ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

A Candidates' Guide to Crucial Issues
Facing Allegheny County

Allegheny Institute for Public Policy

Allegheny Institute Report #11-01
February 2011

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

Table of Contents

Introduction

As the election of a new County Executive approaches and several candidates have announced they will seek the office being vacated by Mr. Onorato, the Allegheny Institute is using the occasion to offer a "candidates" guide to market based, common sense solutions to major policy issues facing Allegheny County.

In this guide six crucial issues are addressed; assessments, the airport, economic development, the Home Rule Charter, the Port Authority and Sunset Review. The report contains six presentations, one for each topic. The presentations provide a discussion of the background and genesis of the issue and recommendations for actions steps. Much of the work in this report is a distillation of years of researching and analyzing the issues that have plagued the County for years and continue to be seemingly intractable.

Of course, a principal reason for the long running difficulties presented by some of the issues has been the ineffective policy approaches employed to deal with them. Failure to rely on the basic principles of free markets, low taxes, and small, accountable, and transparent government must take a large share of the blame. This report offers some ways to rectify the situation.

Key Issue Areas and Common Sense Recommendations

Issue Area	Common Sense Recommendation
Good Governance	Strengthen the Home Rule Charter
Assessments	Craft a New Reassessment Policy
Mass Transit	Fix the Port Authority
Pittsburgh International Airport	Focus on Increasing Utilization of Pittsburgh International Airport
Efficiency Measures	Be Aggressive on Privatization and Outsourcing
Economic Development	Focus on Market Driven Economic Development

Common Sense for County Executive Candidates:

Strengthen the Home Rule Charter

The County's Home Rule Charter has been in effect for eleven years. During that time, there have been two uniquely important actions taken under the terms of the Home Rule Charter; the voters approved the consolidation of several row offices into county line department s and on two occasions affirmed by substantial margins their desire to maintain the provision requiring Council members to resign if they run for other public office.

Government under the executive and council system has been generally accepted by the population as an improvement over the three commissioner system it replaced. However, the one party dominance that obtained throughout most of the 60 years prior to the adoption of the Home Rule Charter has returned with an 11 to 4 Democrat majority on Council and a Democrat Executive. And while there is more transparency in the passing of legislation, the philosophy of government is little changed from the pre-Charter period.

Whether any appreciable change in party dominance is on the horizon is a big question. However, there are some amendments and state legislation changes that could greatly enhance the aim of home rule which is to place more governing power in the hands of the people.

What steps should the next County Executive take to strengthen the Charter?

1. *Make the Charter part of the oath of office:* Urge County Council to place a referendum question on the ballot asking voters if the Charter should be amended to require the oath of office of county officials to include an affirmation or swearing to obey and defend the Home Rule Charter. Currently, the County oath of office for the Executive and Council has no such requirement. In the interim, Council could simply amend the Administrative Code to institute the oath requirement. Longer term, the provision should be in the Charter to make it very difficult to repeal.

2. *Define what happens when County officials don't follow the oath:* On a corollary matter, the Charter and/or Administrative Code must include sanctions for the Executive, Council members or the body as a whole when they clearly and with deliberate intent violate the oath of office. Such occurrences have happened on several occasions in recent years including ignoring court orders, passing ordinance that violate state law and attempting to use money for purposes not permitted by state statute. The County has been taken to court for its actions on several occasions and has lost every time. Not a record the citizens of the county should be proud of. If oath takers can ignore their oaths with impunity, why go through the charade of having an oath taking ceremony?

3. *Urge the General Assembly to give taxpayers real power:* The Legislature should amend the state's home rule law to give voters the opportunity to approve or reject tax increases or new taxes. As of now, state law places all power over tax decisions in the hands of the governing body. With a simple amendment to the Home Rule Charter law, the General Assembly can remove the current language and replace it with a requirement that Home

Rule communities must put all tax rate increases or new taxes to a voter referendum to approve or reject tax rate increases or new taxes. That could be expanded to all communities, Home Rule or not. At the very least, the law should be amended to allow voters to petition for a referendum on taxes. Limiting taxation is the single best way to curb local government growth. The right to limit the growth and size of government should rest with the voters. Elected officials have proved themselves unequal to the task.

