ALLEGHENY INSTITUTE FOR PUBLIC POLICY

Allegheny Institute Issue Summaries Volume II

Allegheny Institute for Public Policy

Allegheny Institute Report #07-09
December 2007

305 Mt. Lebanon Blvd.◆ Suite 208 ◆ Pittsburgh, PA 15234
Phone: 412-440-0079 Fax: 412-440-0085 www.alleghenyinstitute.org

Table of Contents

Introduction	2
Property Assessments—Updated	3
Teacher Strikes in Pennsylvania	6
Pittsburgh's Parking Situation	8
Pittsburgh Oversight Board	11
Pittsburgh's Tax Picture	13
Pittsburgh's Employment Situation	15
Benchmarking Pittsburgh's Performance	18
Pirates' Attendance	20
Pittsburgh Penguins Arena	23
Local Government Pensions in Pennsylvania	26
US Airways Presence in the Pittsburgh Region	28

Introduction

This report represents the second volume of topics from our "*Issue Summaries*" publication.

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 second 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.

Issue Summary

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), and places where values are rising are rewarded while places where values are falling are punished. Finally, the current Chief Executive complained that the 2002 values were seriously wrong when he campaigned for office in 2003.

In June of 2007, Judge Wettick ruled that having a base year for assessments violates the uniformity clause of the Pennsylvania Constitution. As of this writing, that decision has been appealed by Allegheny County and now sits with the Pennsylvania Supreme Court, which has not yet begun deliberations.

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 in neighboring counties 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.

A good portion of Judge Wettick's decision was spent comparing the assessment practices of Pennsylvania with the other states. Expanding upon this research, we analyzed a 2000 survey of the International Association of Assessing Officers and found that Pennsylvania was only one of a handful of states that exclusively leaves the assessment of property to a local level of government. In addition, Pennsylvania does not conduct audits of assessments, verify sales, or prescribe a cycle for assessments, which puts it woefully out of step with other states. If the Supreme Court upholds the decision, the General Assembly will have to confront the issue of assessments. A new assessment system ought to include a level of state oversight, regularly scheduled assessments, revenue-neutral millage changes after a reassessment, and voter approval of all millage increases.

Allegheny Institute References:

Pennsylvania's Property Assessment System Needs Change. Report #07-07.
www.alleghenyinstitute.org/reports/07_07.pdf

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

Pennsylvania's Assessment Laws Need Major Overhaul. Policy Brief: Volume 7, No. 45
www.alleghenyinstitute.org/briefs/vol7no45.pdf

Assessments and Taxes: Coming to Grips with Reality. Policy Brief: Volume 7, No. 42
www.alleghenyinstitute.org/briefs/vol7no42.pdf

Legislature Could Find Assessments Reform in Its Future. Policy Brief: Volume 7, No. 32 www.alleghenyinstitute.org/briefs/vol7no32.pdf

Base Year Assessments Under Judicial Siege. Policy Brief: Volume 7, No. 17
www.alleghenyinstitute.org/briefs/vol7no17.pdf

Assessing the Chief Assessor. Policy Brief: Volume 6, No. 66
www.alleghenyinstitute.org/briefs/vol6no66.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

Issue Summary

Teacher Strikes in Pennsylvania

The Issue:

Pennsylvania leads the nation in the number of teacher strikes. Sixty percent of the 137 nationwide strikes since 2000 occurred in Pennsylvania. While the number of strikes has declined since the inception of Act 88 in 1992 (mandating 180 days of school to be completed by June 15^{th}), there needs to be a stricter legislation that either eliminates the right of teachers to strike or impose tough penalties if they do so.

What We Know:

Thirteen states across the nation permit teachers to strike: Alaska, California, Colorado, Hawaii, Illinois, Louisiana, Minnesota, Montana, Ohio, Oregon, Pennsylvania, Vermont, and Wisconsin. In most of these states strikes have rarely occurred since 2000. Pennsylvania (82), Ohio (23), and Illinois (19) had the most strikes over the last six years, while the other ten states combined for only 13.

Of the remaining 37 states that prohibit strikes, four states (Indiana, Massachusetts, Michigan, and Washington) still have the occurrence of teacher strikes largely because the law has provided special circumstances that permit them or there are no penalties for striking. In Michigan and Washington, teacher strikes can occur for the following reasons: (1) the ability to strike for political motives as opposed to economic reasons, (2) a lack of clear and enforceable penalties for violators, or (3) an option for teachers to appeal to a judge.

Prohibitory strike laws with prescribed and serious penalties, supported by court rulings, are effective in preventing strikes as demonstrated by Florida, Georgia, New York, Tennessee, and other states where no strikes occur. In Florida, employees who strike can be terminated and unions receive fines for damages up to $20,000 per strike day and face decertification. Georgia and Tennessee also reserve the right to terminate a striking teacher who will then have to wait three years before they can apply for re-employment. In New York, the Taylor Law imposes a penalty of two days lost pay for every day on strike. The union also loses its concession to check off dues for one year.

Recommendations:

Teacher strikes harm students, families, and communities. Strikes have financial as well as social consequences. Financial burdens are conveyed by increased property taxes due to inflated teacher contracts and childcare costs during the strike. Social consequences are displayed by strained relationships between teachers and the community and parents.

Therefore, strikes reveal the selfish interests of unions and teachers at the public's expense. Teachers are public employees and servants and should act accordingly. Teachers who strike should incur consequences for their actions. Two recommendations that would curtail the willingness and motivation for teachers to hit the picket line are:

1) Impose a penalty that takes away two days pay and benefits for each day teachers miss regularly scheduled school time;
2) Mandate a school year consisting of 180 days of instruction would have to be met by May 31^{st}.

