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A SUNSET PERFORMANCE AUDIT
OF THE
PENNSYLVANIA MILRITE COUNCIL

Pursuant to
Acts 1984-77 and 1981-142

June 1989

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I. INTRODUCTION

A. Sunset Mandate

With passage of Act 1981-142, 71 P.S. §1795.1 et seq., Pennsylvania joined approximately 35 other states which had enacted sunset legislation since the mid 1970s. Act 142, as amended by Act 1982-310, creates a mechanism which compels the Legislature to evaluate state agencies in a systematic manner to determine the continuing value of their existence. It is also intended to determine whether agencies are operating in the public interest and to suggest ways in which their effectiveness and efficiency can be enhanced.

The Pennsylvania Sunset Act created an ongoing process for the review of certain state agencies. The initial sunset review cycle occurred during the period 1983-87. (For some agencies, this review period was extended into 1988.) For most of the agencies which were reestablished during this initial sunset review cycle, subsequent sunset reviews are scheduled to occur at ten year intervals as prescribed in the Sunset Act.

Additionally, all agencies created after January 1, 1981, are subject to sunset review after a period of ten years from their creation and for ten-year cycles thereafter (unless otherwise specified by the General Assembly at the time the agency is created). Sunset review of certain state agencies is also provided for by virtue of other specific statutory mandates.

B. Sunset Criteria

The law sets forth criteria on which a determination as to whether the agency shall be continued, altered, or terminated should be based. These criteria are:

1. Whether termination would significantly harm or endanger the public health, safety, or welfare.
2. Whether overlap or duplication of effort by other agencies would permit termination of the agency.
3. Whether a more economical way of achieving the agency's objectives exists.
4. Whether, based on service to the public, there is a demonstrated need for the continued existence of the agency.
5. Whether the agency's operation has been in the public interest.
6. Whether public participation has been encouraged by the agency's rule-making and decision-making processes

or whether only persons regulated by the agency participate in these processes.

7. Whether the agency's services may be provided in an alternate, less restrictive way.
8. Other criteria established by the standing committees.

C. The LB&FC and the Sunset Performance Audit

Act 142 charges the Legislative Budget & Finance Committee (LB&FC) with various sunset review responsibilities. At the beginning of the sunset evaluation process, a plan for the review of each agency is to be developed by the appropriate standing committee in conjunction with the LB&FC. More significantly, however, the LB&FC is to complete by March 1 of the termination year a performance audit of each agency scheduled for termination. These performance audits are to be presented to the appropriate standing committees for use in their sunset deliberations.

A sunset performance audit is defined by Act 142 as:

A written report by the Legislative Budget and Finance Committee evaluating the management and performance of an agency based on the statistics on its operations and carried out in accordance with standards for performance and financial compliance auditing developed by the United States General Accounting Office.

(Note: According to the GAO, the term performance audit is synonymous with "operational audit" and describes an audit that is concerned with economy, efficiency, and program results.)

LB&FC performance audits are to determine whether the activities of the agency under sunset review are (1) consistent with the objectives intended by the General Assembly and (2) conducted in a faithful, efficient, economical, and effective manner. The staff's performance audits are also to include the sunset criteria to be used by standing committees in determining the fate of the agencies under sunset review (see page 1).

To help ensure that the LB&FC's performance audit duties will not be impeded, the Sunset Act grants the LB&FC access to all pertinent documents and personnel of Commonwealth agencies. Also, the LB&FC is empowered, with the approval of the House and Senate, to subpoena witnesses and records on sunset matters and to take testimony and depositions with the same power and authority as courts of record.

D. Sunset Review and Termination/Continuation Timetable

Sunset review differs from other forms of legislative program evaluation in a most significant way--it automatically requires the evaluation and, unless the Legislature acts otherwise, the termination of state agencies at a scheduled date. Act 1981-142, as amended by Act 1982-310, calls for sunset review of certain Pennsylvania agencies once every ten years.^{1/}

Agencies scheduled for sunset review generally have termination dates of December 31 of the termination year, and Act 142 provides for a timetable in which the sunset cycle is to be completed. The Pennsylvania sunset cycle timetable as outlined in the "Sunset Act" appears below.

1. January - The Sunset Leadership Committee^{2/} assigns responsibility for the review and evaluation of each agency to an appropriate standing committee of the House or Senate. (As of May 1989, the Leadership Committee had not designated a standing committee as the sunset review committee for the MILRITE Council.)
2. On or before March 1 - The responsible standing committee shall receive the following information for each agency that it is reviewing:
 - a. A performance audit or summary audit from the LB&FC
 - b. A report on all pertinent statutes from the Legislative Reference Bureau
3. On or before the first session day of September - The standing committee presents to the General Assembly a report on the committee's determination as to the future of each agency under sunset review. The report is to be accompanied by draft legislation to implement the standing committee's recommendations.
4. During November - If legislation has not been enacted to reestablish an agency scheduled for termination, a resolution shall be placed before the House and

^{1/}In some cases, subsequent reauthorizing statutes for certain agencies have specified sunset review cycles of five rather than ten years, e.g., the Liquor Control Board and the Public Utility Commission.

^{2/}The "Sunset Act" creates a "leadership committee," comprised of the Speaker of the House, the President Pro Tempore of the Senate, and the Majority and Minority Leaders of the House of Representatives and the Senate, which under the act is authorized, if necessary, to postpone the review or termination of an agency for a period not exceeding one year.

Senate to determine the agency's continued existence. If a majority of the members of each House approve of its continuation, the agency will continue to exist and shall undergo another sunset review ten years hence, if the "Sunset Act" is still in effect to continue sunset review.

5. On December 31 - Any agency scheduled for termination that has not been specifically reestablished or continued by the General Assembly shall be terminated. Each such agency shall have until June 30 of the succeeding year to wind up its affairs.

Important Note: The Pennsylvania MILRITE Council, which was created by Act 1978-109, is not specifically mentioned in either Act 142 or Act 310. Act 1984-77, which amended the MILRITE Council's enabling legislation, requires that the Pennsylvania MILRITE Council undergo sunset review prior to its scheduled termination date of June 30, 1990. The June 30, 1990, termination date for the MILRITE Council would presumably require a modification to the timetable outlined in the "Sunset Act."

E. LB&FC Sunset Performance Audit Timetable for this Agency

The LB&FC began the performance audit of the Pennsylvania MILRITE Council in January 1989 with the distribution of a pre-audit survey questionnaire to the MILRITE Council. The preliminary survey phase of the LB&FC's performance audit commenced in mid-February 1989. This phase was conducted on the basis of a work plan which had been prepared by the LB&FC staff earlier in February. The detailed audit, also guided by a prepared work plan, began in late March 1989 and ended in early June 1989. It was during this phase that most of the field work was accomplished. In mid-June 1989, after undergoing a period of internal technical review by the LB&FC staff, the sunset performance audit report was sent to the MILRITE Council for review and comment.

F. The Report Structure

The PERFORMANCE AUDIT FINDINGS AND RECOMMENDATIONS section of the report, the primary end product of the performance audit, is presented immediately following this INTRODUCTION. A section providing BACKGROUND DESCRIPTIVE INFORMATION ABOUT THE PENNSYLVANIA MILRITE COUNCIL is presented thereafter. The report also includes a section on the DEFINITION OF THE AUDIT PROCESS AND METHODOLOGY.

G. Acknowledgements

The audit staff expresses appreciation to the members of the MILRITE Council and to the MILRITE Council staff for the cooperation and assistance they provided during this audit. Special thanks are extended to William Lehr, Jr., Chairman of the

MILRITE Council, and Robert T. McIntyre, Vice Chairman, and to Robert G. Garraty, Executive Director of the Council for his assistance as audit liaison. Also acknowledged is the input which was received from representatives of the business and labor communities, the executive directors of the various area labor management committees and officials of the PA Departments of Labor and Industry and Commerce for their input and assistance in this audit project.

The LB&FC staff involved in the sunset performance audit of the Pennsylvania MILRITE Council was under the direction of the LB&FC Executive Director Philip R. Durgin and Chief Analyst John H. Rowe. The Audit Team Leader was Senior Analyst Mark K. Stine. Christopher D. Morehouse and Randal E. Mortimore, Analysts, worked on the audit on a full-time basis and Patricia A. Berger, Counsel, and Krista L. Williard, Paralegal, also assisted in the audit effort. Secretarial support was provided by Beverly Brown, Anne Gange, Donna Nell, and Shannon Opperman, and additional staff assistance was provided by Charles V. Saia.

Any questions or comments regarding the report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, Room 400, Finance Building, Harrisburg, Pennsylvania, 17120.

**IMPORTANT NOTE REGARDING RESPONSIBILITY
FOR FINDINGS AND RECOMMENDATIONS OF THIS REPORT**

The release of this report should not be construed as an indication that the members of the Legislative Budget and Finance Committee support the contents of the report. United States General Accounting Office standards were used in preparing this report, and the report is being released by the Legislative Budget and Finance Committee without endorsement and as mandated in accordance with the provisions of Acts 1984-77 and 1981-142.

II. PERFORMANCE AUDIT FINDINGS AND RECOMMENDATIONS

This section presents findings resulting from the sunset performance audit of the Pennsylvania MILRITE Council. The Council was examined in an evaluative sense in conjunction with the specified criteria of Act 1981-142, as amended, 71 P.S. §1795.1 et seq. This audit included activities such as the review of the MILRITE Council's enabling legislation (Act 1978-109, as amended) and related laws; conduct of interviews with MILRITE Council members, the Council Executive Director and key staff persons; review and analysis of information provided by the MILRITE Council staff and the fourteen Area Labor-Management Committees; sampling of Council administrative files; meetings with pertinent staff persons of the Department of Labor and Industry and the Department of Commerce; meetings and telephone interviews with representatives of the business and labor communities and of selected economic development organizations; analysis of questionnaires sent to the Council members and the Executive Directors of the Area Labor-Management Committees (ALMCs) which receive grant monies from the MILRITE Council; and contacts with the Executive Directors of state-funded ALMCs. Please see Section IV of this report for a more complete discussion of the audit activities and the specific methodology used in this audit project.

The findings are divided into ten subject areas. Not all information in regard to matters Committee staff examined is included as a formal finding in subsections A through J of this report.

A. RELATIONSHIP TO PUBLIC HEALTH, SAFETY AND WELFARE

The MILRITE Council was created as an independent state agency to promote economic development through the cooperative efforts of business, labor and government. The Council, whose name is an acronym for "Make Industry and Labor Right in Today's Economy," was created in 1978 at a time when increasing international and domestic competition, labor strife and a fundamental restructuring of the Commonwealth's traditional industrial base were having a profound negative effect on the state's economy. The 1980's have seen Pennsylvania's economy change from one which was heavily dependent on traditional "smokestack industries" to one which is more diversified with a range of advanced technologies and service industries. The MILRITE Council appears to have made a positive contribution toward this transformation and has received national recognition as an important element of the Commonwealth's overall economic development program. Specifically, the Council has played an important role in a number of programs and initiatives both in the economic development and labor-management cooperation areas. These include the Ben Franklin Partnership, the use of public pension funds for venture capital and business development loans, and administration of Pennsylvania's Area Labor-Management Committee (ALMC) Matching Grant Program. The Council also performs technical assistance functions, conducts research and special studies, sponsors seminars and workshops, and initiates legislative proposals designed to promote economic growth and labor-management collaboration. While termination of the MILRITE Council may not result in immediate and significant harm to the public health, safety and welfare, as noted above, the Council has made important contributions to the state's economy, and elimination would be inconsistent with a movement among many states to officially establish "partnerships" between business, labor and government to improve the competitive position of their state economy and create conditions needed for business growth. Business and labor leaders contacted by the auditors indicated strong support for continuation of the Council, and termination could send a negative message to the business and labor communities concerning the state's commitment to enhancing labor-management relations and the Commonwealth's overall business climate. Elimination of the Council would also remove a forum within which business and labor can meet with public policy makers to address issues of common concern and would additionally require transfer of responsibility for administering the state-funded ALMC program to another agency of state government. Findings B through J of this report contain recommendations related to various programs, initiatives and other aspects of Council operations.

