. This can be done with municipal property as well as property owned by municipal controlled authorities.
- Contract out services to the private sector or other governments. These smaller Boroughs have contracted out to the private sector: road projects, police dispatching, prisoner holding, and refuse collection. They have also joined with the local council of governments for the sharing of public works and billings.
- Control public safety costs. Wilkinsburg issued measures to control public safety costs such as employee contributions to health plan premiums as well as

controlling the abuse of sick leave, overtime, and other paid time off benefits. They also reduced vacation time and increased the wait for longevity pay. Others also reduced members of the work force, including public safety and council.

The Act 47 process was not designed for large cities like Pittsburgh. DCED is not financially equipped to help a city as large as Pittsburgh in the same manner that it aided other boroughs with loans and grants. The combined total deficit for the three Allegheny County boroughs that had successfully completed the program was $1.5 million. When Pittsburgh declared distressed status the FY2004 deficit was $34.3 million.

Another important difference between Pittsburgh and other communities in Act 47 status is that Pittsburgh is a home rule community, while the others are not. Municipalities, who are not home rule communities, are constrained in their taxing abilities by state law—specifically regarding property and earned income tax rates. In nearly all cases, the municipality had reached their state imposed limit and was unable to raise more revenues through increasing these taxes.

Pittsburgh did not have such a limit; they simply chose not to raise rates on their citizens. They instead used the threat of a commuter tax, which Act 47 normally permits, to influence the Legislature's decision to levy the $52 emergency municipal services tax and approve the new payroll tax. The commuter tax threat really had no teeth as a tax increase to commuters would have to be accompanied by a tax increase (by at least the same amount) to the citizens of the city. Even then, the commuter would only have to pay the difference between what is owed to their home community and what is owed the community where they work. Furthermore, under Act 47, the commuter tax would have to be approved by a judge every year. Finally, as long as the state's Intergovernmental Cooperation Authority is in effect—at least through 2011—the City is not permitted to levy a commuter tax under Act 47 status.

Other obstacles thwarting Pittsburgh are high debt levels, unfunded pensions, high workers compensation payments, and a strong union mentality.

Recommendations:

What lessons can Pittsburgh learn from local graduates of the Act 47 program?

- It must be willing to sell assets not only for the short-term cash, but to return properties to the tax rolls. Pittsburgh Authorities, specifically Urban Redevelopment, Stadium, and Parking, have properties in the City that can be sold, but this idea has been met with strong resistance.
- Contract out services to the private sector. This has been met with unyielding resistance from public sector unions. Even when it was tried, as with fleet maintenance, roadblocks were presented to defeat the concept.
- Contract out with other governments. Talks to contract purchasing and parks with the County have been ongoing, but no real progress has been made.
- Control public safety costs. There has been an unwillingness to bring the number and compensation of public safety employees such as fire fighters in line with

those of comparable, more efficient cities. Contract rules such as overtime and hours worked need to be revamped.

Allegheny Institute References:

Leaving Distressed Status: Lessons from Municipalities in Allegheny County. Report #05-06. http://alleghenyinstitute.org/reports/05_06.pdf

Pittsburgh Should Learn from ACT 47 Graduates. Policy Brief: Volume 5, No. 41. http://www.alleghenyinstitute.org/briefs/vol5no41.pdf

The Dark Side of Distressed Status for Pittsburgh. *Policy Brief*: Volume 3, No. 56. http://www.alleghenyinstitute.org/briefs/vol3no56.pdf

A Commuter Tax in Pittsburgh

The Issue:

Should Pittsburgh be able to levy an income tax on anyone who works within the City's borders, regardless of where they live? Would this be fairer and more reflective of the realities of a metropolitan economy in the 21st century and bring Pittsburgh into line with other cities around the country? Would it come at no cost to the residents of the City of Pittsburgh?

What We Know:

Under state law, specifically Act 511 of 1965 ("the local tax enabling act"), municipalities in Pennsylvania (Philadelphia is excluded in this situation) are permitted to levy a tax of 1 percent upon the wages and net profits of their residents. They are also permitted to levy the same tax on non-residents who are employed within their borders. The only stipulation is that municipalities have to credit the rate paid by the non-resident in their home community. Since, as of the year 2000, all but 6 percent of the municipalities in the state levied an earned income tax, there is little opportunity for a municipality to tax the income of its non-resident workers.