The first recommendation will provide an economic penalty for striking and alter the bargaining balance away from the heavy way it now favors the teachers and penalizes school boards and taxpayers. The primary benefit of the second recommendation would be to put a stop to end of year strikes that create such inconvenience and disruption for students who are graduating and those needing to get summer jobs underway and to end the disruption families face through the postponement of graduation ceremonies.

In short, teachers who are held accountable for their actions are far less likely to strike.

Allegheny Institute References:

Pennsylvania Teachers: Number One in Strikes. Report #07-06.
http://alleghenyinstitute.org/reports/07_06.pdf

Reducing Teacher Strikes in Pennsylvania. Policy Brief: Volume 7, No. 31.
http://www.alleghenyinstitute.org/briefs/vol7no31.pdf

Ambridge Picket Signs Delay Mortar Boards. Policy Brief: Volume 7, No. 28.
http://www.alleghenyinstitute.org/briefs/vol7no28.pdf

Teachers Strike; Pennsylvania Strikes Out. Policy Brief: Volume 6, No. 49.
http://www.alleghenyinstitute.org/briefs/vol6no49.pdf

Issue Summary

Pittsburgh's Parking Situation

The Issue:

The complaints about parking in Pittsburgh—specifically the Golden Triangle—are loud and constant. The reasons are a mismatch in the supply and demand situation and the nation's highest parking tax.

What We Know:

Our 2002 study on parking found that Pittsburgh was underserved compared to several comparison cities (Baltimore, Charlotte, Columbus, Denver, and Indianapolis). Pittsburgh was in the middle of the pack in terms of number of parking spaces in the central business district and fringe areas. However, on the basis of parking spaces per 1,000 Downtown workers, Pittsburgh had 50 percent fewer spaces than the average.

In addition, there was only one other city that had a Parking Authority (Baltimore) in addition to private lot and garage ownership. Across the country most parking issues are handled by a city department.

Compounding the problem of the parking situation was and is the fact that Pittsburgh has a hefty tax on parking fees. At the time of the report (2002), it was 31 percent. Again, only one other city in the sample (Baltimore) had a parking tax and its rate was much lower than Pittsburgh's. In 2004, as a way to try and remedy its financial problems, Council boosted the tax to 50 percent. Rates at lots and garages were raised to compensate for the tax increase, some, including those owned by the Parking Authority, rising more than necessary.

As part of the state's reform package for the City, the parking tax was targeted for reduction. In 2008, the rate will stand at 40 percent, and there are reductions slated for 2009 (to 37.5%) and 2010 (to 35%). Here is a look at parking tax collections since 2000 and what they are projected to be by 2012:

Year	Status	Rate (%)	Revenue (000s)	% Change
2000	Actual	31	30,097	
2001	Actual	31	30,902	2.7
2002	Actual	31	30,944	0.1
2003	Actual	31	30,879	-0.2
2004	Actual	50	44,511	44
2005	Actual	50	50,323	13
2006	Actual	50	50,506	0.4
2007	Revised Projected	45	47,843	-5.3
2008	Projected	40	44,107	-7.8
2009	Projected	37.5	41,437	-6.1
2010	Projected	35	38,800	-6.4
2011	Projected	35	38,800	0
2012	Projected	35	39,100	0.8

As the tax rate began to fall, some members of City Council expressed reservations since they did not see the commensurate reductions in parking tax rates that they felt should be occurring. As a result, Council voted 8-1 to halt the 2008 reduction and freeze the tax at 45 percent and direct the revenue they would have lost to help pay for debt and pensions.

Of course, if operators had raised their rates by the necessary amount to account for the jump in the tax increase in 2004, reductions to account for the tax decrease would be rather small due to the need to cover rising costs including operations since 2004. Add to that the fact that all of the vitriol was directed at private lot operators and none at the Parking Authority, whose board of directors are appointed by the Mayor.

But with the state oversight board's approval of the proposed 2008 budget, which includes the decrease in the parking tax, along with the Mayor's veto of the freeze, the parking tax will continue its downward fall to 35 percent.

Recommendations:

Short of a massive increase to the supply of parking in the Golden Triangle and the immediate surrounding areas, it is doubtful that there will be significant downward pressure on rates.

The existence of a parking tax poses severe disadvantages for the growth of residential and commercial enterprises in Downtown Pittsburgh. The 2004 tax increase produced the type of revenue boost the City had hoped for, implying that, for a lot of folks, parking is a necessity that they will bear. There has been an effect on casual visitors to Downtown for whom parking is more of a luxury.

If the City can get grips on its spending, the City could aggressively cut the parking tax well below the maximum rates prescribed by the state. Act 222 prescribes that the tax shall not exceed certain levels—there is nothing that prevents the tax from being cut even further. That would send a clear message that Pittsburgh is going in the right direction and wants to grow.

The City should also privatize the Parking Authority and bring any enforcement responsibilities in-house to the City administration. Proceeds of the sale of garages could be used to retire debt.

Allegheny Institute References:

No Upside in City Council's Parking Tax Freeze, *Policy Brief*: Volume 7, No. 53
www.alleghenyinstitute.org/briefs/vol7no53.pdf

Parking Tax Ruckus in Pittsburgh, *Policy Brief*: Volume 6, No. 64
www.alleghenyinstitute.org/briefs/vol6no64.pdf

Pittsburgh's Parking Tax Will Not Solve Spending Problem,
Policy Brief: Volume 4, No 2
www.alleghenyinstitute.org/briefs/vol4no2.pdf

It Takes a Lot of Gold to Park in the Golden Triangle, *Policy Brief*: Volume 2, No. 42
www.alleghenyinstitute.org/briefs/vol2no42.pdf

Parking In The Golden Triangle: How Pittsburgh Compares To Similar Cities,
Report #02-09 www.alleghenyinstitute.org/reports/02_09.pdf

Issue Summary

Pittsburgh's Oversight Board

The Issue:

The state-created Intergovernmental Cooperation Authority (oversight board) is in charge of controlling the City of Pittsburgh's finances, but despite its early promise, it has proved largely ineffective and has drifted into the background.