DISCUSSION:

Council Origin and Overview

By the late 1970's, recession and economic distress had become commonplace in many states. Characteristic of the economic problems which existed was the failure of mature industries to remain competitive in a new economic environment which has been described as the "post-industrial era." This situation was particularly acute in Pennsylvania.

During the 1970's, the Commonwealth had lost nearly 175,000 manufacturing jobs, the state's unemployment rate was the seventh highest in the nation and per capita income had fallen below the national average. Pennsylvania's economy was clearly on the decline and in need of redirection. A mature and deteriorating industrial base and what had become a tradition of extremely adversarial labor-management relations combined to produce idle factories, dislocated workers and depressed manufacturing regions. Labor problems were also growing as evidenced by the number of public and private sector work stoppages which were experienced in the State. (For example, total work stoppages peaked at 721 in 1976; see Appendix G for historical data on work stoppages).

The idea for the MILRITE Council evolved from the deteriorating economic conditions which prevailed in the state during the mid and late 1970's. In recognizing the factors and conditions described above, leaders of the AFL-CIO and the then PA Chamber of Commerce (now the Chamber of Business and Industry) reportedly met to discuss Pennsylvania's economic condition and reputation as a state with poor labor-management relations. What evolved from these discussions was a proposal for a business-labor-government council, created in statute and funded by state government. The concept of the Council was that it would serve as a forum for representatives of business, labor and government to meet on a regular basis to address issues and problems facing Pennsylvania's economy.

The MILRITE Council was created in 1978 (by Act 1978-109, the "MILRITE Act"). The following excerpt from the Act reflects the legislative purpose for the Council:

The Commonwealth of Pennsylvania has served as the keystone in establishing and advancing basic industrial manufacturing in the United States. Today it faces a loss of confidence among key segments of the general public, business, and labor communities. It now faces the loss of critical industries and a willing, able and well qualified work force. The development and stability of Pennsylvania's economy is a legitimate public purpose. The Commonwealth cannot remain healthy, socially or economically, when its industrial might

and natural resources are underdeveloped and when its people are chronically unemployed or underemployed. There is a need for an organization involving cooperative innovative stimuli from the public, private and labor sectors. It should combine the expertise and influence of labor and business with governmental policy makers to act as a catalytic force to create a comprehensive economic development plan and programs for implementation of specific development objectives.

The Act further called for the MILRITE Council "to act as a catalytic agent to reduce the fragmentation of our resources and to establish the linkages necessary for a successful planning and economic development system."

As provided for in law, the MILRITE Council is a fifteen member body with fourteen members drawn from business, labor and the General Assembly and one member named by the Governor. As expressed by the Council's Executive Director, the purpose of the Council is "to identify barriers to economic development in Pennsylvania and present solutions to those barriers" through the cooperative efforts of business, labor and government.

Duties assigned to the Council in law include, for example, the conduct of research into the industrial potential of Pennsylvania and other areas such as the cost of doing business in the Commonwealth and the effectiveness of Commonwealth mediation services, the creation of economic revitalization plans, the stimulation of cooperation and coordination among federal, state and local programs, and the development of recommendations for structural changes and "updating economic delivery tools of State Government." The Council is also required by law to administer the Area Labor-Management Committee Matching Grant Program.

The Council meets in Harrisburg on a monthly basis and is supported by a staff of four. The Council's appropriation for general operations for FY 1988-89 was \$228,000. (Additional information on the legal background and other descriptive material on the Council is contained in Section III of this report.)

Council Performance

The current activities of the MILRITE Council can generally be placed in two categories: economic development initiatives and labor-management cooperation.

Much of the early work of the Council appears to have involved a focus on analysis of the state economy to identify trends and problems and to initiate research and innovative programs aimed at stimulating economic development. Beginning in 1984, the Council placed increasing emphasis on the promotion of economic development through labor-management cooperation, due

in large part to its responsibility to administer the Commonwealth's Area Labor-Management Committee (ALMC) Matching Grant Program.

Since its inception, the Council appears to have played an important role in the Commonwealth's overall economic development efforts. A report issued by the Economic Policy Institute, a non-partisan Washington, D.C.-based research organization, stated that despite deficiencies in some areas, ". . . Pennsylvania has developed what is, at this point, perhaps the best state development system in the country." The MILRITE Council was identified by the Institute along with other Commonwealth agencies and programs as being components of this system.

Overview information on many of the major activities and initiatives undertaken by the Council is presented in this section. An important distinction to be made regarding Council operations is that (with the exception of the ALMC Grant Program) the Council's primary focus is on "agenda setting and policy formation as opposed to program implementation." As described below, while not all initiatives and proposals have been adopted, a number of Council actions appear to have resulted in economic benefits to the Commonwealth (or, if enacted, have the potential to produce economic benefits).

Ben Franklin Partnership

Early in the 1980's, a rejection of the economic development concept of "smokestack-chasing" had become apparent in Pennsylvania. In its place, an increasing emphasis was being placed on encouraging new and small businesses, particularly those involved in the use and development of advanced technologies. The Ben Franklin Partnership was the primary state-funded program developed to stimulate interaction between businesses and the academic community by capitalizing on the technological expertise found in Pennsylvania's university system.

While the design and creation of the Ben Franklin Partnership cannot be attributed to the MILRITE Council, two legislative members of the Council solely introduced legislation in 1982 ("The Advanced Technology Job Creation Act") which represented an aggressive approach to developing advanced technology industries. The Council reportedly served as a forum within which this concept was discussed and developed in a way that resulted in across-the-board support from business, organized labor, the Administration and the General Assembly.

The resulting Ben Franklin Partnership has been described by some observers as "probably the most comprehensive economic development institution in the country."

The MILRITE Council maintains an ongoing involvement in the operation of the Ben Franklin Partnership by virtue of the Council Chairman's permanent seat on the board of directors of the Partnership and participation on Partnership subcommittees (e.g., the subcommittee on policy guidelines for FY 1989-90).

Venture Capital

Various studies at the national level have identified certain sectors of the marketplace for which gaps in capital availability exist. State governments have responded in various ways to address this situation, including some which have earmarked a portion of public employee pension funds for investments in business loans and venture capital. A 1983 study conducted by the MILRITE Council ("Pension Funds and Economic Development") identified several distinct "capital gaps" in Pennsylvania. Through this study effort, the Council participated in the design of the following two new financial vehicles intended to fill the identified gaps through pension fund investments:

- A venture capital limited partnership to make equity investments in developing businesses.
- A private placement separate account to make intermediate and long-term, fixed-rate loans to medium-sized, established firms.

The MILRITE Council, through its legislative members and in conjunction with the Attorney General's Office, the Administration, and the General Assembly developed legislation to permit public employee pension funds to be used for venture capital investment. Act 1984-95 enabled the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) to invest up to one percent of their assets in venture capital. As of June 30, 1988, a total of \$120 million had been invested by the two funds. However, reportedly due to the longer return on investment period characteristic of venture capital, no figures on the success of these investments were as yet available. (Legislation was introduced in the 1989 Legislative Session to raise to two percent the limit of SERS and PSERS assets which could be invested in venture capital.)

In addition to a need for venture capital, the Council's 1983 study also addressed the need for fixed-rate, longer-term debt financing for more mature, mid-sized companies for working capital, modernization and expansion. Act 1984-95 also authorized pension fund investment in special "separate accounts" designed as a privately structured investment pool to be managed by a qualified insurance company. The MILRITE Council subsequently designed the PA Private Placement Separate Account to "create an investment vehicle that could provide a competitive return to pension funds while meeting the financing needs of

Pennsylvania businesses." The account "closed" in 1988 with a balance of \$72.5 million in commitments from public and private pension funds and a consortium of insurance companies in Pennsylvania.

While Pennsylvania was not the first state to provide for the investment of pension funds in venture capital, it appears that the private placement separate account concept is unique among capital financing mechanisms developed by the states.

As discussed in Finding F of this report, only one loan (for \$4.1 million) had been made from the Account as of May 1989. Due in part to this low level of loan activity and changes which have occurred in the financial markets since 1983, the Council took action in May 1989 to initiate a follow-up study to its 1983 capital markets study.

Area Labor Management Committee Matching Grant Program

The MILRITE Council is responsible for administering the Area Labor-Management Committee Matching Grant Program. Council documents describe ALMCs as:

"community-based private sector organizations created jointly by a community's business and labor leaders that carries out a program to improve labor-management relations in a particular geographic area."

Area Labor-Management Committees conduct a variety of activities including educational events, the circulation of newsletters oriented towards labor-management cooperation topics, the provision of counseling services to displaced workers within their regions, and the establishment of worksite labor-management committees.

Worksite committees are cooperative programs at the business level intended to facilitate ongoing labor-management dialogue and have reportedly been instrumental in developing ideas on ways to cut production costs and improve product quality. Such committees have been established in a range of industries ranging from large (Fortune 500) corporations to small and medium-sized manufacturing firms, schools, hospitals, city zoos, construction companies, public transit systems, and city governments.

According to the Council, the general philosophy behind the ALMC Program is that poor labor-management relations should never be the reason behind the loss of market share or plant closings or the inability to attract new firms to the state.

To help achieve the objective of helping communities strengthen their economies through improved labor-management relations, the MILRITE Council awards state grants to qualified new and existing Area Labor-Management Committees (ALMCs).

State law requires the Council to establish standards and criteria for the selection of ALMCs to be assisted by such grants. In FY 1988-89, approximately \$745,000 in grants were made available by the MILRITE Council to fourteen ALMCs located throughout the state. (See Finding C for additional information about the ALMC grant program and the Council's administration of the program.)

Studies at the national level have indicated that ALMCs can play an important role in developing ways to improve organizational effectiveness, product quality and employee satisfaction. The ALMC approach is being used in a number of states and there are indications that many states have followed Pennsylvania's lead in this area.

The Council has been responsible for administering the ALMC Program since its inception (although funds for the Program were initially channeled through the Department of Commerce). The Secretary of the Department of Labor and Industry has essentially endorsed the Council's administration of the Program and has stated that the Department of Labor and Industry would not want to assume the administration of the ALMC program because it believes the current setup of the administration of ALMCs by a non-partisan agency like MILRITE allows for the continuation of ALMCs given political change in the future.

Based on a review of Council files it appears that a number of the ALMCs have taken actions which have improved labor-management relations, cut costs and/or improved quality. Summary information on selected activities and accomplishments of MILRITE-funded ALMCs and commentary regarding the ALMC Program submitted to the Council by local business and labor officials are presented in Appendices E and F to this report.