Common Sense for County Executive Candidates:

Craft a New Reassessment Policy

No issue has dominated County government during the past decade like the assessing of real property for tax purposes. The County began the decade by contracting with a private vendor to assess property and it ended the decade preparing to undertake another reassessment after the Supreme Court of Pennsylvania ruled that the County's base year system violated the uniformity clause of the Constitution.

Consider the development of assessment policy in Allegheny County from 2002 through 2005:

- Ordinance 23-02 in May of 2002 established that the County would perform a reassessment by July of 2005, with appeals heard and settled in 2005, and that values be certified and used for taxation purposes in 2006. That ordinance did not amend the assessment guidelines written into the administrative code.

- Ordinance 15-05 in March of 2005 established a cap system where property values would be segmented into one of six classes. This was done because, in the words of the ordinance, "a preliminary analysis of the 2006 reassessment shows (1) an overall increase of approximately twenty percent in the valuation of all parcels of property within the County (2) seventy nine percent of all residential properties would experience some increase and (3) 199,000 out of 500,000 residential properties would experience an increase of over 20 percent". Although the values were "…technically accurate and in compliance with IAAO standards" the cap proposal would have limited the degree to which values could increase while allowing for an unlimited decrease in value. Two months later the plan was tossed out by the Court of Common Pleas, and the decision noted "it is the responsibility of the County to promptly make available to the Office of Property Assessments and the Chief Assessment Officer whatever resources are needed to improve the process".

- Ordinance 45-05 in October of 2005 ignored the court's order and instituted a base year of 2002. Noting that "counties adjacent to Allegheny County have not conducted regular assessments and have had a span of several decades between assessments" and trying to achieve "the desired effect of providing real estate tax stability to the citizens of the County while complying with…the home rule charter, the uniformity of taxation requirements…and statutes and court decisions interpreting the same" the County used the 2002 values as the base year. Litigation over the County's base year plan went all the way to the Pennsylvania Supreme Court finding that "through the passage of time…a base year assessment will become stale, and thus unconstitutional". The court remanded the matter to the County Court of Common Pleas "to determine Allegheny County's progress in executing a countywide reassessment and to set a realistic timeframe for its completion".

As of February 2011 the County indicated to the court that the reassessment was progressing and taxpayers would have notification of their values by July. At the same time County Council passed a resolution calling for a moratorium on court-ordered reassessments and a fix for property assessments statewide. Allegheny County feels it has been singled out despite the fact that the courts have previously acted to order reassessments in Lancaster, Chester, Dauphin, Carbon, and Erie Counties in the decade of the 1990s. All of those cases involved the use of a base year.

And despite the court decision and the progress toward the reassessment, the base year language continues to exist on the books of County government.

Given the events of the last decade and the upcoming reassessment, moving to a base year assessment after 2012 seems like an unwise policy choice. As the Supreme Court pointed out, the "risk to an authority employing an unadjusted base year system is in determining the point at which a base year deviates to an extent where reassessment would be required".
So what does the next Executive have planned for a post-2012 property assessment policy, absent any major change from the General Assembly?

1. *The County should commit to a revenue neutral windfall*: Right now, state law and the County's Home Rule Charter allow the County to take up to 105 percent of the previous tax take after a reassessment, not counting an explicit millage rate hike voted on and passed (it takes a 2/3rd vote of County Council to raise property taxes). This might put pressure on other local taxing bodies (many of whom raised tax rates despite the base year) to follow suit.

2. *Realize that spending, not assessments, is what drives tax bills:* If the County commits to lowering overall spending or enacting a spending freeze, this will lessen the need to derive more revenue. Recall that the County partakes of three new tax sources that it did not have twenty years ago: a share of the RAD sales tax, the drink tax, and the car rental tax. The latter two are ostensibly used as the local match for the Port Authority transit system.

3. *Decide if the 2012 reassessment is the first of annual, bi-annual, or tri-annual assessment:* And to avoid the recent history of County ordinances, the language needs to be put into the administrative code. The IAAO standard on "frequency of reappraisals" states that "although assessment trending can be effective for short periods, properties should be physically reviewed and individually reappraised at least every four to six years".