What We Know:

Act 11 of 2004 created the oversight board to assist the City of Pittsburgh with its financial difficulties. As intended in the statute, the oversight board would "operate concurrent and equally" with the Act 47 Recovery Team. The five directors of the oversight board were appointed by the leaders of the House (2), Senate (2), and the Governor (1). The appointees were required to have "substantial experience in finance or management" and were to be either residents of Pittsburgh or have their primary place of employment in the City. The statute gave the oversight board an existence of at least seven years, which means it will go out of business in 2011 unless it is renewed by state action.

The authority possesses general and specific powers, all of which are intended to restore the fiscal health and viability of the City of Pittsburgh. Here are the two major powers that were to have significant impact: one, to prepare a cooperation agreement for the City, and review and either accept or reject an annual forecast from the City that projects finances over the upcoming five-year time frame; two, withhold tax revenues should the City deviate from the financial plan.

The potential for the board to remake Pittsburgh was great: the authority was given the ability to review departments, authorities, and functions; they would have the ability to push for outsourcing and privatization of non-core operations. And it could focus on the high burden of debt and pension costs, a major cause of the City's problems crying out for a solution.

The law mentioned that the oversight board had no ability to abrogate collective bargaining agreements that were in effect but stipulated that the City could not negotiate contracts that were out of line with the plan. If it did, the City had to show that it had sufficient revenues to pay for the contract. Under the law, arbitration for police or fire contracts had to take in account the financial plan as well as comparative market factors.

The contract with the fire union in 2005—and how a dispute over that contract played out—is what made the oversight board a non-player in reforming Pittsburgh.

The City and the fire union negotiated a contract that was a far cry from the type of right-sizing needed for that department, and the oversight board opted to bring a suit against the proposed contract. Unfortunately, the Act 47 recovery team saw no problem with the contract, so, in essence the stage was set for a battle between the City's two fiscal overseers. After the resignation of one board member and the removal of another, the lawsuit was dropped. The hope was that the re-opener of the contract this year would allow changes to be forced on the fire union. To date, there has been no mention of a re-opening, likely meaning that changes will happen the next time the contract is up.

Since that time, board members have come and gone, studies have been conducted on the City and its operations, but the oversight board is far from the independent agency envisioned by the General Assembly.

Recommendations:

Hindsight being what it is, there may have been far better ways to design the board, perhaps not requiring that they be connected to Pittsburgh and perhaps removing the gubernatorial appointment in favor of the four legislative appointees selecting the fifth member unanimously. Or the state could have given the oversight board power over the Act 47 team, which was not really designed for a city the size of Pittsburgh anyway and was focused on general operations and not debt or pensions. But that was not the case. There was even talk in 2005 that the legislature was considering ending the oversight board's existence that year, but nothing came of that.

As it now stands, the oversight board's existence merely prevents the imposition of a commuter tax in Pittsburgh. Act 222 of 2004 mandated that so long as the oversight board is in existence, the City cannot pursue imposing a commuter tax under Act 47. If the City is still in Act 47 status in 2011, and the oversight board is lifted, then there is an option for such a tax.

Allegheny Institute References:

The ICA Watchdog Loses its Bite. Editorial. August 2, 2005.
www.alleghenyinstitute.org/editorials.php

Cooling Down Fire Bureau Spending. Policy Brief: Volume 5, No. 3.
www.alleghenyinstitute.org/briefs/vol5no3.pdf.

Legislators Weigh In On City Finances. *Policy Brief:* Volume 4, No. 42.
www.alleghenyinstitute.org/briefs/vol4no42.pdf.

Pittsburgh Must Help Itself. Policy Brief: Volume 4, No. 31.
www.alleghenyinstitute.org/briefs/vol4no31.pdf.

Legislature Gets Unhelpful Advice. Policy Brief: Volume 4, No. 21.
www.alleghenyinstitute.org/briefs/vol4no21.pdf.

Issue Summary

Pittsburgh's Tax Picture

The Issue:

The 2004 state legislative reform package made significant changes to the taxes levied by the City. While those changes resulted in a net increase in revenue of $17 million in 2005, the long term trends of slow job and population growth continue to manifest themselves in tax collections, especially in real estate and wage collections.

What We Know:

Prior to reform, the City levied eight major taxes—real estate, wage, business privilege, parking, mercantile, amusement, deed transfer, and occupational privilege. Here is how the state reform package affected these taxes:

- *Real Estate*—Unaffected by reform.
- *Deed Transfer*—Unaffected by reform.
- *Amusement*—Unaffected by reform.
- *Wage*—Increased from 1 percent to 1.1 percent in 2007 as a result of a shift of a tenth of a percent from the 2 percent share levied by the City school district. This shift continues through 2009 when the City rate will be 1.25 percent. A City resident subject to the tax will still pay 3 percent in total to the City and the schools like they do currently, just in a different proportion.
- *Business privilege*—Rate decreased from 6 mills to 2 mills in 2005 and 2006. In 2007, the rate was lowered to 1 mill and will remain there until 2010 when the tax will expire.
- *Parking*—The reform package outlines a gradual phase down by 15 percentage points spread over the years 2007 through 2010 when the rate will fall to 35 percent.
- *Mercantile*—Eliminated in 2005.
- *Occupational Privilege*—The previous rate of $10 was increased to $52, renamed the Emergency and Municipal Services Tax, and the exemption level set at $12,000.