Business and Industrial Development Corporations (BIDCOs)

Another MILRITE Council initiative relates to the capital access problems of small and medium-sized businesses. A Council study found that about 18% of established small and medium sized firms seeking long-term secured debt were unable to obtain it.

The four legislative members of the Council introduced legislation in December 1987 authorizing the formation of BIDCOs. BIDCOs are defined by the Council as a new class of private financial institutions designed to provide long-term financing to healthy middle market companies that have good growth and earnings potential, but cannot secure needed bank

financing. BIDCOs are intended to address this capital gap by providing intermediate risk financing which falls between commercial bank lending and venture capital.

Final action on the MILRITE Council sponsored legislation did not occur prior to the expiration of the 1988 Legislative Session. At a meeting held in December 1988, the Council decided to postpone reintroducing BIDCO legislation pending a determination of the capital market demand for BIDCO type financing.

High Speed Rail Passenger System

A 1981 report by the MILRITE Council contained favorable results on the potential for developing a high speed rail passenger system in Pennsylvania. Legislation which was introduced by a legislative member of the Council subsequently resulted in the creation of the High Speed Rail Passenger Commission. While the Commission has been disbanded, the MILRITE Council has maintained an involvement in this area.

In March 1989, the Council and representatives of labor, business and government received a presentation from a West German firm updating the current technology of high-speed rail. Legislation was reportedly under development as of April 1989 which would require the MILRITE Council to evaluate and report on the high speed rail proposal which was presented by the West German firm (entitled "Pennsylvania High Speed Rail Feasibility Study").

Data Collection, Research and Other Activities

Through its staff, and, in some cases, through contracted consultants, the Council has undertaken other initiatives and activities, including various research and data collection efforts pertinent to economic development and labor-management relations. (A list of research studies and other publications released by the Council is included in Appendix B.) Examples of the types of research, studies and other activities conducted by the Council follow:

- A 1986 amendment to the MILRITE Act requires that the Council "undertake research to determine if the Commonwealth can more effectively use its mediation services to discourage, and shorten the duration of, labor-management disputes." The Council conducted a study of the state's Bureau of Mediation which was released in 1987. This report included recommendations which were reportedly used by the Department of Labor and Industry as part of an overall departmental management review and resulted in the creation of a "Schools Cooperation Committee."

- The Council has contracted with Dun and Bradstreet to conduct surveys of growing and declining firms in Pennsylvania. Firms are classified by county and industry, and information is provided on growth or decline in employment and sales. Survey results are provided to the Department of Commerce and to local economic development organizations for purposes of making "climate calls" on businesses.
- The Council funded the continuation of the PA Employee Involvement Data Base developed by Pennsylvania State University. This database identified Pennsylvania firms that have established some type of employee involvement program. As of May 1989, the Council had decided to undertake the development of a "Pennsylvania Intergovernmental Business Assistance Data Bank." Consistent with the Council's mandate to "encourage and stimulate cooperation and coordination among federal, state, and local programs," this project is intended to document all existing federal, state and local business assistance programs in one database. This is a planned long-term project with a final projected completion date of June 1990.
- An interstate comparative study on taxes paid by industry was prepared by the PA Economy League in 1987 under contract to the MILRITE Council.
- As discussed earlier in this Finding, the Council conducted research in 1983 into the capital needs of Pennsylvania business. In May 1989, the Council indicated plans to update its 1983 capital needs assessment study.
- Other MILRITE conducted or sponsored research projects involved studies of labor-management relations in Pennsylvania public schools, the potential for developing a high speed rail passenger system in the Commonwealth, pension portability and transfer and the potential growth of the robotics industry in Pennsylvania.
- The Council has held various seminars and training seminars at the local level. The Council also conducted state-wide conferences on "Cooperative Strategies for Competing in the 80s" in March 1986 and "Maintaining Pennsylvania's Quality Work Force" in June 1989.
- The MILRITE Council participated in the development of the Commonwealth's strategic economic development plan, and the Chairman served on the 1988 Labor-Management Relations Task Force of the Pennsylvania Economic Development Partnership.
- The Council, during the early 1980's, also focused on the issue of plant closings and "employee buyouts" to avoid

such closings. Council research was conducted into the matter and legislation was initiated to create a loan fund to assist in the financing of employee buyout feasibility studies. An employee buyout handbook was published by the Council in 1983.

Council Operations Within A National Context

A review of current literature indicates that the emergence of "partnerships" between business, labor and public policymakers to pursue labor-management cooperation and economic development objectives has been a relatively recent development at the state government level. Such actions at the state level reflect the belief that state governments can play an important role in promoting economic growth by acting as a "catalyst, broker, and partner" with the private sector.

The U.S. Department of Labor reports that while increasing numbers of states are taking a more aggressive approach to economic development, some states are going further by including the relationship between labor and management as a "tool" to enhance their economies.

Pennsylvania (the PA MILRITE Council) is one of fourteen states which were cited by the U.S. Department of Labor as operating effective programs of this type (i.e., programs combining economic development and labor-management collaboration). Pennsylvania has also been recognized as having one of the earliest operations of this type in the nation (others, all created by legislative action in 1978, include West Virginia, Kentucky and Tennessee).

Other states reported to have "MILRITE type" organizations include Ohio, Massachusetts, Michigan, Illinois, New York, Indiana, Minnesota, Iowa, Wisconsin, and Kansas. While each state has reportedly tailored its approach to its economic climate, a number of states, including Illinois, New York, and Ohio, have reportedly modeled at least certain aspects of their operations on the MILRITE Council model.

The following is brief profile information on the organizations in those states:

1. Illinois - Although Illinois has had a statewide labor-management program since 1985, the program was administratively elevated in status in September 1988 as the Office of Labor-Management Cooperation within the Department of Commerce and Community Affairs. The Office is advised through a 12-member "Labor-Management Cooperation Committee." The Office administers the Illinois labor-management matching grant and grant programs (to ALMCs); serves as liaison with other state, regional, and national organizations which promote labor-management cooperation; provides technical assistance to area-wide, industry and work-site

labor-management committees, serves as an information clearinghouse; and serves as staff to the gubernatorially-appointed Illinois Labor-Management Committee.

2. New York - The New York Industrial Cooperation Council was established in 1985. The Council reportedly consists of thirteen members appointed by the Governor: five from business, five from labor, and three with a special expertise in the New York economy. The Council is reported to be responsible for in-plant, area-wide and regional labor-management cooperation initiatives; investigating issues relating to industrial adaptation; developing cooperative approaches to prudently channeling pension funds and other institutional investments; providing information and assistance to groups involved in industrial restructuring and reorganization, emphasizing small and mid-sized enterprises; sponsoring training and technical assistance programs to groups interested in new forms of management and financing; proposing cooperative programs to assist individuals and communities adversely affected by plant closings and other changes in the economy.

3. Ohio - Ohio's labor-management program was created in 1985 for the purpose of identifying and improving conditions that reduce the state's competitive position. Ohio has initiated a plan for consolidating existing Area Labor-Management Committees (ALMCs) and tying their work to that of university-based labor-management centers. Ohio's programs includes working with industries to both assess their needs and develop cooperative programs, providing training in cooperative processes, conducting research, publishing newsletters and case studies, and providing assistance to ALMCs. The Ohio ALMC grant program was reportedly also patterned after Pennsylvania's program.

Overlap and Duplication

The MILRITE Council is unique in that it is the only officially created entity in Pennsylvania within which representatives of business, labor and government can meet in an independent setting. While the essential functions of the Council (i.e., the promotion of economic development and labor-management cooperation) are similar to responsibilities shared by the Economic Development Partnership and the Department of Labor and Industry, the Council appears to be in a position of complementing or supplementing rather than duplicating other state-level efforts.

Additionally, because of the statutory mission and nature of the Council, there is an opportunity for innovation and experimentation with economic concepts and labor-management cooperation techniques which may not be present in the program implementation environment of other state agencies.

As discussed in Finding I of this report, the Administration has recently established an Office of Labor-Management Cooperation within the PA Department of Labor and Industry. While there are certain basic differences between the MILRITE Council and the OLMC, there are also a number of similar functions which will require close coordination to avoid overlap and duplication, especially in regard to the establishment of labor-management committees.

There are also agencies at the federal level which have functions which are similar to certain functions of the MILRITE Council. For example, the Federal Mediation and Conciliation Service (FMCS), an independent agency of the federal government, maintains a labor-management grants program with a goal of encouraging and supporting joint labor-management committees as a means of improving labor relations in the United States. The FMCS grant program, like the MILRITE-funded ALMC Matching Grant Program, provides funds which are used to establish new or expand existing labor-management committees. In FY 1989, \$930,000 was allocated nationwide for the FMCS grant program.

Due to relatively small amounts of federal monies made available to area labor-management committees through the Federal Mediation and Conciliation Service, it does not appear that the existence of the FMCS grant program would in itself constitute a duplication of the MILRITE Council's funding efforts. Only one Pennsylvania ALMC has reportedly received funding under the FMCS Program.

Another federal agency, the U.S. Department of Labor's Bureau of Labor-Management Relations and Cooperative Programs, is also committed to promoting improved labor-management cooperation. While this agency also provides technical assistance (e.g., providing orientations in joint labor-management initiatives), the Bureau's activities are not restricted to fostering labor-management cooperation programs. During the course of the audit the LB&FC staff noted occasions on which the MILRITE Council coordinated activities with the Bureau including the presentation by an official of the Bureau of Labor-Management Relations and Cooperative Programs at the annual meeting of the Pennsylvania ALMC Executive Directors. This presentation briefed the ALMC Directors on federal initiatives and services available to them from the Bureau. It appears that the functions of the Bureau can serve to support the labor-management cooperation activities of the MILRITE Council. In short, the activities of the two offices appear to be supplementary rather than significantly duplicative.

Continued Need for the Council

During the period since MILRITE was created marked improvements in the state's economy have occurred. Between 1979 and

1985, 21.5% of all manufacturing jobs in Pennsylvania (many in primary metals - steel, textiles and apparel) were lost and unemployment peaked in 1983 at 14.9%. By early 1989, the state's unemployment rate had dropped to 5.0% (one percent below the national average). Work stoppages reached an all-time low in 1988. (See Appendix G.)

One political writer has referred to the Commonwealth as "an economic development model" and observed that Pennsylvania's economy is clearly changing direction:

The economy is diversifying away from its former reliance on heavy manufacturing, which left it extremely vulnerable to foreign competition. Services have passed manufacturing as the leading category of employment, and employment in computer-related industries is growing rapidly. The state's birth rate for new firms, which until 1985 was only about half the national average, has also begun to rise; in 1986 it grew twice as fast as the national average. Also in 1986, unemployment fell below the national average - for the first time since the early 1970's - and stayed there.^{1/}

While it is difficult to precisely determine the extent to which the presence of the MILRITE Council may have helped to precipitate these changes, various studies and publications reviewed by the LB&FC staff have addressed in particular the potential benefits of improved labor-management relations to state economic development. Examples include the following:

- According to officials of the U. S. Department of Labor, "a strong argument can be made that the greatest dividend on states' economic development dollars can be derived from using the money to advance new forms of work organization and to create partnerships between labor and management." These observers also point out that labor-management cooperation initiatives when implemented can result in job retention, business survivals, as well as economic development and that organizations which have such programs are achieving productivity gains of 30 to 60 percent.
- A 1984 survey by the New York Stock Exchange found that those firms with in-plant LMCs reported that the groups were successful in increasing productivity, reducing costs, raising morale, improving service, raising product quality, and reducing employee turnover, absenteeism, lateness, and grievances.