There are several instances under which the earned income tax rate can be increased. Home rule communities, of which Pittsburgh is one, can increase the rate paid by their residents above the 1 percent limit, but it cannot increase the rate for non-residents. A municipality in Act 47 distressed status, again a class to which Pittsburgh belongs, can increase the earned income tax rate on both residents and non-residents, but it must do so by the same percentage point boost and still must credit the amount paid by the non-resident worker to their home community.

As an example, when the Act 47 Recovery Plan was put together for Pittsburgh, the coordinator recommended an increase in the earned income tax of 0.37 percent for City residents, 0.27 percent for non-City residents. A City resident would pay 1.37 to the City, and a non-resident worker who resided in a community that levied a 1 percent tax rate would be subject for 0.27 percent to the City. That is, of course, unless the non-resident lived in a Home Rule community where the rate met or exceeded the 1.27 percent liability or in an Act 47 community that had increased its earned income tax rate under the guidelines of the act.

Despite fears that a commuter tax might come to pass and there would be "taxation without representation", the law that created the payroll tax for the City pre-empted the imposition of a commuter tax under the power of Act 47. This prohibition will remain in place until the termination of the oversight board, which is slated to be 2011 unless the board's life-span is extended.

Recommendations:

Talk of a commuter tax for Pittsburgh might be dead. Under the provisions of the state reform package, the City is capturing a portion of the earned income tax rate levied by the school district (2 percent) without an overall increase in the rate. For instance, in 2006 a City resident pays 3 percent in earned income tax to the school district (2 percent) and the City (1 percent). In 2007, that City resident will still pay 3 percent total, but a tenth will shift to the City so that the mix will be 2.9 to the school district, 1.1 to the City. This shift will continue until 2010 when a City resident will pay 1.25 to the City, 2.75 to the school district.

Again, the situation all comes back to spending. If the City is able to aggressively cut its budget so that the trajectory is a downward one instead of year-over-year growth, then the more onerous taxes start to decline or possibly disappear. For sure, the high rate of the wage tax is a definite disincentive for wage-earners to live in the City. Since net profits are subject to the tax, small sole proprietorship businesses are also hit by this high rate.

The situation with the oversight board and Act 47 has to be evaluated. If the oversight board goes out of existence in 2011 the prohibition against the commuter tax apparently goes with it. If Pittsburgh is still in distressed status at the time, then the coordinator and the City are then able to petition for an increase in the earned income tax that would hit City residents and some commuters (at least those whose home community rate is lower than the previous 1.27 percent envisioned). If the increase is successful, there must be a tradeoff that makes the revenue gain neutral owing to the fact that Pittsburgh levies many more taxes than its Act 47 peers.

Allegheny Institute References:

Pittsburgh's Stalled Wage Tax Receipts. Policy Brief: Volume 6, No.52.
http://www.alleghenyinstitute.org/briefs/vol6no52.pdf.

Pittsburgh Commuter Tax: Bad Idea. Policy Brief: Volume 4, No.36.
http://www.alleghenyinstitute.org/briefs/vol3no4.pdf.

The Dark Side of Distressed Status for Pittsburgh. Policy Brief: Volume 3, No.56.
http://www.alleghenyinstitute.org/briefs/vol3no56.pdf.

Distressed…or Just Irresponsible? Policy Brief: Volume 3, No.54.
http://www.alleghenyinstitute.org/briefs/vol3no54.pdf.

Will Pittsburgh Be Awarded Distressed Status? Policy Brief: Volume 3, No.50.
http://www.alleghenyinstitute.org/briefs/vol3no50.pdf.

Act 47: Life Preserver for the City? Policy Brief: Volume 3, No.46.
http://www.alleghenyinstitute.org/briefs/vol3no46.pdf.

Property Assessments

The Issue:

Property assessments are the most controversial, divisive, and time-consuming issue faced by Allegheny County government.