The reform package also created a new tax on the payrolls of for-profit businesses in the City, which garnered $37 million in 2005. With the increase in the EMS netting $13 million, the combined increase was $50 million. This was offset by the elimination of the mercantile tax ($7 million) and the cut in the business privilege rate ($26 million), resulting in a net gain of $17 million from the changes.

But even with these changes and projections that total revenues for the City are expected to grow by $100 million from 2000 to $452 million in 2011, the City has not really turned the corner. The City's two largest revenues—taxes on real estate and wages—are lower than previous highs reached earlier in the decade. In fact, except for countywide reassessments in 2001 and 2002, real estate revenues are stagnant. Moreover, taxable property value was actually lower in 2005 than it was in 2002. Meanwhile, the number of City residents who are employed (and subject to the wage tax) fell 2 percent from 2000 through 2005 and is down 6 percent since 1996. Coupled with a smaller population in the City, there is not much positive to see in the City's revenue picture over the past few years.

Recommendations:

Following the enactment of major change in the City's tax structure in 2004, it is unlikely further substantial tax reform will be enacted by the legislature anytime soon. That means the prescription for keeping the City within its means—well within its means is preferable. It simply must come to grips with its spending. The City still faces enormous financial obstacles in the form of pensions, debt, health care, and worker's compensation costs. Bringing operations spending levels down to put Pittsburgh more in line with better performing cities will allow the City to begin to free up funds to deal with the difficult remaining problems.

Allegheny Institute References:

The City's 2007 Budget: Few Signs of Recovery. Report # 06-04.
www.alleghenyinstitute.org/reports/06_04.pdf

City Property Taxes Not Growing. Policy Brief: Volume 6, No.58.
www.alleghenyinstitute.org/briefs/vol6no58.pdf

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

Pittsburgh's 2006 Budget. Policy Brief: Volume 6, No.25.
www.alleghenyinstitute.org/briefs/vol6no25.pdf

Revenues from Pittsburgh's New Tax Structure. Policy Brief: Volume 6, No.24.
www.alleghenyinstitute.org/briefs/vol6no24.pdf

Are City Tax Revenues Falling Short? Policy Brief: Volume 5, No.29.
www.alleghenyinstitute.org/briefs/vol5no29.pdf

Pittsburgh's Taxing Situation. Policy Brief: Volume 5, No.19.
www.alleghenyinstitute.org/briefs/vol5no19.pdf

Note to Pittsburgh Tax Collectors. Policy Brief: Volume 5, No.2.
www.alleghenyinstitute.org/briefs/vol5no2.pdf

Issue Summary

Pittsburgh Employment Situation

The Issue:

Perennial lackluster job gains continue to plague the Pittsburgh region and little progress in addressing fundamental causes is being made.

What We Know:

In recent years, private payroll (establishment) employment gains in the Pittsburgh metro area (Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland Counties) have been extraordinarily anemic. Meantime, the area's unemployment rate is holding at a reasonably low level of 4.7 percent primarily owing to the very slow pace of labor force growth. The seven county labor force count was 2000 lower in late 2006 than it was in late 1997, allowing the number of unemployed persons to fall despite weak job growth, measured either by the broad household count or the narrower payroll count.

For analytical purposes, establishment payroll employment is usually considered a preferable gauge of the employment picture in that one can track jobs by industry detail. Therefore, the remainder of this summary will focus on establishment payroll jobs.

Over the last nine years (Dec 1997 to Dec 2006), private sector employment in the Pittsburgh metro area rose from 981,500 to 1,027,500, an increase of 4.7 percent or 0.5 percent at an average yearly rate. Unfortunately, all of the growth occurred by 2000 when payrolls topped 1,031,000. During the six years since 2000, jobs fell to as low as 1,013,000 in 2003 and managed to rebound to 1,027,500 but remain below the 2000 level.

By way of comparison, U.S. private employment rose 9.8 percent from 1997 to 2006 and has climbed 3 percent since 2000. In both national and Pittsburgh area jobs, the manufacturing sector has been very weak, sustaining serious losses over the last six years. Pittsburgh's factory count dipped below 100,000 in late 2006 for the first time in decades. Between 2000 and 2006, the region suffered a 25 percent drop in manufacturing jobs. Nationwide the 2000 to 2006 decline was 18 percent with employment tumbling to just over 14 million.

Job strength in the Pittsburgh region has been concentrated in the education and health category and the leisure and hospitality sector. Together these two sectors have added 40,000 workers since 2000, accounting for virtually all net new jobs but still not enough to offset losses in manufacturing and retail trade as well as near stagnation in other sectors. The absence of meaningful gains in other sectors has held the region to no net overall gain for six years. In a quite different picture, there has been substantial national strength in construction and finance in addition to the education and health and leisure and hospitality sectors that together have more than offset the slide in manufacturing employment. Moreover, many parts of the country, especially in the mountain west and south, have recorded rapid jobs growth that has produced most of the national increase despite weakness in the rust belt and the northeast.

Economically, the Pittsburgh region has the misfortune of being located in a state that is a relatively poor performer and whose business and labor climate, especially its public sector unions is not as friendly as it ought to be toward private enterprise. Pittsburgh does have several strong economic attributes with top quality medical top facilities and enviable institutions of higher education. Unfortunately, while they help sustain the region's economy these sources of strength are not sufficient to spur the private sector dynamism necessary to produce healthy, long term job gains—the key to real economic well being and vitality.