Common Sense for County Executive Candidates:

Fix the Port Authority

The Port Authority of Allegheny County (PAT) has become a dysfunctional agency, unable to control rising labor costs and reliant solely on service cuts and ad hoc infusions of state or Federal dollars to balance its budget. Years of failing to address compensation issues, retiree health care costs, and work rules inimical to management's ability to improve efficiency and an insatiable institutional appetite for large, expensive, inadequate return capital projects have inexorably pushed PAT to its current pathetic financial condition. PAT and its enablers in the community and the Legislature continue to argue that more state dollars are not only necessary but warranted. No amount of history pointing to the disastrous failures of previous state and local assistance dissuades them from their claims or lobbying for more monetary help.

Now is the time for the County Executive, with Council backing, to begin taking control of PAT's future. Granted much of the work to make PAT a responsible, efficient organization will have to be done by the state government. The Allegheny Institute has prepared a legislative agenda for PAT in a recent report (*Addressing Urgent Issues: A Legislative Agenda for Allegheny County and Pennsylvania*).

Here is what the next County Executive should do:

1. *Push for changes in the state law that governs PAT*: In light of the legacy cost problem and the strong likelihood the union and retirees will never agree to reduce the legacy costs, the only option to continued service cuts –or major additional infusions of state dollars—is bankruptcy. Unfortunately, state law does not permit authorities to declare bankruptcy. That law would have to be changed to allow PAT to declare bankruptcy. Moreover, the state should appoint a financial overseer for PAT with the power to force them to file for bankruptcy if the board refuses to do it. PAT should have its monopoly status removed by the Legislature and the right of transit workers to strike should be repealed. Competition from public transit agencies and the private sector should be allowed to put a lid on PAT compensation costs and management hobbled by union work rules.

2. *Find new board members*: In the meantime the County Executive should be appointing board members who will take a no nonsense approach toward dealing with the unions. All nine members of the board will be up for reappointment at various times through December of 2014.

3. *Make a break with the recent past behavior toward PAT*: The Executive should draw up a plan of bus service outsourcing as recommended by the Governor's Task Force several years ago and use the power of his office and appointment power to push PAT toward that goal. Finally, the Executive must not be seen as siding with or making promises to the unions during contract negotiations. Nor should the Executive support or encourage

any large projects such as the North Shore Connector. The focus should be on making existing facilities as productive as possible.

The reality of Pennsylvania's own budget crisis should be the launching point for dealing with PAT's problems. There has to be a sea change in attitude and approach to the legacy and compensation cost disaster facing PAT. Business as usual has to end. Otherwise, in a few years there will be very little bus service left. How is that acceptable public policy?

Common Sense for County Executive Candidates:

Focus on Increasing Utilization of Pittsburgh International Airport

The new terminal at Pittsburgh International Airport (PIT) was constructed in the early 1990s at the behest of US Airways to strengthen Pittsburgh's status as the principal "hub" in the airline's system. Nearly twenty years later PIT sits grossly underutilized and still has about $450 million in outstanding debt from that construction. US Airways, after two bankruptcies in the early 2000s, has all but abandoned the airport, dropping from more than 500 flights a day to fewer than 50 by late 2010. While the object is to increase utilization by increasing the number of flights at PIT, how does that happen and how can the airport and surrounding property begin to pay the dividends needed to justify the huge investment in the new terminal?

Two major events caused a spiraling decline in passenger traffic at PIT: the first was the terrorist attacks of 2001 that caused a steep decline in airline travel nationally; the second was the loss of major hub status in 2004 after US Airways chose to concentrate hub activities at Philadelphia and Charlotte. The new terminal and accompanying improvements were designed to accommodate as many as 30 to 40 million passengers. At its peak in the 1990s, about 21 million passengers went through the airport. Airport figures for 2009 show that fewer than 8 million passengers used PIT. To be sure the number of cities served by direct flights has fallen dramatically.

It is possible that the continued loss of passengers at PIT has more to do with US Airways rapidly shrinking presence than other economic factors. However, without a major hub origination and destination passenger demand will dictate the number of flights as well as the number of cities with direct service. Thus airport utilization will be driven principally by the ability of PIT to grow locally generated demand for air travel.

Here is what the next County Executive should do:

1. *Work on improving the local economy to spur demand for flights:* Here are three key facets of this approach (a) expansion of the local economy will lead to a rise in the number of people using air travel, (b) the ability to attract more travelers from surrounding communities in Ohio, West Virginia, etc. will help and (c) the arrival of more low cost carriers with service to more destinations that generate greater demand for air travel is an improvement.