What We Know:

Though the County, municipalities, and school districts levy property taxes, the County has sole responsibility for making property assessments and hearing appeals. It has been a source of heated political controversy in the County for a long time and only became more pronounced after the County was mandated by a court decision to perform a County wide reassessment. Following that reassessment in 2001, the County performed another one in 2002, then there was a lull until a reassessment was to take place in 2006. That would be the last until annual assessments would begin in 2009.

That was the plan, until the County Executive began to have concerns with the assessed values produced by the 2006 assessment. Instead of allowing the assessments to go out as planned and let appeals take care of problems, a plan was hatched to "cap" increases to a maximum of 4 percent, while letting decreases go without a limit. That plan was thrown out by the courts. After trying other approaches, the plan was to use the 2002 assessments as a base year with no further reassessments. The problems with this approach were readily evident: Allegheny County would be using a base year that they came up with retroactively instead of prospectively, the 2002 values were based on comparable sales instead of construction cost (which would be the standard for future construction), places where values are rising are rewarded while places where values are falling are punished, and the Executive did not like the 2002 values when he campaigned. As of this writing, the court has upheld the base year plan but will deliberate on issues related to uniformity.

Recommendations:

The County needs to spend the money to get the assessments as accurate as humanly possible and update them frequently to prevent lag and "sticker shock"

The County should utilize real estate professionals as independent assessing agents to verify assessments

Thinking that simply getting Allegheny County on a base year will make us more competitive with neighboring counties is foolish. For one, the spending is lower and, as a result, the taxes are lower. And, it is important to note that even though there is a base year in neighboring Butler County, there are millage increases by school districts almost annually

Allegheny Institute References:

The Upcoming Property Reassessment: What to Expect. Report #04-06.
www.alleghenyinstitute.org/reports/04_06.pdf

Allegheny County Assessments: Problems and Recommendations. Report # 02-05
www.alleghenyinstitute.org/reports/02_05.pdf

Base Year Assessments: Bad Policy, Bad Court Decision. Policy Brief: Volume 6, No. 15.
www.alleghenyinstitute.org/briefs/vol6no15.pdf

Assessment Ball in Court's Court. Policy Brief: Volume 6, No. 44.
www.alleghenyinstitute.org/briefs/vol6no44.pdf

Reassessment Controversy: Doing the Right Thing. Policy Brief: Volume 5, No. 8.
www.alleghenyinstitute.org/briefs/vol5no8.pdf

2006 Assessments: Much Better Than Existing Assessments. Policy Brief: Volume 5, No. 11.
www.alleghenyinstitute.org/briefs/vol5no11.pdf

Assessment Cap: Good Politics, Poor Policy. Policy Brief: Volume 5, No. 12.
www.alleghenyinstitute.org/briefs/vol5no12.pdf

Impact of Assessment Cap Scheme on Downtown Tax Base. Policy Brief: Volume 5, No. 14.
www.alleghenyinstitute.org/briefs/vol5no14.pdf

Five Steps to Reliable Assessments. Policy Brief: Volume 5, No. 17.
www.alleghenyinstitute.org/briefs/vol5no17.pdf

Caps Are Out: Now What? Policy Brief: Volume 5, No. 20.
www.alleghenyinstitute.org/briefs/vol5no20.pdf

Property Assessments: Lessons From Butler County. Policy Brief: Volume 5, No. 23.
www.alleghenyinstitute.org/briefs/vol5no23.pdf

Assessment Angst: The Never Ending Story. Policy Brief: Volume 5, No. 40.
www.alleghenyinstitute.org/briefs/vol5no40.pdf

Reassessment Heartburn on the Way. Policy Brief: Volume 4, No. 39.
www.alleghenyinstitute.org/briefs/vol4no39.pdf

Four Steps For Improving Allegheny County Assessments. Policy Brief: Volume 2, No. 20.
www.alleghenyinstitute.org/briefs/vol2no20.pdf

North Shore Connector

The Issue:

The Port Authority of Allegheny County is preparing to begin construction of a 1.2 mile tunnel project from Downtown Pittsburgh to the North Side of the Allegheny River. The project, when approved for funding by the Federal Transit Administration in 2003, was projected to cost $362 million and included a link from Steel Plaza Station to the new Convention Center. Considerable controversy has arisen over the expense and limited benefits of the project.