Recommendations:

- Sadly, there is little the Pittsburgh region can do by itself directly to fix the state's business and labor climate. However, political, civic and business leaders need to demand actions in Harrisburg that will begin the process of loosening the stranglehold unions, particularly public sector unions, have over government spending taxes and regulations of the workplace. Then too, there needs to be strong support for lowering taxes, especially onerous property taxes and business taxes that are detrimental to state and regional growth. And there is much local leaders can do to rein in costly government and onerous taxes. There needs to be leadership that will stand up to unreasonable union demands and work for the benefit of citizens and taxpayers.

Allegheny Institute References:

Union Power's Negative Consequences for Pittsburgh Region. Policy Brief: Volume 7, No.5. http://www.alleghenyinstitute.org/briefs/vol7no5.pdf.

Dig a Hole and Fill it Up: A Metaphor fro a Pittsburgh Approach to Job Creation. Policy Brief: Volume 6, No.62. http://www.alleghenyinstitute.org/briefs/vol6no62.pdf

Pittsburgh Job Growth: Complaints Loud and Misplaced. Policy Brief: Volume 6, No.50. http://www.alleghenyinstitute.org/briefs/vol6no50.pdf

Pittsburgh Jobs Picture a Little Better But Not Good. Policy Brief: Volume 6, No.40. http://www.alleghenyinstitute.org/briefs/vol6no40.pdf

Pittsburgh's Job Picture: the Sad, the Bad and the Ugly. Policy Brief: Volume 6, No.16. http://www.alleghenyinstitute.org/briefs/vol6no16.pdf

Boston and Pittsburgh: Who Knew? Policy Brief: Volume 6, No.13. http://www.alleghenyinstitute.org/briefs/vol6no13.pdf

Public Sector Unions Are Hobbling Pittsburgh. *Policy Brief*: Volume 5, No.35.
http://www.alleghenyinstitute.org/briefs/vol5no35.pdf

Pittsburgh Taxes—Too High and Too Many. *Policy Brief*: Volume 4, No.4.
http://www.alleghenyinstitute.org/briefs/vol4no4.pdf

Pittsburgh Wears the Union Label. *Policy Brief*: Volume 3, No.11.
http://www.alleghenyinstitute.org/briefs/vol3no11.pdf

Pittsburgh's Job Growth Rate Has Been Dismal. *Policy Brief*: Volume 2, No.62.
http://www.alleghenyinstitute.org/briefs/vol2no62.pdf

Issue Summary

Benchmarking Pittsburgh's Performance

The Issue:

Compared to the cities of Salt Lake (UT), Omaha (NE), Columbus (OH), and Charlotte (NC), Pittsburgh is far out of line on taxes, spending, and long-term obligations like debt, pensions, and workers' compensation. In order to be a better performing city, Pittsburgh simply must be more aggressive in addressing this disparity.

What We Know:

In 2004 we selected the four comparison cities based on the role they perform as the center of civic, recreational, educational, and cultural activity as well as employment for their region, much in the way Pittsburgh does. We collected data on a variety of indicators, ranging from city expenditures and taxes to debt and pension funding. We examined demographics and also included data on schools and authorities. Averaged together, the data constituted what became the Benchmark City. It would be used to gauge Pittsburgh's performance.

Our findings confirmed the following: Pittsburgh was far out of line on many of these indicators and, as a result, needed to make significant changes. While Pittsburgh was spending $1,189 per capita, the Benchmark City average was $803. If Pittsburgh moved aggressively to bring spending down to the Benchmark level, significant savings could have been achieved. This included making cuts in employment, looking to the private sector or the county to provide services, and generally downsize itself.

Fast forward to 2007: in the intervening years Pittsburgh had been officially declared distressed under Act 47 and it was also granted a tax reform package as well as an oversight board to watch its finances. We decided to revisit the Benchmark study to see what changes these reforms made. Our findings revealed improvement in some areas, including fire spending and fire staffing, but the gaps between Pittsburgh and the Benchmark City still persisted. For instance, while the City of Pittsburgh was spending 48 percent more in 2004, it is spending 35 percent higher than the Benchmark City in 2007. While that is an improvement, it is not significant enough to make a big splash.

Where these gaps were most pronounced was in the area of debt, pension funding, authority assets, and workers' compensation. Not surprisingly, these are the areas that have not attracted a lot of attention from either of the state's overseers.

Recommendations:

It is fair to say that through the end of the decade the City is in "stasis" as the reforms put into place in 2003 and 2004 play out. The oversight board is set to expire in 2011 unless it is extended; the Act 47 team is in place indefinitely; the tax reforms that raise some taxes while offsetting those increases with reductions plays out until 2010. As such, the prevailing attitude is one of "wait and see". At the same time, if spending projections continue at a pace of a 3 percent increase every year through 2011 and population continues to fall to 300,000 by that year, per capita spending will stand at just under $1,600.

Taking small, cautious steps is not the approach Pittsburgh needs, but that appears that is what we will get. Pittsburgh's governing officials must act decisively to reduce payroll and spending if it is to have any hope of recovery.

Allegheny Institute References:

Pittsburgh's Finances: An Updated Comparison with the Benchmark City. Report # 07-05. www.alleghenyinstitute.org/reports/07_05.pdf

A Benchmark City for Pittsburgh to Emulate. Report # 04-05. www.alleghenyinstitute.org/reports/04_05.pdf

Pittsburgh Finances: A Long Way to Go. Policy Brief: Volume 7, No. 34. www.alleghenyinstitute.org/vol7no34.pdf

A Benchmark City for Pittsburgh to Emulate. Policy Brief: Volume 4, No. 27. www.alleghenyinstitute.org/vol4no27.pdf

Issue Summary

Pirates' Attendance

The Issue:

Despite the promises of Pirates' ownership and regional boosters that construction of a new baseball-only facility (heavily financed with tax dollars) would increase attendance and build a competitive team, those promises have gone unfulfilled.