1/David Osborne, Economic Competitiveness: The States Take the Lead, Economic Policy Institute, 1987.

- A survey of the members of the Institute of Industrial Engineers cited the inability of labor and management to work together for common productivity goals as one of the top five obstacles to productivity improvement.
- The President's Commission on Industrial Competitiveness concluded that enhanced cooperation between organized labor and management is vital to achieving increased productivity, improved quality, and ultimately, greater competitiveness.
- A 1987 study entitled, "Human Resource Practices for Implementing Advanced Manufacturing Technology" by the National Academy of Sciences found that a strong partnership between labor and management must exist if companies are to derive a long-term competitive advantage from advanced manufacturing technology.

Business and labor leaders, as well as state agency officials contacted by the auditors during the sunset performance audit process expressed strong support for continuation of the Council.

According to an official of the Department of Commerce, the termination of the Council "would deprive the Commonwealth of an existing resource which brings together the viewpoints of business, labor and government in an ongoing way." This official also observed that the termination of an agency such as the MILRITE Council "would send a bad signal about the Commonwealth's commitment to enhancing labor-management relations."

A representative of the economic development community informed the auditors that termination of the Council would negatively impact on the public by denying economic development policy-makers the unique perspective provided by an agency with a membership composition of the MILRITE Council. This individual, the Executive Director of the PA Economic Development Association, observed that "no other agency of state government possesses access to the three major interests affected by and responsible for the Commonwealth's economic development (i.e., the business, organized labor and governmental communities)."

The Executive Director of the Business Roundtable, an organization comprised of senior executives from major corporations headquartered in Pennsylvania, also remarked that, given the value associated with the underlying objective of the MILRITE Council (i.e., the bringing together of key representatives of Pennsylvania's business, labor and government for the purpose of fostering the Commonwealth's economic development), were the Council to be terminated, a similar agency with a comparable mission and composition would in all likelihood need to be created.

Officials of the Pennsylvania AFL-CIO and the Chamber of Business and Industry also expressed commitment to the concept of the MILRITE Council and observed advantages to the maintenance of an independent agency of state government involved in economic development activities.

For example, the President of the PA Chamber of Business and Industry pointed out that the Council is the only non-partisan organization that can bring representatives together from labor, business and government to discuss Pennsylvania's economic future. He also stated that because the Council is not an elected body or comprised solely of official representatives of the Governor, it is able to explore areas that may not immediately be politically popular. It was also pointed out that, because of the backgrounds of the various Council members, a broad perspective is brought to Council deliberations which permit the development of policies which reflect many points of view.

The Executive Vice President of the Pennsylvania AFL-CIO also informed the auditors that the cooperation and communication channels fostered by the MILRITE Council are necessary to revitalizing the Commonwealth's economy and in determining what interests are shared by both business and labor to that end. It was this individual's belief that "termination of the MILRITE Council would be detrimental in that an ongoing forum in which business and labor leaders can meet and discuss emerging conditions frankly and in the presence of government policy-making officials would be eliminated."

A special task force report which was prepared as part of Pennsylvania's statewide economic development strategy (released in 1988) also concluded that the state should "continue and build on the important work of the PA MILRITE Council" An examination of the statewide economic planning document (entitled "Investment in Pennsylvania's Future - The Keystone for Economic Growth") indicates that several elements and objectives of the strategy pertain directly to functions and activities of the MILRITE Council. These include, for example, objectives designed to promote a positive business climate, create partnerships for productivity in labor/management relations and to reduce the cost of capital to Pennsylvania businesses. The MILRITE Council was a participating agency in the development of this strategy and appears to have a legitimate role in certain aspects of its implementation.

Economists and other observers have stated that the fundamental issues of the 1990's will be economic and that Pennsylvania is much better positioned for the 1990's than it was for the 1980's. Nevertheless, Pennsylvania's economy, like other state economies, is reportedly under increasing pressure from both domestic and international competitive forces. A 1988 report on

the overall performance of the Pennsylvania economy^{2/} indicated that trends in the state "mirrored" the nation in most sectors. The report went on to state that "while the data clearly indicates that the Commonwealth is closing the gap on the national economy, continued efforts to improve the competitiveness of Pennsylvania firms relative to national and international competitors are needed."

To eliminate the Council at this time would appear to run counter to a pattern of intensifying efforts among the states to promote economic development. A U.S. Department of Labor publication concluded in 1988 that the "competitiveness challenge" (i.e., ensuring the competitiveness of American firms and industries in domestic and world markets) will require "a long-run outlook and a sustained commitment" to cooperative work among business, labor and government representatives. While there are areas in which MILRITE Council programs and operations can be improved (see Findings B through J), it appears to the LB&FC staff that the MILRITE Council will continue to have an important and legitimate role to fulfill in Pennsylvania's sustained commitment to this effort.

^{2/}Road to Renaissance II, Update on Growth Industries for Pennsylvania, Theodore E. Fuller and William R. Gillis. The Pennsylvania State University, April 1988.

B. PUBLIC INPUT AND PARTICIPATION

While additional steps could be taken to enhance public input and participation in the operations of the MILRITE Council, current provisions and activities (including the statutory membership requirements for the Council and input received through local labor-management committees) appear to provide for a substantial degree of public input and participation.

DISCUSSION:

The statutory membership composition of the PA MILRITE Council provides a significant avenue for public input and participation in the operations of the Council. By law, 73 P.S. §391.5, the Council includes four legislative members and five positions each for representatives of organized labor and business. Thus, by law, public, labor and business interests are well represented on the Council.

Additional opportunities for public input and participation are present in the form of local advisory bodies and Council-sponsored conferences and forums. The auditors observed that the Council receives input from the Commonwealth's fourteen Area Labor-Management Committees (ALMCs) both formally and informally through meetings and regular contacts. The ALMCs, which are locally-based organizations composed of multiple employers and labor organizations, are served by advisory boards which, in a manner similar to that of the MILRITE Council itself, consist of representatives of local business, labor and community economic development interests.^{1/}

The MILRITE Council also sponsors conferences and forums on economic development and labor-management cooperation topics. These events are intended to both educate the public and provide interested members of the public with an opportunity to participate in information sharing activities of the Council. For example, the Council conducted a statewide conference on "Cooperative Strategies for Competing in the 1980's" in March 1986 and a forum related to "Maintaining Pennsylvania's Quality Workforce" is scheduled for June 1989.^{2/}

The Council also meets in public session on a monthly basis. All meetings are held in Harrisburg. The auditors reviewed the MILRITE Council's compliance with the requirements

^{1/}See Finding C for further information and discussion related to the ALMC Program.

^{2/}While noting the potential public information and participation benefits of such sessions, the auditors believe improvements could be made in the Council's current public information efforts. (See Finding J.)

of the Sunshine Act regarding public notice of their monthly meetings and found that the Council publishes a schedule of its meetings at the beginning of the calendar year in compliance with the requirements of the Act.

The MILRITE Council also annually publishes in the PA Bulletin a request for proposals pertaining to the Area Labor-Management Committee Matching Grant Program which it administers. As part of the LB&FC's sunset review process, agency compliance with the public comment provisions of the Commonwealth Documents Law and the Regulatory Review Act is routinely examined. The auditors found that, although empowered to do so, the Council has not to date promulgated any regulations.^{3/}

IT IS RECOMMENDED THAT:

- 1. The MILRITE Council consider conducting some of its regular monthly meetings at locations outside of Harrisburg to both enhance the visibility of the Council and provide an opportunity for local ALMC representatives and others to discuss issues of concern. A specific portion of the Council's meeting agenda could be set aside for the receipt of such input.**
- 2. Should the Council decide to conduct certain of its meetings in locations outside of Harrisburg as recommended above, consideration should be given to publishing notices of such meetings in the Council's newsletter (if reinstituted) and in a newspaper of general circulation in the area in which the meeting is to be held.**
- 3. Please refer also to a related recommendation contained in Finding J, which suggests solicitation of comments, ideas and suggestions regarding MILRITE operations through a periodic newsletter.**

^{3/}See Finding D for a discussion related to the absence of regulations for the MILRITE administered Area Labor-Management Committee Grant Program.

C. ISSUES RELATED TO COUNCIL ADMINISTRATION OF THE AREA
LABOR-MANAGEMENT COMMITTEE (ALMC) MATCHING GRANT PROGRAM

State law enacted in 1984 assigns responsibility for administration of the Area Labor-Management Committee (ALMC) Matching Grant Program to the MILRITE Council. For FY 1988-89, the Council awarded state grants totaling more than \$740,000 to fourteen ALMCs. While promotion of labor-management cooperation had been a function of the Council since its inception, responsibility for the ALMC Program intensified its involvement in this area. In 1988 a full-time position was added to the MILRITE staff to specialize in ALMC Program administration, and the Council reported that as of early 1989 fifty percent of total staff time was being devoted to ALMC matters. As mandated in law, the Council has established standards and criteria for the ALMC grant program, including a formal method for solicitation, review and evaluation of funding proposals.^{1/} While the Council has given a high priority to the ALMC Program, there are certain issues related to program administration which appear to require additional attention. These relate to the need for further refinement of the grant proposal evaluation process, additional evaluation of individual ALMC performance, a more precise definition and possible reconsideration of MILRITE-imposed financial audit requirements, and the possible need for a statewide program needs assessment.

DISCUSSION:

Since 1984, state General Fund monies have been appropriated to the MILRITE Council to make grant awards to area labor-management committees (ALMCs) under the ALMC Matching Grant Program. The objective of this program is "to help communities strengthen their economies through improved labor-management relations both at the worksite and community levels."

As defined in law, 73 P.S. §391.2, an area labor-management committee is:

An organization formed by and composed of multiple employers of diverse industries and multiple labor organizations . . . operating within or focusing upon city, county or contiguous multi-county jurisdictions for the purposes of:

- Improving communications between labor and management.

^{1/}The need for at least certain of these procedures and provisions to be promulgated as regulations is addressed in Finding D.

- Providing a forum to discuss and investigate ways to further the goals of increased quality of work life and increased productivity.
- Discovering ways to improve organizational effectiveness.
- Finding solutions to problems of mutual concern to both labor and management not susceptible to resolution within the collective bargaining structure.
- Enhancing economic development within the jurisdiction through labor management cooperation.

As of May 1989, there were fourteen state-funded ALMCs in operation in Pennsylvania (see Exhibit C-A). Included in the service areas of the ALMCs were 24 of the state's 67 counties. During FY 1988-89, over \$740,000 in state matching grants were awarded to these committees by the MILRITE Council. (A listing of the fourteen ALMCs and the amount of their state and other funding is contained in Table C-1.)

ALMC Program grants are to be awarded on a competitive basis in accordance with standards and criteria established by the MILRITE Council. For the most part, these standards and criteria are set forth in the Council-developed, "ALMC Grant Program Application for Financial Assistance." The grant application process outlined in this Request For Proposal (RFP) document must be completed annually by ALMCs desiring state assistance. (A copy of the FY 1989-90 ALMC Program Request For Proposal is included as Appendix D to this report.)

In addition to proposal review and grant award functions, the Council also has technical assistance and program monitoring responsibilities. One member of the MILRITE staff, an executive policy specialist, has full-time responsibility for the program.