What We Know:

The project known as the North Shore Connector was originally approved for funding by the Federal Transit Administration in 2003 at a cost of $362 million. The Connector project was denied approval in 2001 when the cost was $390 million. That proposal had an additional third stop on the North Shore. After the not recommended notice arrived, the Port Authority reworked the proposal by deleting the third stop and reducing costs to $362 million, the FTA gave the project a medium rating to go ahead.

After 2003, the costs of the project escalated and bids for the work came in well above budgeted figures requiring new estimates of construction costs which were obviously not going to be acceptable. The Port Authority then proceeded to drop the important Convention Center link, a heretofore integral part of the justification for the project and yet the new cost forecast still rose to $435 million. That, in turn, means that the North Shore portion of the project alone had increased in cost by over $100 million or almost 40 percent.

Nonetheless, even using the ridership forecast from the proposal approved by the FTA in 2003, the cost per new rider on the system is unconscionably high. Predictions call for 4,400 new users per day by 2030, some 20 years after the completion of the project. Assuming a conservative 7 percent annual cost of capital along with the expected $8.5 million per year in operations and maintenance expenditures, the cost per new roundtrip on the system over the first 20 years is calculated to be $48.

Bear in mind too that the Port Authority's ridership figures included the use of the Convention Center link to the Steel Plaza Station. So the cost estimate of $48 per round trip is very conservative. Moreover, in calculating the economic and transportation benefits of the project, much was made of the number of employees within a half mile radius of the new stations, with an average of 37,612 workers per station. However, as a result of removing the convention center station, that average figure would be reduced to no more than half the 37, 612 figure used to justify the project originally.

Thus, it is clear that the FTA completely abandoned its obligation to focus on the already tenuous cost-benefit ratio and allowed a massive increase in the ratio of costs to benefits to occur and still agree to the increased level of funding.   This is a clear failure on the part of a bureaucracy to do its job as steward of taxpayer money.

Finally, the inevitable cost overruns for this type of project have not been factored in, making the FTA's stance even more shocking.

Recommendations:

Short of stopping the massive waste of money that will occur if this project moves forward, which as of this January 2007 writing appears to be unlikely, the Pennsylvania legislature needs to go on record as resolving not to allocate any funds to cover cost overruns as Allegheny County has already done.

This episode needs to be kept constantly in the public's eye to remind them and politicians what happens when unbridled greed and arrogance replace sound analysis and reason.

Allegheny Institute References:

Tunnel Vision. Policy Brief: Volume 4, No. 2. http://www.alleghenyinstitue.org/brief/vol4,no2

Deep Six Pittsburgh's Big Dig. Policy Brief: Volume 5, No. 22.
http://www.alleghenyinstitute.org/brief/vol5, no22

Pull the Connector's Plug. Policy Brief: Volume 5, No. 33.
http://www.alleghenyinstitute.org,brief/vol5,no33

Ineptitude Has Become a Hallmark of the Port Authority. Policy Brief: Volume 6, No. 22.
http://www.alleghenyinstitute.org/brief/vol6,no22

PAT Chairman Repeats Bogus Arguments for Tunnel. Policy Brief: Volume 6, No. 35.
http://www.alleghenyinstitute.org/brief/vol6,no35

The Connector's Last Gasp. Policy Brief: Volume 6, No. 7.
http://www.alleghenyinstitute.org/brief/vol6,no7

Federal Transit Bureaucracy Fails Taxpayers. Policy Brief: Volume 6, No. 42.
http://www.alleghenyinstitute.org/brief/vol6,no42

Pennsylvania Business Taxes

The Issue:

Pennsylvania business taxes are often cited as a problem for the state in its ability to attract and hold businesses. State officials say we are competitive. What is the true picture in the Commonwealth?