What We Know:

Let's look at total attendance at PNC Park in the first six years of its existence:

PNC Park Attendance

	2001	2002	2003	2004	2005	2006
Total Attendance (000s)	2,480	1,780	1,636	1,583	1,794	1,861
Percentage Change		-28	-8	-3	13	4

Well, proponents were correct that attendance would be up, but it was only for one year. We predicted that the benefits of a new stadium would be short-lived as the novelty wore off: but we did not expect it to happen in the third and fourth years of the new facility. The saving grace was the announcement that the All-Star game would be held in PNC Park during the 2006 season. Ticket sales in anticipation of that event helped to boost 2005 numbers.

In the years since 1990, the 2001 debut year of PNC Park was the single best total attendance record at either Three Rivers or PNC. But in years where there was no All-Star game hype, attendance at the norm hovers around 1.5 to 1.6 million. The table below offers a comparison of attendance at Three Rivers, PNC, and the league.

The Attendance Picture in Pittsburgh and MLB, 1990-2006

Year	90-93 Average	97-00 Average	01	02	03	04	05	06
Three Rivers (in millions)	1.9	1.6						
PNC Park (in millions)			2.5	1.8	1.6	1.6	1.8	1.9
MLB (in millions)	59.3	69.1	72.5	67.9	67.6	72.9	74.3	73.8
Pittsburgh Attendance as % of MLB	3.2	2.3	3.4	2.7	2.4	2.2	2.4	2.6

During the last four years at Three Rivers following the strike affected years of 1994, 1995 and 1996 average annual attendance was 1.64 million. In the 2002 through 2006 period at PNC Park, after the big splash of the 2001 opening, average annual attendance was 1.74 million. That's a mere 100,000 more fans per year in the new ballpark and the improvement would have almost certainly been lower had it not been for the All-Star Game.

It is interesting to compare Major League Baseball attendance with PNC Park attendance. Since 2002, league attendance grew 9 percent, while PNC attendance, with the bump from the All Star Game, grew 6 percent. In terms of ranking the league's 30 teams, the 2001 opening year pushed Pittsburgh to 17th, but attendance in the last couple of years have placed PNC Park at 3rd and 4th from the bottom.

That's a sad commentary given the lengths to which public and civic officials lobbied for a sales tax increase and then assembled Plan B to get the stadium built. We were promised more than a one-year boost in attendance. Rather, the Pirates claimed attendance would be 2 million or more and produce sufficient revenue needed to afford a competitive team. Neither of those two claims been met in the years since Plan B was foisted on the public.

But one thing has become reality—the original investment team has profited handsomely from the new ballpark. Since the team was purchased for $90 million in 1996, the franchise's value has tripled to $274 million according to *Forbes Magazine*.

Recommendations:

Against the wishes of the electorate—who were told time and again that there was "no Plan B" and that Regional Asset District funds could not be used for a stadium—local and state officials went over their heads and put together the alternative to get the stadium built. This package relied on the RAD tax and state capital dollars.

Now, after the capital, both political and economic, has been spent, the results are not much better than at the older Three Rivers Stadium.

And for all of the celebrating over the development on the North Shore, consider that much of that has come from activity shifting from other locations, including Downtown Pittsburgh, rather than from new starts or out of area relocation, thus resulting in no net benefit to the City, County, or region.

Our recommendation is for the public and the media to carefully scrutinize the claims that the area is "booming". Politicians must begin to take a hard line approach to spending tax dollars on public ventures that mostly benefit private corporations.

Allegheny Institute References:

Pirates' Attendance: Promises Not Kept. Policy Brief: Volume 7, No. 24.
www.alleghenyinstitute.org/vol7no24.pdf

Attendance Woes Get Worse. Policy Brief: Volume 4, No. 14.
www.alleghenyinstitute.org/vol4no14.pdf

Will the Pirates' Rebuilding Ever Stop? Policy Brief: Volume 3, No. 36.
www.alleghenyinstitute.org/vol3no36.pdf

The Thrill is Gone. Policy Brief: Volume 3, No. 17.
www.alleghenyinstitute.org/vol3no17.pdf

Ballparks a Boon to the Burgh? Doubtful. Policy Brief: Volume 1, No. 5.
www.alleghenyinstitute.org/vol1no5.pdf

Issue Summary

Pittsburgh Penguins Arena

The Issue:

In early March 2007, the Pittsburgh Penguins hockey club came to an agreement with state and local officials over the funding of a new arena. The arena will be heavily financed with money from the state's gaming fund, a sizeable portion will come from the owner of Pittsburgh's slots parlor, while the team will put up a small contribution.

What We Know:

While local officials note that no direct city or county tax money was pledged in the deal, there are some concerns for taxpayers. The first concern is that the Sports and Exhibition Authority (SEA) will pay the team $8.5 million for the former St. Francis Hospital site. The team bought the site in anticipation of a new arena and it was to count as their up-front contribution to the project. Now they will receive its value in cash. As noted in the Governor's press release, "the source of the $8.5M will be from bond proceeds over and above the $290M…" Since the SEA is a joint city-county authority, who will be responsible for the repayment of this bond? Unfortunately, because the agreement also stipulates that "the Penguins…shall retain all revenues generated from all events at the new arena", it is clear that the SEA will not be able to use arena generated revenues to retire this debt.