As part of the sunset performance audit process, the LB&FC staff examined several aspects of the Council's administration of the ALMC program. The following issues were identified:

Council Evaluation of ALMC Grant Proposals

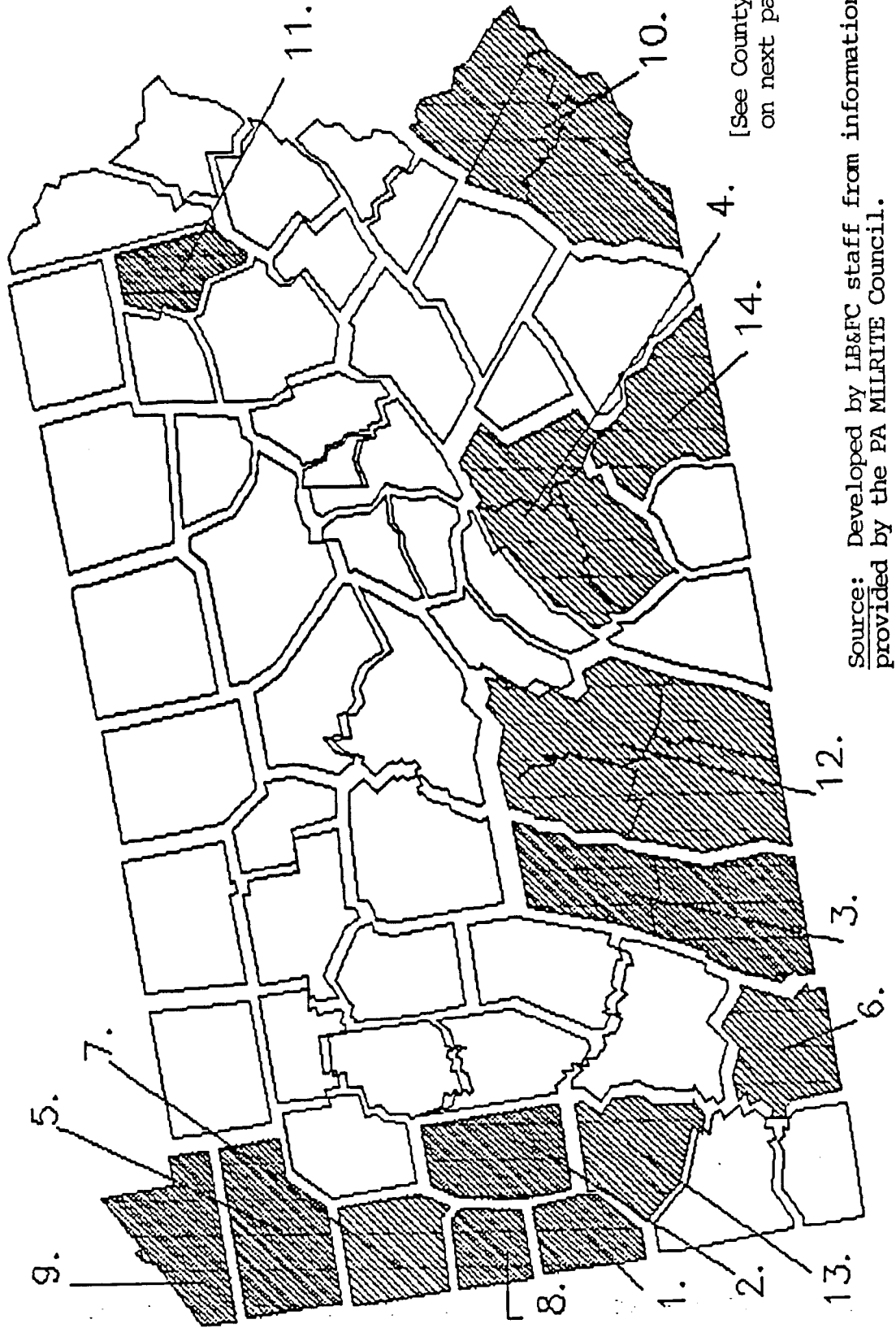
The MILRITE Council is required by law, 73 P.S. §391.6a(a), to:

. . . establish standards and criteria for the selection of area labor-management committees to be assisted by grants . . . , solicit proposals from area labor-management committees, review and evaluate the relative merits of such proposals, and select those proposals for funding which would best meet the standards and criteria established by the council.

EXHIBIT C-A

Counties Served by Area Labor Management Committees
Which Receive Grants From the PA MILRITE Council

FY 1988-89



[See County/ALMC key
on next page.]

Source: Developed by IB&FC staff from information
provided by the PA MILRITE Council.

EXHIBIT C-A
(Continued)

Listing of Area Labor Management Committees (ALMCs)
Which Receive State Grants from the PA MILRITE Council

The following is a list of Pennsylvania's fourteen state-funded Area Labor Management Committees (ALMCs). The number designation shown with each ALMC is intended to serve as a key to identify the location and counties served by the ALMC on the map on the previous page:

- 1 - Beaver County ALMC
- 2 - Butler ALMC
- 3 - Cambria/Somerset LMC
- 4 - Capital ALM Council
- 5 - Crawford County ALM Council
- 6 - Fayette County LMC
- 7 - Mercer County LMC
- 8 - New Castle ALMC
- 9 - Northwestern PA ALM Council
- 10 - Philadelphia ALMC
- 11 - Scranton/Lackawanna LMC
- 12 - Southern Alleghenies LM Coalition
- 13 - Three Rivers ALMC
- 14 - York ALM Council

TABLE C-1

Projected FY 1988-89 Funding of PA Area Labor-Management Committees by Source

ALMC	Total	Source					Other ^{2/}
		State ^{1/}	Business	Labor	Federal	Local	
Beaver	\$ 86,991	\$ 69,593	\$ 4,950	\$ 4,950	\$ 0	\$ 0	\$ 7,498
Butler	35,300	24,700	2,000	2,000	0	0	6,600
Cambria/Somerset ...	50,000	40,000	3,000	3,000	2,000	0	2,000
Capital Area	50,000	40,000	3,000	3,000	2,500	0	1,500
Crawford	60,000	36,000	3,000	3,000	0	0	18,000
Fayette	116,703	81,692	1,500	675	0	5,000	27,836
Mercer	60,000	36,000	4,800	4,000	0	0	15,200
New Castle Area	53,770	32,262	7,000	7,000	0	0	7,508
Northwestern PA	118,300	70,980	11,500	1,000	0	6,000	28,820
Philadelphia Area ..	605,000	100,000	75,000	25,000	15,000	160,000	230,000
Scranton/Lackawanna	58,000	34,800	1,450	900	19,850	1,000	0
Southern Alleghenies	87,000	52,200	5,000	10,000	6,400	10,000	3,400
Three Rivers	187,500	100,000	11,500	12,500	25,000	10,000	28,500
York Area	49,651	24,825	3,500	2,500	13,454	0	5,372
Total	\$1,618,215	\$743,052	\$137,200	\$79,525	\$84,204	\$192,000	\$382,234

1/Represents the amounts of FY 1988-89 ALMC grants requested from the MILRITE Council. In all cases but one, the amount requested is that amount which was awarded by the Council. The one exception was the Fayette ALMC whose grant was reduced from \$81,692 to \$56,692 due to concerns expressed by MILRITE Council staff about the budget of one LMC in that area. The total amount appropriated by the General Assembly for ALMC matching grants for FY 1988-89 was \$825,000. (See Finding D for further explanation of ALMC criteria, standards and funding formula.)

2/Includes funding obtained from foundations, project income, and other funding such as Advanced Technology Center grants.

Source: Developed by IB&FC staff from information obtained from the PA MILRITE Council.

As noted earlier in this finding, the Council has developed a detailed request for proposal process for funding which includes numerous specific standards and criteria. According to MILRITE staff, a number of these are patterned after program guidelines established by the Federal Mediation and Conciliation Service for its Labor-Management Cooperation Grant Program.

Completed funding proposals are reviewed by the MILRITE staff specialist assigned to the ALMC Program. However, this review appeared to lack important elements necessary to ensure a uniform and systematic evaluation of the ALMC funding requests.

In particular, the MILRITE staff person primarily responsible for proposal review indicated that the review procedure was not defined in writing and that evaluation checklists or scoring sheets are not used during the reviews. During the course of the audit, however, action was taken by MILRITE Council staff to commit to writing the evaluation procedures and other considerations involved in the proposal review process. Council staff also indicated that the need for formal written procedures was mitigated to a certain extent by staff familiarity with the content and requirements of the RFP.

The auditors found that the Federal Mediation and Conciliation Service (FMCS) also applies various selection criteria (e.g., problem/needs identification, feasibility of approach, cost-effectiveness, member composition) in evaluating funding requests under its Labor-Management Cooperation Program. According to an FMCS grant specialist contacted by the auditors, a special funding request "scoring sheet" is used in the agency's evaluation process. (A copy of this scoring sheet appears as Exhibit C-B.)^{2/}

Given that the ALMC grant award process is to be conducted on a competitive basis, it would appear that a more formal and quantifiable method of evaluating and scoring proposals may be desirable. This will be especially important if and when the ALMC Program reaches a point at which funding requests exceed available funds.^{3/}

^{2/}A comprehensive review of other grant programs was not undertaken to determine approaches to and procedures used for funding-proposal review by other governmental agencies. The auditors did, however, note that the PA Energy Council also utilizes an evaluation checklist in reviewing proposals for funding from its Energy Center Program.

^{3/}While several funding request proposals have reportedly been revised during the life of the ALMC Program, records indicate that none have ever been denied. Also, as noted in Finding G, available state funds have exceeded funding requests and a portion of the ALMC Grant Program appropriation has consistently been lapsed.

EXHIBIT C-B

Sheet Used by the Federal Mediation and Conciliation Services (FMCS)
for Use in Evaluating and Scoring Applications for Funding Under the FMCS Grant Program*/
SCORING SHEET

Application Number: _____ Score: _____

Reviewer's Signature: _____

1. PROBLEM/NEEDS IDENTIFICATION (0-20 points) _____

How well has the applicant identified and documented the problem(s) that face the applicant and its workforce? Has the applicant supplied relevant, sufficient and current data to discuss the impacts of the problem(s) the LMC will address? How well has the applicant convinced you that it really needs an LMC to deal with the problem(s)? (Pages _____)

COMMENTS:

2. GOALS AND OBJECTIVES (0-15 points) _____

How well has the applicant detailed specific goals and objectives that discuss exactly what the LMC will accomplish? Do the goals/objectives serve as a foundation for the future measurement of the success of the LMC? Do they relate to what impacts or changes the LMC will have on the problem(s) the applicant identified? For existing committees, do the goals/objectives relate to expanded efforts rather than a continuation of business as usual? (Pages _____)

COMMENTS:

3. FEASIBILITY OF APPROACH (0-15 points) _____

How well has the applicant specified how its goals/objectives will be reached? How well thought out or feasible is the applicant's plan or strategy? Are there sufficient resources (e.g., staff) to meet the objectives? For in-plant applications, points should be based on the degree of innovativeness or uniqueness of the proposed effort. (Pages _____)

COMMENTS:

*/Note: The FMCS Grant Program awards grants to labor-management committees or to other organizations or governmental units with demonstrated interest in the furtherance of labor-management communications.