2. *Absent a major rise in demand, the best hope for PIT to become an economic generator for the County and region may lie in its vast tracts of land:* The only hitch in using the land for either economic development or for natural gas drilling is the FAA. Permission from the FAA will be required for the use of any of the acreage surrounding airport facilities. This may require a coordinated effort by County, state, and Federal elected officials. But even if the FAA gives permission to sell off land for development or

allow gas drilling, there are many questions to be resolved as to exactly how the development will be allowed to unfold and how the benefits will be divided among the stakeholders; i.e., the taxpayers, investors, the Airport Authority, and the FAA. Can County government be counted on not to grab airport related money to plug its own budget shortfalls?

3. *Consider privatizing Authority functions at the airport and use the money to reduce the debt burden*: But it may require out-of-the-box thinking to earn revenues to pay down the remaining construction debt and begin to reduce costs to the airlines operating out of the airport. Lower costs will make the facility more attractive to new and existing carriers thereby increasing the number of flights to more destinations.

Pittsburgh International Airport looms large as an issue for current and future County officials. Its role as an economic generator never materialized as hoped when the new terminal was being built. The question before us now is how can the enormous facility be leveraged into a highly productive resource for the benefit of the local economy and taxpayers? Imagination and a reliance on market forces will be important elements in PIT's future.

Common Sense for County Executive Candidates:

Be Aggressive on Privatization and Outsourcing

County government is a $700 million enterprise that employs close to 7,000 people and is responsible for functions related to courts, health and human services, roads, recreation, and many others. The County should always be on the lookout for savings. These can come from consolidating services with other governments, privatizing or outsourcing services to private vendors.

The 2010 sunset review rather vaguely identifies savings that have come from municipal cooperation efforts: 911 consolidation has produced "millions of dollars of savings annually for the City of Pittsburgh and other municipalities"; a joint County-City telecommunications bid produced "$4.5 million in savings over its three year term"; bulk purchasing for City and other agencies has resulted in "significant savings for taxpayers"; an energy consortium that has the "potential to be the largest cost saving public private partnership in the history of western PA". All in all there is no specific identification of how much the County is really saving taxpayers through joint governmental efforts.

The same holds true where the County has contracted the private or non-profit sector to carry out services. Much of these services are at the Kane Hospitals, the Jail, Shuman Center, and in the Parks, and Health Services.

So what should the next County Executive do in regards to privatization and outsourcing?

1. *Make it a stated objective to privatize or outsource at least 15 percent of the County's non-core functions in the next five years:* The Allegheny County government should make it a stated objective to privatize or outsource at least 15 percent of the County's non-core functions in the next five years. Of course police and court functions might have to be excluded but many functions such as the parks, public works, etc. should be put on the fast track for outsourcing. There can be little justification other protecting jobs and political fiefdoms to block outsourcing efforts.

   Not only does outsourcing save money immediately, it reduces employment, the key to long term control over expenditure growth. Every employee reduction lowers future legacy costs and other benefits expenses.

2. *Scour the Sunset Review to find opportunities:* The Home Rule Charter mandates Sunset Reviews every four years. Those reviews theoretically produce evaluation of departments to determine if they should be kept or terminated. In every case to date, the reviews have recommended all departments be continued. The problem with the sunset reviews is they are focused on whether what the departments are doing should be continued. A more productive approach would look at each function or service and explore possible outsourcing or consolidation opportunities.

The 2003 sunset review listed the following "critical questions" for County policymakers to consider when broaching the topic of privatizing services:

1. Does the potential change improve the quality and availability of services to the public?

2. Does accountability for the service continue to reside with the proper officials?

3. Is the change cost effective?

4. Is the change legally permissible?

5. Does the change give appropriate consideration to the existing workforce?

The most recent sunset review identifies areas where the County could undertake additional outsourcing efforts among 13 of its 19 departments

Department	Division	Action
Administrative Services	Computer Services	"could contract to outside vendors"
Administrative Services	Purchasing	"possibility would be to outsource the purchasing for the county as a whole"
Budget and Finance		"could contract out revenue/expenditure forecasting and debt/cash management"
Emergency Services	Fire Marshall	"contract with State Fire Marshall"
Human Resources		"could be outsourced to professional vendors"
Jail		"could contract additional functions to make the jail a private facility
Kanes		"the County could depend on the private sector to provide that service to the public in part or in full"
Law		"could enter into contracts with private attorneys or law firms to provide some or all of its law services"
Medical Examiner		"Could contract with private sector to transport bodies or perform autopsies…could contract with state forensic lab or private lab"
MBDBE		"could hire a private firm to handle certification process"
Parks		"privatize recreational components"
Public Works		"could contract more of these services to private vendors"
Shuman		"certain ancillary services could be contracted to private industry"

As can be seen from the table above these recommendations are open-ended in that they do not say how much the County could save by executing a contract. That's where the next Executive could start to find out how much real and recurring savings could be achieved by taking a specific action.