Where will the SEA get the money? RAD dollars seem to be the likely source. If so, the pledge of no local tax dollars is out the window. Alternatively, the Commonwealth will just divert more gaming taxes. Either way, taxpayers will be on the hook.

Another area of concern is the agreement calling for the state and the team to split any project costs above $290 million up to $310 million. This could add as much as $10 million more to the burden of state taxpayers. It is not specified where the funds to pay this extra money will originate.

Furthermore, the state has agreed to "fund marketing expenses incurred by the Penguins in promoting the Team…" This marketing expense is in the form of a $2 million lump sum payment. Where this additional $2 million will come from is also a mystery. And this does seem to be a very curious and overly generous contribution in light of the fact that the Penguins are selling out games and have the best advertising a franchise can get, namely, an exciting, winning team. How much marketing of a new arena or the team can possibly be needed in a town that by all accounts is one of the best hockey supporting towns in the country? Simply put it is not the taxpayers' responsibility to pay for marketing. The $2 million grant amounts to nothing more than a gift.

And finally, the development rights arrangement between the SEA and the team is beyond the pale. According to the agreement term sheet, "the Penguins shall have development rights to the entire Mellon Arena site…" Not only do they have these rights, but the SEA will compensate them with $15 million in what is called a redevelopment credit. It appears the team will be able to buy parcels of land at an appraised value using this $15 million. In essence, the team will get the first $15 million worth of prime Pittsburgh real estate for free. But, if they do not use all of the credits within ten years, the team will receive the remaining balance in cash, courtesy of the SEA.

Instead, the old arena property and development rights to it should have been auctioned to the highest bidder. The proceeds could have been used to lower taxes or set aside in a reserve fund to help the City and County with debt retirement.

While no local tax funds were used in constructing the arena deal—the state's share is based on a tax on gaming revenues—it could have been done with private and arena generated funds. In fact, that is how the Penguins were able to add another $400,000 per year for capital reserves. They will put a surcharge on parking and use it to cover the fund—it will not come directly from their pockets. And since they control all revenues the new facility generates, they will have no difficulty in meeting their $3.6 million annual payment.

Recommendations:

This demonstrates how the arena funding should have been structured in the first place—private investment and arena revenue bonds. The $7.5 million annual payment from the Pittsburgh casino licensee, Don Barden, is a first step in securing private money. Other private investors could have put up another $4 to $5 million per year, either through the selling of naming rights or in an agreement to a share of non-hockey event profits. The rest of the money needed could have easily been generated through bonds backed by arena revenues. The SEA could have pledged revenue streams from concession sales, in-house advertising, pouring rights, seat licenses, and even a ticket surcharge. These could have provided enough financing, roughly $8 million annually, to cover the necessary bond issues. A guiding principle should be that if a multi-purpose arena can not generate enough money to pay for itself, then it should not be built in the first place.

Unfortunately, the inferior deal is done because of the unwillingness of officials to look for more private sector involvement in order to eliminate the need for any tax dollars in its construction. After all, because the $300 million arena will be owned by an authority, it will not pay city, school, and county property taxes of almost $9 million per year.

Allegheny Institute References:

Private Financing for a New Penguins Arena Report # 02-08.
www.alleghenyinstitute.org/reports/02_08.pdf

Pens Arena Deal Could Have Been Much Better. Policy Brief: Volume 7, No. 12.
www.alleghenyinstitute.org/vol7no12.pdf

Pittsburgh Arena: A New Plan. *Policy Brief:* Volume 7, No. 11.
www.alleghenyinstitute.org/vol7no11.pdf

Penguins Should Not Skate Away from Plan B. *Policy Brief:* Volume 7, No. 1.
www.alleghenyinstitute.org/vol7no1.pdf

A Reality Check for the Penguins. *Policy Brief:* Volume 4, No. 22.
www.alleghenyinstitute.org/vol4no22.pdf

Cross Checking the Penguins. *Policy Brief:* Volume 3, No. 28.
www.alleghenyinstitute.org/vol3no28.pdf

Penguins Arena Funding—Back to the Drawing Board. *Policy Brief:* Volume 2, No. 38.
www.alleghenyinstitute.org/vol2no38.pdf

Financing a New Penguins Arena. *Policy Brief:* Volume 2, No. 31.
www.alleghenyinstitute.org/vol2no31.pdf

A New Home for the Penguins? Let's Finance It Privately!. *Policy Brief:* Volume 1, No. 7. www.alleghenyinstitute.org/vol1no7.pdf

Issue Summary

Local Government Pensions in Pennsylvania

The Issue:

The growth in pension legacy costs is hitting the state's largest cities and will eventually affect all municipalities in the state unless changes are made.

What We Know:

There are more than 3,100 local government pension plans in the Commonwealth covering employees working for governments at the county, municipal, authority, and association level. Most employers offer multiple plans, segmenting employees by type, most often into police, fire, and non-uniformed plans. When considered in aggregate, the assets of these pension plans top $16 billion and the liabilities are $21 billion, leaving a shortfall (unfunded actuarial liabilities) of $5 billion. The majority of these plans are self-insured, defined benefit type where the risk of providing benefits lies with the government entity. Philadelphia's unfunded liabilities account for about $3 billion of the total local shortfall, and Pittsburgh's $469 million shortfall is significant.

In Allegheny County, there are 294 pension plans. The shortfall among these plans is closer to $500 million. When Pittsburgh's plans are removed from the equation, the remaining 288 pension plans share $32 million in unfunded liabilities. There are few pension plans that would appear to be "in trouble", that is, those reporting a ratio of assets to liabilities of 69 percent or less. In fact, the majority are funded at 100 percent or greater. But though the rate and speed of descent into pension trouble is varied for these plans, problems are going to crop up. We know that concerns about the state's two pension plans (one for state employees, one for school employees) are present and could result in massive tax increases to pay for obligations.