EXHIBIT C-B Continued

4. COMPOSITION/COMMITMENT OF LMC MEMBERS (0-15 points) _____

Has the applicant selected appropriate individuals to serve on the LMC (e.g., top level officials, major business and labor organizations, etc.)? Does the application contain current letters from all proposed or existing LMC members indicating that the participants support the application and are willing to personally attend scheduled meetings? Please check the letters against the names of committee members. (Pages _____)

COMMENTS:

5. IMPLEMENTATION PLAN (0-10 points) _____

How well has the applicant developed a plan that indicates what major implementation steps, operating activities, and objectives will be accomplished as well as a timetable for when they will be completed? Has a monthly milestone chart been included to track the progress of the applicant in reaching its goals and objectives? (Pages _____)

COMMENTS:

6. COST EFFECTIVENESS (0-10 points) _____

Has the applicant kept within the maximum allotted funding level? Is the fiscal request reasonable in light of the applicant's goals/objectives and approach? (Pages _____)

COMMENTS:

7. OVERALL FEASIBILITY (0-15 points) _____

In light of all the information presented, as well as the quality of the application, how would you score the application with regard to its potential for meeting all of its proposed goals and objectives as well as the goals of the LMCA of 1978?

COMMENTS:

Source: U.S. Federal Mediation and Conciliation Service

Provision in the proposal review process for a "check-off" for ALMC "responsiveness" to the various requirements of the RFP would also appear to be helpful. LB&FC staff reviewed the fourteen ALMC proposals which were submitted for FY 1989-90 funding. The following are examples of omissions which were noted:

- Thirteen proposals omit contracts for certain or all consultants listed. (Relevant Section of RFP: B.7, Staff Requirements, under Required Program Elements.)
- Six proposals do not clarify part-time or full-time status of some or all employees, though the RFP requests this information. (Relevant Section of RFP: B.7, Staff Requirements, under Required Program Elements.)
- Two proposals omit the ALMCs' bylaws. (Relevant Section of RFP: D.1, Articles of Incorporation/By-Laws, under Other Requirements.)
- Two proposals disregard the work plan format identified in the RFP. (Relevant Section of RFP: B.4, Fiscal Year Work Plan, under Required Program Elements.)
- One proposal does not clarify further a source of funds identified as "other," although RFP states that designations of revenues as "other" without further clarification will not be accepted. (Relevant Section of RFP: C.1, Sources of Funds.)
- One proposal includes a program budget that does not make any provision for an audit or any accounting services, even though the RFP requires an audit. (Relevant Section of RFP: A.6, Audits.)
- One proposal identifies only 4 individual ALMC members by name: one management and three union personnel. The RFP requires that an ALMC be formed by and comprised of multiple employers in diverse industries and multiple labor unions. It is not clear whether the proposal meets the standards of the RFP. (Relevant Section of RFP: A.2, Eligibility for Funding.)

Discussions on this matter between the LB&FC staff and the MILRITE Council staff indicate that omissions in various RFPs were also identified by MILRITE staff. Beginning in FY 1989-90, grant award correspondence from the MILRITE Council to the ALMC directors indicated required components of the RFP which the MILRITE staff identified as being missing or not "responsive" in the submitted ALMC funding proposal. These letters also identify concerns expressed by the Council regarding the ALMC proposal

areas which require attention and/or follow-up by the ALMC directors. The letters also indicate that receipt of FY 1989-90 grant funds will be contingent on satisfactory response to the concerns stated by the Council.

Council Evaluation of ALMC Activities/Performance

Minutes from a December 1988 meeting of the MILRITE Council indicate that there was a general consensus that the ALMC Program needs to be better defined and that the ALMCs need to have better direction on just what the Council expects from them. It was also noted by the Council that while most ALMCs are performing well, the ALMCs that are not meeting the objectives listed in their grant proposal "need to improve performance or else the Council will not consider funding them for next fiscal year."

The MILRITE Council's RFP requires that each ALMC establish a "fiscal year work plan." This plan is to include objectives in various activity or performance areas including worksite committee establishment, training and education, public relations (e.g., newsletter mailings) and displaced workers assistance.

Review by the LB&FC staff of the fourteen FY 1989-90 ALMC grant proposals indicated that not all ALMCs have developed quantifiable goals for all ALMC activity areas identified by the MILRITE Council. The LB&FC staff also reviewed data on selected "activity measures" (e.g., number of worksite LMCs in operation and number of education events held) reported by the ALMCs for FY 1988-89 (through March 1989). This data (presented on Exhibit C-C) was compared to the fiscal year objectives which had been established by the ALMCs in the various activity areas.

Where objectives have been established it appears that, in several cases, ALMC performance is falling short of the stated objectives. For example, for FY 1988-89 the Three Rivers ALMC's objective was to establish 8-10 new worksite labor-management committees (LMCs). However, as of March 1989, Three Rivers ALMC reported having only four operational LMCs. Similarly, Crawford County's ALMC defined as an FY 1987-88 objective the pursuit of "2-3 definite possibilities for in-plant committees" and an objective of 1-2 new LMCs for FY 1988-89. However, as of March 1989, no LMCs had yet been established in the Crawford County area. Examples of ALMC performance not meeting established goals were also found in the "activity measure" categories which relate to "number of education events held" and "number of newsletter mailings."

The MILRITE Council's RFP also states that the "goals, objectives, and expected accomplishments [stated in the RFP] will

EXHIBIT C-C

Selected Profile Information and Activity Measures for PA Area Labor-Management Committees

ALMC	Year Established ^{a/}	Counties Covered	FY 1988-89 Activity Measures							Number of Displaced Workers Assisted
			Number of Worksite LMCs in Operation	Number of Workers Covered by LMCs	Number of Education Events Held	Number of Newsletter Mailings	Number of	Number of	Number of	
Beaver	1986	Beaver	4	4,211	10	4	c/	c/		
Butler	1984	Butler	2	448	8	0	0	c/		
Cambria/Somerset	1987	Cambria								
Capital Area	1987	Somerset	4	1,400	2	1	c/			
		Cumberland								
		Dauphin								
Crawford	1985	Perry	2	2,500	6	12	c/			
Fayette	1985	Crawford	0	0	4	4	c/			
Mercer	1983	Fayette	3	770	4	0	c/			
New Castle Area	1983	Mercer	1	4,620	2	c/				
Northwestern PA	1984	Lawrence	2	5,085	5	4	c/			
Philadelphia Area	1980	Erie	2	1,850	10	4	c/		235	
		Bucks								
		Chester								
		Delaware								
Scranton/Southern	1978	Montgomery			13	24	d/			
Alleghenies	1984 ^{b/}	Philadelphia	12	125,515						
		Lackawanna	5	5,290	0	0	c/			
		Bedford								
		Blair								
		Fulton								
Three Rivers	1986	Huntingdon	c/	c/	c/	c/	c/	c/		
York Area	1985	Allegheny	4	8,453	4	0	0	c/		
Totals		York	2	700	4	3	d/			
			43	160,842	72	56	235			

^{a/}Certain ALMCs' years of establishment predate the creation of the state ALMC Grant Program.
^{b/}The Southern Alleghenies Labor-Management Coalition's FY 1989-90 funding proposal reflected that it intended to re-establish itself as the Penn Central Partnership. Therefore, because it was requesting first year level funding, the ALMC provided no activity information for FY 1988-89.
^{c/}No activity data reported.
^{d/}Activity reported without corresponding data on level of activity.

Source: Developed by LB&FC staff from information set forth in ALMC FY 1989-90 funding proposals. Activity data is as of March 1989.

become the foundation for future monitoring and evaluation efforts" and that ". . . funding is contingent on the successful performance of the applicant in prior grant years." It does not appear that the MILRITE Council staff has established a method to monitor and evaluate ALMC performance in relation to established objectives on a systematic and ongoing basis. The MILRITE Council staff person assigned to the program indicated that quarterly activity reports received from the ALMCs are reviewed to compare actual performance to proposed activities but that written records of this review are not maintained due to "time and manpower constraints."

It also does not appear that ALMC funding has been tied to performance. Through the FY 1988-89 funding year, no ALMC grants had ever been reduced due to poor performance. However, action taken by the MILRITE Council in April 1989 could result in a performance-related grant reduction for FY 1989-90. In this particular case, the Council has decided that the Crawford County ALMC will be funded for a six-month period in FY 1989-90 with additional funding to be contingent on the ALMC's success in establishing "at least one worksite labor-management committee."

It also does not appear that an ongoing system and specific performance measures have been developed for purposes of evaluating and monitoring the performance of individual ALMCs relative to the purposes set forth in law for ALMCs. During the course of the audit, MILRITE Council staff identified a number of measures that could be used for such an evaluation. These include, for example:

- In-plant committees.
- Individuals participating in in-plant committees.
- Individuals in the companies that have in-plant committees.
- The number of individuals on a board of an ALMC.
- The number of individuals represented by ALMC board members.
- Number of jobs retained.
- Number of jobs created.
- Number of seminars.
- Number of individuals attending seminars.
- Number of individuals in companies and unions attending seminars.
- Community survey on labor-management climate.
- Community leader survey on labor-management climate.
- Amount of matching funds.
- The number of requests per in-plant committees.
- The number of companies retained in community.
- Percent of productivity increase where there is an in-plant committee.
- Other savings from in-plant committees.

Council Requirement for Audit of ALMC Grants

The Request for Proposal document for the ALMC Grant Program requires that "an audit of each committee's activities is required at the end of each fiscal year." A related provision contained in the grant agreement which is executed between the Council and the ALMC grant recipient requires that "the committee shall submit a completed audited set of financial statements, certified in accordance with generally accepted accounting and auditing standards, of the income and expenditure of grant funds and the committee's contributing funds, if any, following the end of each fiscal year."

A review of MILRITE Council files indicated that FY 1987-88 "audits" had been submitted to the Council by each of the ALMCs. This review also indicated, however, that the financial "audits," in at least some cases, were not in the format called for in the contract agreement. For example, the audit conducted of one ALMC was accompanied by a letter from the certified public accounting firm responsible for the review. According to the accounting firm, the review conducted on the ALMC was "substantially less in scope than an examination in accordance with generally accepted auditing standards."

According to another accounting firm responsible for the preparation of an audit of an ALMC, certain aspects of the review were difficult because "operating and program costs/actual expenditures are not specifically defined in the MILRITE grant information."

At the present time, it appears that there is both a lack of clarity in terms of the audit product desired by the MILRITE Council and a lack of uniformity in the actual performance of ALMC grant audits.

MILRITE Council staff have initiated discussions with the Comptroller's Office regarding the development of specific guidelines for the audit of ALMC grant expenditures. These discussions were initiated by the MILRITE staff because of a perceived need to provide for more uniform preparation of the audits submitted by the ALMCs in response to the RFP audit provision.

Reconsideration of the audit requirement may be warranted given the dollar amount of the ALMC grants. As shown on Table C-1, FY 1988-89 state grants range in amount from a low of about \$25,000 to a high of \$100,000, with most being in the \$25,000 to \$40,000 range.

A representative of the Comptroller's Office expressed the opinion that given the dollar amount of ALMC grant awards, it may be inappropriate to require a full financial audit of each ALMC on an annual basis. The rationale for this position is that the expense of such audits is not warranted given the

amount of the grants and the relatively small budgets of the various ALMCs.

ALMC Needs Assessment/Expansion Potential

Statutory provisions pertaining to state funding of area labor-management committees, 73 P.S. §391.6a., indicate an overall goal for the program of "attempting to establish and maintain as many area labor-management committees as possible." This section of the law also stipulates that the "highest priority for these (state) funds shall be for the establishment of new area labor-management committees"

As shown on the map which is Exhibit C-A, fourteen ALMCs were operational in the Commonwealth as of May 1989. New ALMCs were last established in 1987 when the Cambria/Somerset and Capital Area ALMCs were created.