What We Know:

Surveys of businesses in and out of Pennsylvania find a perception that the state has a poor business tax climate. Most frequently mentioned concerns are, (1) the high Corporate Net Income Tax, (2) the Capital Stock and Franchise Tax, (3) capping net operating loss carry forwards, and (4) the absence of a single sales factor apportionment of corporate income. Meanwhile, Pennsylvania's Research and Development Tax Credit program has been capped since its inception. Not as prominently featured in most surveys but still important are the real estate taxes that are quite high in many parts of the state. Then too are the nuisance local taxes such as the business privilege tax and the mercantile tax. All this adds up to a general attitude that Pennsylvania has an unfair and unpredictable tax environment for business.

Relying on a flawed ranking of state business tax climates, the Governor and the administration have tried to claim that Pennsylvania's tax climate is not bad and is in fact pretty good. Our analysis demonstrates the serious shortcomings and lack of usefulness of the Tax Foundation's state ranking methodology. Surveys and the reality of the high corporate tax rate, the capital stock and franchise tax along with the other negative aspects of the state's tax structure.

Over the past 50 years research has demonstrated that taxes are important in business location and investment decisions and that lower tax jurisdiction have a competitive advantage over higher tax areas.

Recommendations:

Pennsylvania needs to move quickly to remedy several of the many tax obstacles to business growth in the state. These would include further and more rapid reductions in the net income tax rate, eliminate the capital stock and franchise tax, uncap net operating loss carry forwards and address the state's hodgepodge property tax system.

Allegheny Institute References:

*Pennsylvania's Business Tax Climate: Current Competitive Issues and Prospects for Reform***.** Report # 06-03. www.alleghenyinstitute.org/reports/06_03.pdf

Making Sense of the Tax Foundation's State Business Tax Ranking Index. *Policy Brief:* Volume 6, No. 55. www.alleghenyinstitute.org/vol6no55.pdf

Mandated Wages: Prevailing Wages

The Issue:

In 1931, the federal government passed the Davis-Bacon Act which requires all contractors working on federal government projects (with a value of at least $2,000) to pay their employees the "prevailing wage" for that particular occupation. This was done to protect local laborers from cheap migrant labor. Promoters of the Act claimed it would enable American workers to spend the economy out of the Great Depression. They also claimed that those workers would be more productive which would, over time, drive down the cost of government construction projects.

Prevailing wages are set at or near the union-scale level. Under Davis-Bacon, contractors using non-union employees must pay them union level wages, raising the cost of a project. The Congressional Budget Office claims that if this wage mandate were lifted, it could save taxpayers about $1 billion per year. However, this problem is not relegated to the federal government—31 states have enacted state-level prevailing wage laws, including Pennsylvania.

It has been estimated that prevailing wage laws add about 10 to 15 percent to the cost of a construction project. The elimination of this requirement could amount to substantial savings not only for the state (which spends more than $2 billion per year on construction projects) but for counties, municipalities, and school districts (which spend more than a half a billion dollars on projects subject to the prevailing wage). A savings of 10 percent would result in substantial relief for taxpayers.

What We Know:

Prevailing wage laws not only dictate the wage rate for each craft classification, it also mandates an hourly price for "fringe" benefits. Fringe benefits for union workers are programs that are paid from trusts that have been built from dues payments and are not subject to payroll taxation. However, for the non-union firm the absence of such programs means that fringes must be paid directly to the employee as a supplement to the hourly wage and thus subject to payroll taxes. Therefore not only are non-union firms required to meet the wage being paid by union firms, but must exceed them through fringe payments and then must pay more in payroll taxes than their union counterparts. This is enough keep non-union contractors from even bidding on government contracts—giving union contractors a monopoly on government projects.

From 1979-1995, ten states repealed their prevailing wage law. Among the reasons for doing so was that the law forced employers to pay more for labor that the market would have otherwise dictated; it allows employers to discriminate in hiring workers; it raises the cost of government; it increased administrative costs.

Recommendations:

The national Davis-Bacon law, as well as the lower-level state prevailing wage laws, cost the taxpayers billions of dollars each year. With rigid craft-based job classifications and restrictive apprenticeship regulations, the ability of employers to hire and train unskilled workers is severely hampered. In many cases unskilled workers, often minorities, have been historically kept out prevailing wage projects.