The problem is that the "pension time bomb" is competing for attention on the policy agenda.

Recommendations:

So what can be done to head off the coming pension crisis? The Allegheny Institute is recommending three steps for consideration; (1) Move to a defined contribution system for newly-hired employees, (2) Establish an agency similar to the federal Pension Benefit Guaranty Corporation that could assume troubled pension plans and pay out fractional benefits to preserve the viability of plans from seriously distressed municipalities, and (3) Sell the state liquor stores and outsource other functions to provide a revenue stream for funding liabilities.

Public pension plans need to be brought more in line with private sector plans and what taxpayers can afford.

Allegheny Institute References:

An Analysis of Local Government Pension Plans in Pennsylvania. Report # 07-02.
www.alleghenyinstitute.org/reports/07_02.pdf

Pittsburgh's Pension Plan: The Black Hole That Won't Go Away. Report # 02-11.
www.alleghenyinstitute.org/reports/02_11.pdf

State Throws Cold Water on City Pension Aid Request. Policy Brief: Volume 7, No. 6.
www.alleghenyinstitute.org/briefs/vol7no6.pdf

Issue Summary

US Airways Presence in the Pittsburgh Region

The Issue:

In October 2007 US Airways announced another decrease in flights and employees to add to the already dramatic drop in the presence of the airline in the Pittsburgh region. Since 2001 the airline will have reduced daily flights from over 500 to 68 in early 2008. Along with the reduction in flight activity, employment fell from nearly 12,000 to 1,800—a decline of 85 percent over the last six years.

What We Know:

The Pittsburgh region and Allegheny County in particular, have made a tremendous investment in US Airways, indirectly through improvements at Pittsburgh International Airport (PIT) and directly through subsidies for the new operations center, only to see the airline reduce its presence dramatically.

In the early 1990s Allegheny County built a new airport facility largely to house the US Airways' hub and the anticipated surge in traffic the hub would provide. The facility was constructed to accommodate 50 million passengers per year and would be paid for primarily by landing fees charged to the airlines. Unfortunately, passenger traffic never substantially surpassed the 20 million achieved during its first year of operation. However, US Airways dominance at the airport did increase and its monopoly status produced some of the highest airfares in the country—prompting many of Pittsburgh's originating and destination traffic to drive to other airports.

Yet despite the monopoly status of the airline, it struggled with financial problems arising from high costs. By early 2001, they sought to merge with United Airlines. The merger ultimately fell through and US Airways went into bankruptcy in 2002 and then again in 2004. Those bankruptcies eventually resulted in a merger with America West airlines and a dramatic drop in flights at PIT and subsequent employment in the region. US Airways reduced PIT's status from a "hub" to "focus city".

The large decrease in flights has had significant negative financial implications since the construction bonds used to build PIT are paid for, in part, by landing fees. As a consequence the Allegheny County Airport Authority has asked for and received a promise of $15 million in gaming tax revenue to help meet debt obligations. That is $15 million that could be used for other purposes including tax relief.

US Airways then went to state and local officials to ask for financial assistance to build a new $25 million flight operations center. The airline dangled 450 existing, and possibly 150 additional, jobs to the Allegheny County Executive and Governor while mentioning that two other cities, Phoenix (home of the America West flight operations center) and Charlotte were in the running as well. Despite offering a lower subsidy package (more than $16 million) than Phoenix (Charlotte's bid was never revealed), Allegheny County "won" the center.

Months after the subsidies had been secured US Airways broke ground on the new center. That was followed up by an announcement of more cuts to flights and employees effective in early 2008. Local daily flights will fall to 68 and 450 people will by let go while another 500 pilots and flight attendants will be relocated. This brings US Airways employment levels in the region to 1,800—a reduction of 85 percent since 2001. So the more than $16 million in subsidies used to guarantee 450 flight operations jobs will not offset the loss of 450 jobs and the relocation of 500 others. Pittsburgh's status as a "focus city" may be in jeopardy as well.

This may not be the end of the cuts as the CEO said, "you never say never." But as the County Executive responded "the flying public makes that decision."

Recommendations:

The saga of US Airways should be an object lesson for government officials to stop using taxpayer money to support private firms in decisions that are not financially viable absent the subsidies. Playing favorites, as they have done with US Airways, has proven to be a losing proposition. It is far better to keep taxes low and create a favorable labor climate to the benefit of all companies. But of course if those were present, all this doling out of subsidies would not be necessary to persuade companies to invest in the region and state.

Allegheny Institute References:

The Importance of USAirways to the Pennsylvania Economy. Report #01-03.
http://alleghenyinstitute.org/reports/01_03.pdf

Taken for a Ride by USAirways Policy Brief: Volume 7, No. 54.
http://www.alleghenyinstitute.org/briefs/vol7no54.pdf

Impact of USAirways Failure to Survive. *Policy Brief*: Volume 4, No. 35.
http://www.alleghenyinstitute.org/briefs/vol4no35.pdf

Is it Too Late for USAirways to Avoid Bankruptcy? Policy Brief: Volume 2, No. 27.
http://www.alleghenyinstitute.org/briefs/vol2no27.pdf

USAirways, Airline Industry Running Out of Time. Policy Brief: Volume 2, No. 22.
http://www.alleghenyinstitute.org/briefs/vol2no22.pdf

What is the Region to Make of USAirways' Future? Policy Brief: Volume 1, No. 23.
http://www.alleghenyinstitute.org/briefs/vol1no23.pdf