There has been a recent indication of interest among MILRITE Council members in expanding the ALMC Program. General discussion occurred at a May 1989 meeting of the Council on how to establish ALMCs in areas of the state that do not have a functioning committee. It was also suggested that Council members take a more active role in trying to implement ALMCs.

At a December 1988 meeting of the Council, a member asked the staff to project needed funds if ALMCs were to be formed in all areas of the Commonwealth. The Secretary of Labor and Industry stated at the same meeting that his department shares the Council's desire to increase the number of ALMCs and wants to act as a "partner" with the MILRITE Council in that effort.

At the time of the audit, it appeared that there was no current formal assessment of the need for or expansion potential for ALMCs in Pennsylvania. This is an especially pertinent issue in light of the lapses of ALMC grant monies which have occurred since the start-up of the program and the current initiative within the Department of Labor and Industry (Office of Labor-Management Cooperation) to also promote and establish labor-management committees. (See Finding I for discussion of the need for cooperation of the activities of the MILRITE Council and the Office of Labor Management Cooperation.)

IT IS RECOMMENDED THAT:

1. The MILRITE Council staff further refine and standardize its grant proposal evaluation procedure. It is suggested that:

- the evaluation procedure description which was put into written form for reference by the LB&FC staff during the sunset performance audit serve as the basis for the development of a formal written evaluation procedure.**

- the Council consider including in this procedure the use of a standardized evaluation checklist and scoring sheet (similar to that used for a similar federal program) to assess the "responsiveness" and relative merits of funding request proposals.
- consistent with recommendations made in Finding D, the Council obtain legal advice concerning the possible need to publish all or portions of the ALMC funding request evaluation procedure as a statement of policy or regulations.

2. The MILRITE Council staff give additional attention to monitoring and reporting on the overall performance of the ALMCs in relation to the Program's statutorily established objectives. To accomplish this, it is suggested that the Council staff identify those indicators most pertinent to the ALMC Program's performance. (These might include, for example, percent of productivity increases and number of companies retained in a community where an LMC is operational and other measures cited in the text of this finding.) The Council should periodically include performance data and progress reports on overall program objectives attainment in the mandated annual ALMC reports which are submitted to the General Assembly.

3. The Council reexamine the audit requirement which is a current condition of the receipt of an ALMC grant. It is suggested that:

- the Council staff continue to work with the Office of the Comptroller to arrive at financial review/audit guidelines which are sufficient to ensure the fiscal integrity of the program but not unnecessarily detailed and costly given the amount of the grant awards.
- the Council consider officially requesting that the Comptroller's Office periodically spot-check the audits submitted by the ALMCs to the MILRITE Council to determine ALMC adherence to the financial review/audit guidelines jointly established by the Council and the Comptroller's Office (see above). Actions taken by the Comptroller in this area might be considered for inclusion in the annual agency audit plan.

4. The MILRITE Council, perhaps in conjunction with the Department of Labor and Industry (see Finding I), undertake an assessment of the current and projected need for the establishment of

additional labor-management committees in Pennsylvania.^{4/} The results of this study activity should be communicated to pertinent standing committees to assist the General Assembly in determining the adequacy of current program funding levels and the extent to which additional monies would be required to expand the ALMC Program to other areas of the Commonwealth determined to be in need of state assistance for labor-management committees.

^{4/}Specific factors and problems which might identify an area as being a candidate for ALMC development are included in the MILRITE Council's ALMC Program request for proposal document (Part B.2 - see Appendix D of this report.)

D. REGULATIONS NEEDED FOR GRANT PROGRAM ADMINISTERED BY THE MILRITE COUNCIL

The MILRITE Council has not promulgated as regulations the guidelines, standards, and criteria which it has developed for the state-funded Area Labor-Management Committee Matching Grant Program. These provisions, which establish requirements which are not present in law, govern the Council's administration of the program. It appears that a number of these program provisions should be promulgated as regulations. For fiscal year 1988-89, a state appropriation of \$825,000 was made to the MILRITE Council for the awarding of matching grants to local area labor-management committees.

DISCUSSION:

The MILRITE Council has not promulgated regulations for the administration of the Area Labor Management Committee (ALMC) Matching Grant Program.^{1/} Under this program, state matching grants are awarded to community-based organizations (ALMCs) which are created jointly by a community's labor and business leaders for the intended purpose of improving labor-management relations in a particular geographic area (thereby increasing the economic competitiveness of the region).

The ALMC Program was established in statute in 1984. The Council is mandated by law, §73 P.S. §391.6a(a), to ". . . establish standards and criteria for the selection of area labor management committees to be assisted by grants . . . solicit proposals from area labor-management committees, review and evaluate the relative merits of such proposals, and select those proposals for funding which would best meet the standards and criteria established by the council." The Council is also authorized to promulgate regulations necessary to accomplish the provisions of the MILRITE Act, 73 P.S. §391.1 et seq.

Guidelines, standards and criteria, including a funding formula and match requirements, have been established by the MILRITE Council for the ALMC Program. These provisions are set forth in the annual Request for Proposal which is issued for the program. (Exhibit D-A lists selected guidelines, standards and criteria used in the program.) The auditors found that, although these standards and criteria establish requirements for the program which are not present in the law, they have not been promulgated

^{1/}See Finding C for further discussion related to the ALMC Program.

as regulations.^{2/} For example, one of the requirements is that an ALMC must be a nonprofit entity (as defined by 15 Pa.C.S.A. §7101 et seq.) which has received or applied for tax exempt status. This and other requirements appear to be "unequivocally determinative" of the issue of whether an ALMC is able to apply for a grant and thus has the force and effect of law (i.e., these requirements have been established under a delegation of statutory authority to establish standards and criteria for the grant program). Another stipulation applied to the grant program by the Council is that the maximum amount an ALMC can receive per year in state matching funds is \$100,000.

If standards and criteria which have not been promulgated as a regulation are later held by a court to have the effect of a regulation, those standards and criteria will be invalid (45 P.S. §1208). The auditors note that difficulties could arise if a grant fund applicant, based upon the guidelines, criteria and standards developed and used by the Council, challenged the basis of the Council's decision. If held to be regulations, then these standards and criteria would not be valid.

Additionally, failure to promulgate the guidelines, standards and criteria as regulations precludes the public, including program participants, from having an opportunity to formally comment and provide input into the process. If promulgated as regulations, opportunity for formal input is to be available during the 30 day notice and comment period provided for in the Commonwealth Documents Law as part of the regulatory review process.

The Executive Director of the Council informed the LB&FC staff that the standards and criteria used by the Council for the Grant Program are based upon those used by the Federal Mediation and Conciliation Service in providing assistance to labor-management committees under the provisions of the Labor Management Cooperation Act of 1978. Additionally, the Executive Director indicated that, except for the matching funds requirement of the grant^{3/}, all other requirements have remained the same since the initiation of the program. The Executive Director and

2/Additionally, certain of the guidelines, standards and criteria may fall within the definition of "statements of policy" of the Joint Committee on Documents and should be published as such in the PA Code.

3/Originally, the MILRITE Council stated that an ALMC could receive matching state funds during only the first five years of operation under this Program. After that time, the ALMCs were required to be totally self-funded. In 1987, the Council amended this requirement to provide for up to 50% of matching state funding for an indefinite period after the fifth year of operation.

the Council staff member responsible for ALMC program matters expressed the opinion that there are certain criteria which could be promulgated as regulations, although they believe it is important to operate the program in as flexible a manner as possible.

IT IS RECOMMENDED THAT:

The MILRITE Council promulgate as regulations certain of the guidelines, standards and criteria used in the administration of the state-funded ALMC Matching Grant Program (relating, for example, to eligibility, selection, and grant determination). The Council should seek the advice and assistance of counsel in the mechanics of the regulatory review process and in identifying those guidelines, standards and criteria which need to be promulgated as regulations and those which are appropriate to be published as statements of policy. (See also Finding H regarding availability of legal services to the MILRITE Council.)

EXHIBIT D-A

Key Guidelines, Standards and Criteria
Established by the MILRITE Council for the
Area Labor-Management Committee Matching Grant Program

The following are key provisions ^{1/} which have been established by the MILRITE Council to govern eligibility, proposal evaluation/selection and funding under the Area Labor-Management (ALMC) Matching Grant Program. These guidelines, standards and criteria are as set forth in the ALMC Program FY 1989-90 "Request for Proposal":

- A. Selection Criteria - The following criteria are to be used by the MILRITE Council in evaluating proposals for funding:
1. The actual performance of an existing committee during the current funding year compared to the goals and objectives identified in the committee's proposed work plan for the current funding year.
 2. The extent to which the application has clearly identified the problems and justified the needs that proposed programs and services will address.
 3. The degree to which appropriate and measurable goals and objectives have been developed to address the problems and needs of the area. For existing committees, this will include the extent to which the Committee will focus on expanding current efforts and the initiation of new efforts.
 4. The feasibility of the approach proposed to attain the goals and objectives of the proposed programs and services and the perceived likelihood of accomplishing the intended results.
 5. The feasibility and thoroughness of the implementation plan in specifying major milestones and target dates.
 6. The cost-effectiveness and fiscal soundness of the application's budget request as well as a comparison of fiscal feasibility against the proposed goals and approach.

^{1/}This is not intended as a comprehensive listing of all provisions which relate to and govern the ALMC Program. It is a list of key provisions which is intended to illustrate the nature of the guidelines, standards and criteria established by the MILRITE Council for the program.

EXHIBIT D-A
(Continued)

7. The demonstration of local and non-local support as evidenced by financial contributions from the private sector, local and federal governments.
8. The appropriateness of committee membership and the degree of support and commitment of the membership to the goals and objectives of the application.

B. Funding Formula and Match Requirements

The ALMC Grant Program is a matching grant program. The funding formula is as follows: Under the funding formula, a committee shall be eligible for a matching grant, up to a maximum of \$100,000 per year, in accordance to its year of existence, for all allowable operating and program costs. A committee must make up the difference between the percentage of allowable operating and program costs. The funding formula is as follows:

<u>Year</u>	<u>MILRITE Funding</u>	<u>Match Requirement</u>
1	90%	10%
2	80%	20%
3	70%	30%
4 and 5	60%	40%
6 and thereafter	50%	50%

All matching funds must be in cash rather than in-kind goods or services. The state grant percentage represents the maximum percentage allowable and the Committee's percentage represents the minimum percentage allowable.

Source: Compiled by LB&FC staff from review of FY 1989-90 ALMC "Request for Proposal."

E. COUNCIL COMPLIANCE WITH STATUTORY REQUIREMENT TO CONDUCT RESEARCH INTO COST OF DOING BUSINESS IN PA

The MILRITE Council is not in compliance with the statutory requirement that it undertake research into the cost of doing business in the Commonwealth. A 1986 amendment to the "MILRITE Act" requires that such research include both intrastate and interstate analysis and make recommendations for changes and estimates of future costs. As of June 1989, the Council had not conducted or contracted for such research although a 1987 private research study commissioned by the Council did provide interstate comparative analysis of "taxes paid by industry." The Executive Director of the Council indicated it would be difficult to engage in studies of this type given the Council's limited resources, and that there are no current plans to carry out this research. The Director also expressed the belief that such research may be duplicative of work carried out by other organizations.