Empirical evidence from Oregon, Michigan, and Pennsylvania show that prevailing wages are on average 25-40 percent higher than free-market wages. In 1997, the prevailing wage law in Ohio was no longer mandatory for school districts. It's estimated to have saved Ohio taxpayers 10 percent annually.

If Pennsylvania were to make prevailing wages optional at the school district level, the Commonwealth could see savings of tens of millions of dollars annually. If it were eliminated at the state level, it would save hundreds of million of dollars more.

With prevailing wages much higher than free market wages many non-union contractors are put at a disadvantage when bidding on government contracts. Add to this the cost of paying fringe benefits they often simply pass on government projects altogether. This leads to less competition and higher costs for government construction which are ultimately borne by the taxpayer.

Allegheny Institute References:

Prevailing Wages: Costly to State and Local Taxpayers. Report # 02-02. http://www.alleghenyinstitute.org/reports/02_02.pdf

TIFs and Prevailing Wages. *Policy Brief:* Volume 3, No.4. http://www.alleghenyinstitute.org/briefs/vol3no4.pdf.

Prevailing Wages: Costly and Unnecessary. *Policy Brief*: Volume 2, No.6. http://www.alleghenyinstitute.org/briefs/vol2no6.pdf

Government Mandated Wages: A Shackle on Economic Growth. *Policy Brief*: Volume 1, No.43. http://www.alleghenyinstitute.org/briefs/vol1no43.pdf

Mandated Wages: Living wages

The Issue:

The phrase "living wages" refer to a super-high mandated wage—often 50 percent to 150 percent greater than the current federal minimum wage ($5.15). They usually require any business or firm that receives local government assistance to pay its employees the mandated wage (set by the local government). The key term is "government assistance" which can be a catch all. In its simplest form, government assistance is limited to contracts between a firm and a government agency. In its more complex form, it can include tax abatements, tax increment financing, direct subsidies, as well as any other indirect government assistance.

What We Know:

The poor are not getting poorer, as they are consuming more goods today than they were thirty years ago. Non-monetary benefits have also increased by one-third over the last two decades. As far as "burger flippers" are concerned, a U.S. Bureau of Labor Statistics report noted that on average, those in the fast food industry earn more than the prevailing minimum wage and approximately 70 percent are teenagers. The best remedy for increasing one's wages is education, experience and tenacity—not government intervention.

Who supports mandated wage floors? Mandated wages have the support of labor unions as well as activist groups such as ACORN (Association of Community Organizations for Reform Now). ACORN has been successful in getting these ordinances passed in many communities in California including their home community. Ironically, after it was passed, ACORN applied for an exemption from the law so they would not have to comply. They argued that they would have to reduce their workforce and would be unable to continue to operate at the same level.

Labor unions, specifically public sector unions, have viewed mandated wages as a way to push up all wages and not just the entry level ones. If the entry level wage were raised then all wages would rise by an equal amount to keep the hierarchy intact. This allows them to gain wage increases without striking or bargaining. It also helps them stem the tide of privatization among state and local governments as an inflated minimum will negate any savings that would have been achieved by outsourcing to private contractors—thus preserving union jobs.

Measures like mandated wages send signals to a business community that local governments are not afraid to be an active regulator of business operations. This information may be enough to dissuade a firm from locating in such an environment. However, if they choose to operate in this environment and are subject to the mandate they more than likely will follow one of three courses: raise prices to cover the increased wage costs; reduce costs by (among other things) reducing the number of employees, or reconsider doing business with the city/county. Firms can also substitute away from lowskilled workers to higher-skilled workers with greater productivity, thus hurting the people that the mandate was intended to help. By stipulating that any firm doing business with the government pay the mandated wage, it will cause the number of firms bidding for local government contracts to fall, reducing competition, thus leading to higher contract prices which will be passed along to taxpayers in the form of higher taxes.

Recommendations:

Mandated wages, such as the living wage, do not achieve the goal of reducing or eliminating poverty. Labor costs to firms increase when required to raise wage rates which forces them to make decisions. They can reduce labor costs by reducing, among other things workers themselves; cease to do business with the government imposing the new wage; or pass the costs along to customers. Moreover, as workers' incomes rise they may become ineligible for government subsidies such as food stamps, Medicaid, or income tax credits, reducing or offsetting the benefits of the wage hike.

