



Pittsburgh's Future

Making Southwestern Pennsylvania
One of the World's Greatest Regions

February, 2006

The Need For More Regionalism In State Policy

In today's global economy, *regions* compete for jobs, investment, and talent, not *states*. Businesses decide to locate in Buffalo, Cleveland, or Pittsburgh, not merely New York, Ohio, or Pennsylvania. People live and work within economic regions, and so they don't move to "Florida," "North Carolina," or "Pennsylvania," they move to the Miami region, the Charlotte region, or the Pittsburgh region.

Pittsburgh's Competitiveness Depends on Harrisburg

So if southwestern Pennsylvania is going to attract jobs and investment, it needs to be competitive with other regions, on things like taxes, energy costs, school quality, and environmental quality. Unfortunately, in a number of key areas, the Pittsburgh region can't make it itself more competitive because the policies that determine competitiveness are made in Harrisburg, not Pittsburgh. For example:

- the vast majority of **business taxes** on manufacturing firms in Pennsylvania are legislated and collected at the state level, not the local level. In many other states, including most of Pennsylvania's neighboring states, the majority of business taxes on manufacturers are defined and collected locally. For example, the Pittsburgh region is helpless to change the fact that Pennsylvania's Corporate Net Income tax is the second highest in the country.
- **energy costs** are regulated in Harrisburg, not Pittsburgh. When Duquesne Light tried to restructure electricity rates for industrial customers in 2004 to make them competitive with other states, the state Public Utility Commission turned it down.
- **transit funding** is collected and distributed in Harrisburg, not Pittsburgh. There is currently a transit funding crisis in Pittsburgh because unlike many other regions around the country, almost all transit funding in Pennsylvania comes from the state, and Pennsylvania state government won't create a predictable, adequate funding stream.
- **highway funding** decisions are also made in Harrisburg - PennDOT decides how much of both federal and state gas tax funds come to southwestern Pennsylvania. Although the Southwestern Pennsylvania Commission (the Pittsburgh Region's transportation planning organization) can veto a project that the Pennsylvania Department of Transportation (PennDOT) wants, PennDOT can veto a project that SPC wants. And if SPC and PennDOT can't agree on how to spend highway funds, PennDOT can simply take the money and spend it somewhere else in the state.
- most of the major **economic development programs** in Pennsylvania are administered primarily out of Harrisburg. Even though in some programs, regional agencies take applications and make recommendations regarding funding, the final decisions are made in

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Harrisburg. There is no flexibility to create special programs or move money from program to program to respond to regional needs – all programs have to be statewide, and the funding amounts and program guidelines are established in Harrisburg.

Southwestern PA Issues Are Different

It would be one thing if each region in Pennsylvania faced the same problems and opportunities, and if they competed with the same set of regions in other states, but they don't. Southwestern Pennsylvania has different competitor regions and different competitive issues:

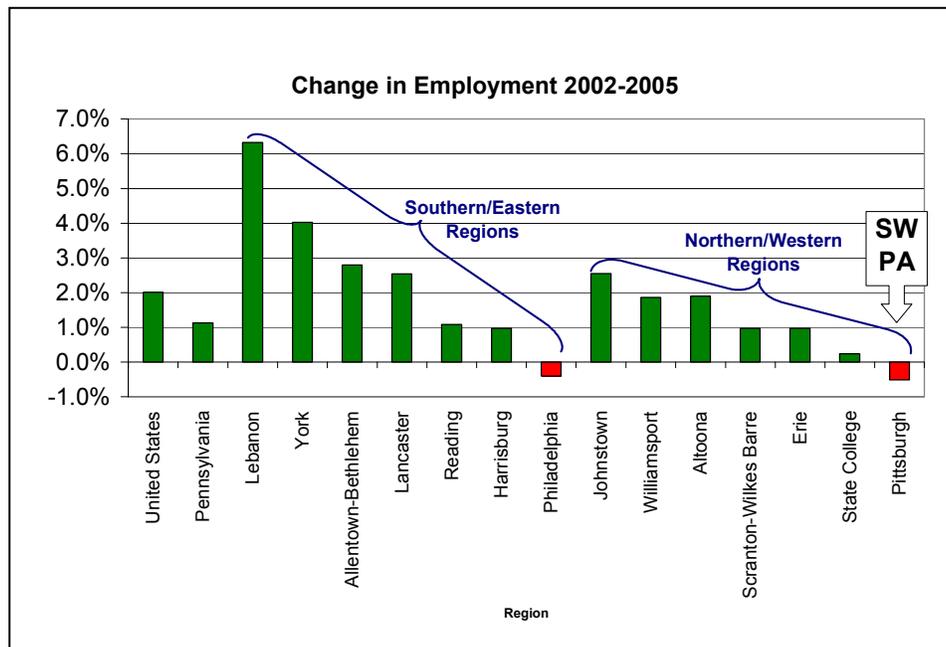
- **Energy costs are competitive with states to the east and uncompetitive with states to the west**, which puts southwestern Pennsylvania at a competitive disadvantage. The average electricity price for industrial users in Pennsylvania in 2005 was 5.96 cents, which was lower than New York (6.76 cents) and New Jersey (7.92 cents), but higher than Ohio (4.75 cents) and much higher than West Virginia (3.84 cents) and Kentucky (3.19 cents), the states just across the border from Pittsburgh.
- **Land and infrastructure issues differ across the state.** For example, it is extremely difficult to find flat land for industrial development in southwestern Pennsylvania, and perhaps too easy in southeastern Pennsylvania. A priority in southwestern Pennsylvania over the past decade has been finding money for industrial site development, while a priority in southeastern Pennsylvania has been controlling development of farmland.
- **Water issues differ dramatically across the state.** Southwestern Pennsylvania has an abundance of water, but has problems keeping it clean, since it has more sewer overflows than any region in the country. Southeastern Pennsylvania has been plagued by droughts, making access to water a bigger issue than cleanliness.
- **Innovation and entrepreneurship opportunities differ dramatically across the state.** Southwestern Pennsylvania has two major research universities, one of the two largest academic medical centers in the country, and dozens of major corporate R&D centers. As a result, southwestern Pennsylvania has a much greater opportunity for turning research into companies and jobs than any other region of the state except for Philadelphia, yet most state technology development programs provide funding proportionately across the state.