Privatization and contracting out are widely used around the country. There is every reason for a fiscally prudent government to pursue these options. Allegheny County does its taxpayers a disservice by avoiding an active program of moving a privatization agenda.

Common Sense for County Executive Candidates:

Focus on Market Driven Economic Development

Economic development in Allegheny County over the last few decades has been driven heavily by government subsidies and directives putting taxpayers—County, state and municipal—in the role of venture capitalists. This approach has produced minimal benefits for the citizens of Allegheny County in terms of employment gains.

Since 1990 the County has sponsored or supported several high-profile economic development projects including the new airport terminal, sports stadiums, a new convention center, and a new operations center for a once prominent airline that continues to shed area jobs. Despite the hundreds of millions of public dollars poured into these, and a large number of smaller, less prominent projects, the number of employed County residents in 2008 (pre-recession) is almost the same as the level reached two decades earlier. In fact, the latest recession lowered the annual average number of County residents working to levels not seen since before 1990.

By contrast, Pennsylvania's statewide data shows that the latest recession dropped the level of employment only to 2003 levels. From 1990 to 2008, the state's average annual level of employment grew 10.7 percent—certainly a more robust growth rate than that of Allegheny County. Comparing the County's and the Commonwealth's performance with that of the nation as a whole illustrates just how anemic their respective employment gains have been over the last two decades. From 1990 to 2008, the average annual count of working Americans climbed by more than 22 percent. Even taking the latest recession into account, the national employment level was still 17 percent above the 1990 reading. Meanwhile, comparing the County's 2010 employment to the 1990 reading shows a four percent decline while the state employment gain over the same period was held to 6 percent—about a third of the national rate.

So what has the County been doing over the past decade or so? Besides backing the high profile taxpayer subsidized developments mentioned above, they have also been focused on helping businesses relocate within the County's borders. The County's economic development approach has been necessitated by the anti-business climate that so heavily permeates local governments. This climate promotes labor union interests at the expense of employers. Allegheny County and the City of Pittsburgh have each recently enacted mandated wage laws, at the behest of labor unions, directing those who receive taxpayer money for economic development projects to pay a prevailing wage for those who will work in these developments.

Here is what the next County Executive should do:

1. *Remove obstacles to economic growth such as mandated wages and cut the onerous regulatory climate facing firms in the County:* Mandates and regulations send signals to the business community that the government is not afraid to dictate the terms of operation. They can be seen as interfering into the marketplace by placing restrictions on

one set of firms and creating an uneven playing field. The unintended consequences of mandates and regulations are a decrease in employment and economic activity as firms look elsewhere to do business.

2. *The County needs to work with both state and municipal and school district officials to reduce the tax burden faced by firms so that subsidies are no longer required:* The main reason firms ask for subsidies is to counter high tax burdens. Government spending must be fed by tax revenues and it is commonly believed that higher rates increase tax revenues. If controls can be placed on spending, then tax rates can be brought down to competitive levels. The County Executive needs to work with the state to reduce business taxes to make the state attractive to new firms. On the local level, the County Executive needs to work with school districts to lower property tax millages to make the County more competitive with surrounding counties who have lower school spending and taxation rates.

3. *The County needs to abandon its heavily one sided pro-labor stance in favor of promoting a climate that welcomes and encourages new and existing businesses:* Government should be working to encourage economic growth through the principles of free-market economics. They should not be picking sides. By consistently siding with big labor on such measures as wage mandates and project-labor agreements they once again are sending a message to firms that if a dispute breaks out, they will take the side of the unions. This has created an anti-business climate that undoubtedly keeps new firms from setting up in the County and pushes existing ones away.

Until these measures are undertaken, the County will continue to lag other areas, the state, and nation in job growth and economic development.