Since raising the wage rate is not a cure for poverty, what alternatives are out there? A more direct approach, used by Harvard University, is to extend benefits such as health care to part-time employees. They also helped lower-skilled employees by offering literacy and GED courses. Other alternatives include increasing earned income tax credits, child care, job training and education, and housing assistance.

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Public Safety Collective Bargaining

The Issue:

In Pennsylvania, where teachers and transit workers can shut down services and inconvenience their users, at least one important sector of the workforce is prohibited from going on strike. This sector is comprised of policemen and firemen. Instead, they enjoy binding arbitration under Act 111 of 1968.

What We Know:

There are problems with this law. The law is quite brief and makes no mention of mediation or fact-finding provisions. The arbitration panel appointed in a dispute is made up of three members—one appointed by the union, one by the employer (the municipality) and the third a pick of the employer and the union. The employer has to pay the costs of its arbitrator as well as the costs of the neutral arbitrator. There is no mention of what factors, if any, the panel is to take into consideration when deliberating the award.

In short, placing control over salary and benefits of public safety workers into the hands of arbitrators has proven to be a recipe for disaster as costs have climbed across the state.

We have found that binding arbitration for police and fire is far more likely to be present in states that are not Right to Work and those that have levels of public sector unionization of 50 percent or greater. In comparison with the laws in the neighboring states of New York and Ohio—which spell out specific conditions for arbitration to occur and set out criteria to be considered in settlements—Pennsylvania's statute is weak. That there has not been a statewide, systematic evaluation of Pennsylvania's Act 111 since the late 1970s which produced a series of recommendations, none of which were adopted, showing that there is little legislative interest in taking on the statute's shortcomings.

Recommendations:

A far better system for binding arbitration requires changes to the selection of arbitrators and the criteria they use in making an award. These changes include:

- State oversight: A pool of arbitrators would be housed in the state's Department of Labor and Industry and be classified as civil servants, free of political pressure. Panels of arbitrators would be appointed from the pool to hear cases around the state.
- Neutrality: Arbitrators would have no interest or connection to the dispute. No arbitrator could participate in a case in the county where he or she resides.
- Professionalism: Arbitrators would be certified by a professional organization/association and would be qualified to hear cases involving workplace matters for police and fire personnel and their employers.

- Accountability: A review panel made up of disinterested senior arbitrators should oversee the arbitrators' decisions and have the final approval on awards.

Second, once arbitration has commenced, the board should have freedom to craft an award, even if it means starting from zero. This process must be guided by objective, measurable criteria, including, but not limited to:

- Comparison with economically and demographically similar cities to see what their police and fire personnel earn and the benefit packages they receive.
- Staffing levels.
- Productivity level changes.
- Hours worked per-week.
- Inflation since the approval of last contract and projected for the term of the contract.
- Average income growth in the municipality.
- Financial ability of the municipality.

Clearly, as far as possible, market forces should determine wages and what types and amounts of benefits should be awarded. There should never be a provision that shields employees from layoffs or requires minimum pre-set staffing levels regardless of the financial situation of the community. Adopting these measures is the only way to ensure that pay increases are compatible with market forces and that any burden of benefits that are not enjoyed elsewhere are placed on taxpayers. These changes would help move the present collective bargaining system from one in which outcomes are basically decided before arbitration is convened to one where there is a chance that public safety unions won't automatically get everything they want.

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Tax Increment Finance

The Issue:

TIF is a redevelopment financing method that allows the additional (incremental) taxes from a new development to pay off publicly issued debt associated with the development's construction. In Pennsylvania, local governments were permitted to use TIF with the passage of Act 113 in 1990. Many of the major developments in the last fifteen years in the City of Pittsburgh and Allegheny County have been built with the aid of a TIF package.

What We Know:

Tax Increment Finance, or TIF, may encapsulate the old adage of "good intentions that have gone awry".