Two Pennsylvanias?

There is growing evidence that there are at least two different Pennsylvanias - one south and east of the mountains (Allentown, Bethlehem, Harrisburg, Lancaster, Philadelphia, York), and one north and west (Altoona, Erie, Johnstown, Pittsburgh, Scranton, Wilkes Barre):

- **Differences in quality of life concerns.** IssuesPA polling shows that residents in the southcentral and southeastern parts of Pennsylvania have very different concerns than those living in the rest of the state. The top issues in most of the state are jobs and economic opportunity, followed by taxes. In contrast, the top issues in the southcentral/southeast part of the state are traffic congestion, taxes, and preserving open space. (See the [2004 IssuesPA Benchmark Poll](#) for more detail.)
- **Differences in job growth.** It's not surprising that jobs are a bigger concern in the southwest. Overall, the number of jobs in Pennsylvania grew slightly (by 1.1%) over the

past three years, and the southeastern regions of the state grew at several times that rate, but most of the regions in the north and west grew more slowly.



- Most strikingly, while jobs grew slightly in the state as a whole between 2002 and 2005, the Pittsburgh region actually *lost* jobs. In fact, Southwestern Pennsylvania was one of only two regions of the state to lose jobs over the past three years (the other was Philadelphia), and it lost jobs at a higher rate than Philadelphia. More significantly, southwestern Pennsylvania had the second biggest drop in job growth compared to the previous three years of any region in the state (the worst was State College). In 1999-2002, the Pittsburgh Region was actually growing faster than the state average, and matched the U.S. growth rate during that period, but in the following three years, it not only stopped growing, but lost jobs.
- **Differences in municipal health.** Analyses conducted by the Pennsylvania Economy League show that most of the municipalities that are fiscally distressed are in the northern and western parts of the state. This is substantially due to slow job and population growth in those regions.
- **Differences in satisfaction with state action.** These economic and quality of life differences are being reflected in voter concern about the state and state government. The IssuesPA benchmark poll taken in December, 2005 shows that more than half of the voters in the suburban southeastern portion of the state are satisfied with the way the state is going, but less than a third of the voters in the southwest feel the state is on the right track. (See the [2005 IssuesPA Benchmark Poll](#) for more detail.)

Southwestern Pennsylvania Is Disadvantaged Relative to Other Regions

Most of the top 25 regions in the country dominate their state's policy-making, either because of their size or because they are the capital of the state. For example, Boston is the state

capital of Massachusetts and the Boston region contains the majority of the state's population. The Minneapolis-St. Paul region contains both the capital of Minnesota and the majority of the state's population. The Seattle, Washington and Portland, Oregon regions contain the majority of their states' populations, and are located only an hour's drive from the state capitals.

In contrast, southwestern Pennsylvania represents less than 20% of Pennsylvania's population. It is not the largest region in the state. It is not the state capital, and is more than a three hour drive away. Among the top 25 regions in the country, only two other regions are similarly disadvantaged - San Diego, and Tampa/St. Petersburg.

Is it any wonder southwestern Pennsylvania has a hard time getting attention for its issues in Harrisburg?

The Need for a More Regional Approach to State Policy and Programs

A more regional approach to state economic development policy is both desirable and feasible. The founders of our country decided that a federal system provided the best structure for administering government - those functions of truly national character should be administered from Washington, while the rest should be left to the states. Pennsylvania could follow a similar approach - continue to operate some functions at the state level, but delegate others, particularly those that are economic development-related, to each region.

Southwestern Pennsylvania has already demonstrated that it can effectively plan and set economic development priorities at the regional level. Through the Southwestern Pennsylvania Growth Alliance (the region's 10-county, public/private coalition for economic development advocacy) and the Southwestern Pennsylvania Commission (the region's 10-county metropolitan planning organization), the Pittsburgh Region has been very successful in identifying priorities for infrastructure investment and business climate improvements. However, the best that either of these groups can do today is *advocate* that the state follow their recommendations, and *hope* that the state listens, since the state can (and sometimes does) choose to ignore the region's priorities.

The state should truly *delegate funding and decision-making authority* to regional bodies and let them decide what their region needs. This would not have to be done uniformly across the state - regions that have effective regional planning and decision-making mechanisms in place could be given authority to allocate state funding, while the state would continue to administer programs in regions that are not willing or able to do so.

Ultimately, the state could even decide to shift some taxing powers to the regional level, allowing the regions to decide whether tax reductions or program spending would be better for regional competitiveness.

A regional approach to state economic development programs would recognize the diversity of opportunities and challenges across the state, and enable each region to position itself most effectively for growth. Each region, and the state as a whole, could benefit tremendously.