The process is rather straightforward: a development is planned in an area that is certified as blighted; a redevelopment authority steers the process, providing studies on the conditions of the site and the necessity of the TIF—this is the important "but for" criterion, meaning that without the TIF, the project would not be built. The taxing bodies that levy real estate taxes on the property decide whether or not to participate in the TIF. If they do, some portion of the incremental taxes goes to a special fund instead of to the taxing bodies until bonds sold by a redevelopment authority are paid off.

Some projects built with the aid of a TIF have been quite successful, while others have not. The City opened a "Pandora's Box" when it decided to craft a TIF deal to aid in the construction of a new downtown department store (Lazarus). There were other monies involved in the deal, but the fact was that the decision to use a TIF for retail has encouraged other communities to follow suit. Since then, such projects as Pittsburgh Mills, the Waterfront, and Victory Center have come to fruition, with more in the pipeline.

Two troublesome trends that we have documented are, (1) following a Supreme Court decision in 2002, prevailing wage must be paid on all projects using a TIF, thus inflating costs, and (2) TIF has been used in rural and suburban "green field" areas for retail developments instead of on urban "brown field" areas that need the infusion of private sector dollars for real value added activity.

Recommendations:

End the use of TIF in areas that do not need them, i.e. areas that don't meet a reasonable definition of blight, and for types of activity that do not create the high-paying jobs that the region claims it wants to attract. This especially applies to retail and entertainment venues that do not boost the economic growth of the region and only serve as subsidized competition for established venues.

The blight criteria should be tightened to prevent questionable projects from receiving a TIF designation (this will happen when the eminent domain code provisions are enforced statewide).

Make sure that developers are cognizant of the fact that the TIF borrowing is paying for the unnecessary additional labor cost. Elected and appointed officials should also be aware that projects they approve may be asking for the TIF in order to pay this inflated cost.

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Convention Center

The Issue:

Convinced that the convention center built in 1981 was too old, too small, and too outdated for the increasingly competitive convention market, the region's boosters devised a plan to triple the size of the existing exhibit space of the center by demolishing it and building a new one with plenty of aesthetics in order for Pittsburgh to grab its share of convention business.

What We Know:

As part of the Plan B Regional Destination plan, the Sports and Exhibition Authority used hotel tax-backed bonds to construct the center. The state contributed $150 million to the project as well. This project was originally scheduled to cost $270 million back in 1997 when it was proposed as part of the Regional Renaissance Initiative. Not surprisingly, construction costs rose considerably to a final price tag of $393 million.

The promises were that the center would attract significantly more business, it would not be a drain on the taxpayers, and it would spur the private sector to build hotels without the assistance of taxpayer dollars.

None of those promises has been fulfilled.

The center came on line at a time when convention space nationally was on the upswing while the demand factors were in decline. This latter half of the equation was only made worse after the tragic events of September 11, 2001. Bookings have barely budged above what existed at the previous center. To get attendance on an equal footing with the old center (on a per square footage basis) would require bringing in roughly 300,000 attendees per year for the immediate future. Recent year bookings at the new center have averaged in the neighborhood of 150,000.

The hotel tax, which had funded various purposes, including the operations of the Convention and Visitors' Bureau and the operations of the center, proved to be an inefficient revenue source as more of it was siphoned off to pay the debt service on the new center. As a result, a new, Countywide car rental tax was proposed. That proposal was defeated. It appears that the great savior of legalized gaming will provide a revenue source for the operations of the center. Until that time, the Regional Asset District has opted to provide operating funds to the center.

The hotels that were promised have yet to materialize, and when mentioned, there is talk of public subsidies involved. The Mayor at the time had boasted that two hotel companies were interested in building near the center. At one point, the Sports and Exhibition Authority was prepared to build a hotel that it would own. As of now, deliberations are stalled on building an attached hotel with subsidies. The downtown hotel community is divided on the prospect of adding additional capacity, especially with public money and close to the center, which would allow the structure to capture a disproportionate share of the convention business.

Recommendations:

At this point, it is impossible to recommend anything substantial that will change business as usual. The center is a "white elephant" and the cost is sunk. There is no other course of action than to make sure that any hotel that gets built is done without public subsidy that will give the hotel an advantage over other established hotels. And there should be no mention of expansion until the center proves it can give the taxpayers a return on their investment. As of now, the chance of that happening is miniscule.

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