DISCUSSION:

Among the duties of the MILRITE Council is the conduct of various research related to "the promotion of the industrial potential of Pennsylvania" and other economic development and labor-relations issues. In one area, a 1986 amendment to the "MILRITE Act" requires the Council to "undertake research, including the hiring of consultants, into the cost of doing business in this Commonwealth. . . ." Such research is to include both intrastate and interstate comparative analysis and make recommendations for changes and estimates of future costs. The auditors found that the Council has not yet carried out or contracted for the completion of this research.

Research into the cost of doing business in the Commonwealth would involve examination and analysis of a wide range of factors. According to an economic development specialist with the Economic Development Partnership (Department of Commerce), in addition to business taxes, there are many other cost factors such as transportation, solid or hazardous waste disposal and telecommunications access charges that would be considerations in the cost of doing business. Other factors include, for example, the regulatory environment, level of public services provided, capital availability, availability of labor and labor costs and the public works infrastructure (e.g., highways and bridges and rail, water and air transportation facilities).

Two particular reports were cited as examples of research efforts that involve examination of these "business cost" factors. These are "The Competitive Position of Pennsylvania

Businesses" by the PA Business Roundtable^{1/} and the Corporation for Enterprise Development's "Making the Grade - The Development Report Card for the States."

The MILRITE Council Executive Director also indicated to the auditors that it was his understanding that the Departments of Commerce and Labor and Industry also conduct research related to business cost factors.

While the Council has not undertaken comprehensive research in this area, it did contract with the Pennsylvania Economy League^{2/} to conduct a study (entitled, "Taxes Paid by Industry") which contained an interstate analysis of tax rates paid by industry. This study was released in 1987. According to the Executive Director of the MILRITE Council, a schedule for update of this report or further research of this type has not been established.

Research into the cost of doing business in Pennsylvania can potentially provide valuable insight into the business climate of the state and its attractiveness for business development as well as identification of economic development factors and issues which require attention. For example, in regard to tax rates, the PA Economy League has stated that there is "an essential and continuing need in Pennsylvania for current, objective and factual information on comparative interstate tax burdens to guide tax policy and aid in efforts to promote economic development."

Failure by the MILRITE Council to take action in this area could negatively impact upon the economic development information base which is available to executive and legislative policy-makers. While other organizations may conduct similar research, the independent nature of the Council and the research which it conducts can provide a balanced business, labor, and governmental

1/The PA Business Roundtable is a nonprofit, nonpartisan business organization, consisting of the chief executive officers of corporations headquartered or maintaining significant facilities in the state. The research conducted by the Business Roundtable is based upon an initial report which was prepared by a research team at Pennsylvania State University in the early 1980's. The most recent update of this report was released in 1988, with subsequent updates to occur "every several years."

2/The PA Economy League (PEL) is a nonprofit association which conducts research and analyses of government programs, management and financing. Since 1956, the PEL has periodically conducted analytical studies comparing tax burdens and trends in Pennsylvania with those in selected states.

perspective on business cost issues. The results of such research would also appear to be a valuable tool for the Council itself to use in identifying potential economic initiatives.

IT IS RECOMMENDED THAT:

1. The MILRITE Council conduct or cause to be conducted the "cost of doing business" research, including recommendations and estimates of future costs, as called for in state law. It is further suggested that the Council adopt a schedule for updating this research on a regular basis. The results of the Council's research should be made available to the General Assembly,^{3/} other state agencies involved in economic development activities, and other interested individuals and organizations.

2. In its efforts to fulfill the "cost of doing business" research mandate, the Council also consider having its staff periodically review and interpret the results of related research of this type which is carried out by other organizations. (For example, "The Development Report Card for the States" which is prepared on an annual basis by the Corporation for Enterprise Development.) Such a review could serve to highlight areas in which additional research by the MILRITE Council could clarify or expand existing data.

3. If the Council determines that its staff and/or fiscal resources are not sufficient to regularly conduct such research or that MILRITE Council involvement in this area is unnecessarily duplicative, the standing committee assigned sunset review responsibility for the Council should be so advised. The Council's position on this mandated responsibility should then be considered during the sunset review process to determine if additional resources for this activity or an amendment to the MILRITE Act in this area may be warranted.

3/In a related area, legislation introduced in the 1989 Session (HB 1079) would require the MILRITE Council to prepare an annual business survey to determine the "health of businesses" in the Commonwealth and to develop a state economic model. Under this legislation, an annual report on the results of the business survey would be submitted to the Governor and the General Assembly.

F. MONITORSHIP OF THE PA PRIVATE PLACEMENT SEPARATE ACCOUNT

The Pennsylvania Private Placement Separate Account (the MILRITE Fund) is a \$72.5 million investment fund designed by the MILRITE Council to provide long-term, fixed-rate debt capital for "mature, mid-sized Pennsylvania companies for working capital, modernization, and expansion."^{1/} Although a study conducted by the Council in 1983 indicated that a "capital financing gap" existed in this area, only one loan had been made from the Account as of May 1989. Deficiencies in marketing the Account and a possible shift in business capital financing needs may be factors in the inactivity of the Account.

DISCUSSION:

The PA Private Placement Separate Account, which is capitalized by public and private pension funds and a consortium of insurance companies, evolved from a 1983 MILRITE Council study^{2/} on the potential role of pension fund investments in economic development. This study identified two major "capital gaps" in Pennsylvania. One of these was a need for fixed-rate, longer-term debt financing for more mature, mid-size companies for working capital, modernization, and expansion.

The Private Placement Account was initiated and designed by the MILRITE Council to close this business financing "gap." (The Account is administered by CIGNA Investments, Inc., a major insurance/financial services company which serves as Account Manager.) As described by the MILRITE Council Chairman, monies from the Account are to be used "to create and retain jobs and attract industry into the state by addressing presently unmet financing needs of the Commonwealth's medium-sized businesses."

Commitments were obtained from pension fund investors and the Account closed in mid 1988 with a fund total of \$72.5 million. As shown on Exhibit F-A, major pension fund investors include the

1/Please refer to Exhibit F-A for additional profile information on the PA Private Placement Separate Account.

2/"Pension Funds and Economic Development - How Public and Private Pension Funds Can Contribute to the Pennsylvania Economy," PA MILRITE Council, March 1983.

State Employees' Retirement System^{3/} (\$15 million), the PA Public School Employees' Retirement System (\$15 million), the State Workmen's Insurance Fund (\$15 million), and the PA Insurance Federation (\$10 million).

The auditors observed that as of May 1989 ten proposals had been received and only one loan (for \$4.1 million) had been made from the Account.^{4/} This relatively low loan activity level is contrary to the "capital funding gap" findings of the Council's 1983 study. It appears that there are two factors which may have contributed to the inactivity in the Account to date.

There are indications that, as of May 1989, the availability of loans from the Account had not been widely publicized or aggressively marketed by the Account Manager. The only brochure or informational item available on the Account at the time of the audit was a document designed for potential investors in the Private Placement Separate Account. No similar publication had yet been made available to publicize the existence of the Account and explain its provisions to potential borrowers (i.e., "mature mid-sized" Pennsylvania companies).^{5/} Additionally, the Account Manager has reportedly relied primarily on referrals from regional and investment banks for loan candidates.

The auditors also noted that the process of setting up and making the Account operational took nearly five years to complete. Some observers believe that during this time a shift in capital financing needs among Pennsylvania businesses may have occurred, and that the low loan activity in the Account may be related to this change in business needs.

3/Act 1984-95 authorized the State Employees' Retirement System and the Public School Employees' Retirement System to invest up to one percent of the book value of the total assets of their respective funds in venture capital and separate accounts. Legislation was introduced in April 1989 which would raise the current one percent cap. The proposed legislation (SB 821) would permit up to two percent of the pension funds assets to be invested in venture capital and separate accounts.

4/Although the Account closed with fund commitments totaling \$72.5 million, monies committed by the pension fund investors are not "tied up" in a non-interest bearing status pending the award of loans from the Private Placement Separate Account. Each pension fund investor maintains control of the funds they have committed to the Account until such time as they are notified by the Account Manager that monies are to be transferred for purposes of a particular loan.

5/MILRITE Council staff reported that the development of such a brochure was in process as of late May 1989.

Despite the lack of activity in the Account, an official of one of the state pension fund investors indicated to the auditors that their organization's records would indicate that there are many companies looking for the type of financial assistance which the Separate Account was designed to provide.

While not directly responsible for administration of the Account, the Council has maintained an oversight interest in its operation. In its monitorship role, the MILRITE Council was instrumental in the establishment of quarterly forums for representatives of pension funds investing in the Account. According to MILRITE staff, the general objective of the quarterly forums is to:

provide a setting where CIGNA reports progress or lack thereof in meeting the investment objectives of the Account, and where the investors may express any concerns or comments regarding the Account.

The first quarterly meeting of the "Investors Forum" was held in April 1989.

This group expressed "concern about the slowness of actual loans" but did not disagree with the Account Manager's reasons for rejecting all but one of the loan proposals received. The investor representatives also pursued questions regarding the Account Manager's performance as regards client solicitation and identification and the provision of information on loan awards, rejections and use of loan funds.

IT IS RECOMMENDED THAT:

- 1. The MILRITE Council continue recent initiatives to closely monitor the operation of the Private Placement Separate Account. In this role, the Council should continue to organize the quarterly investor forums which were initiated in April 1989 to assess the Account Manager's performance and adherence to the basic guidelines of the Account agreements.**
- 2. The MILRITE Council and staff work with the Account Manager to identify and implement actions which could improve the marketing of the Private Placement Separate Account. Such efforts should initially focus on the development of a marketing strategy and specialized informational brochure targeted to potential borrowers. The Council staff should attempt to facilitate the dissemination of this information through, for example, the PA Chamber of Business and Industry and the Department of Commerce. Based on discussions with Department of Commerce officials, it appears that information of the Private Placement Separate Account would be an appropriate inclusion in the "Working Capital" newsletter prepared by the Department's Office of Communications.**

(The purpose of this particular publication is to make businesses aware of state programs intended to encourage business growth and economic development in the Commonwealth.)

3. The Council provide for dissemination of information on the Private Placement Separate Account through the special data bank for Pennsylvania businesses which has been proposed by the MILRITE Council. (This data bank, the Intergovernmental Business Assistance Data Bank, would attempt to document all existing federal, state and local business assistance programs in one computerized database.^{6/})

4. The Council proceed with plans to update its 1983 study of the financing needs of Pennsylvania businesses. Such a project would be helpful in identifying "capital gaps" which may currently exist within the business community. In particular, this update should determine whether or not there is a continued need for the Private Placement Separate Account as it is presently structured. The results of this study update should be provided to the Senate Community and Economic Development Committee and the House Business and Commerce and Labor Relations Committees.

5. The Council plan to advise the General Assembly (through a written report) regarding the use and impact(s) of public pension funds invested in the Private Placement Separate Account (established under authorization granted by Act 1984-95). Given existing legislative proposals to increase the cap on pension fund investments in venture capital, it is also recommended that the Council consider reporting on the activity and impact to date of state pension fund investments which have been made in venture capital firms pursuant to Council initiative. This report should be provided to pertinent standing Committees of the House and Senate by the beginning of the 1990 legislative session (approximately three months prior to the scheduled April 30, 1990 expiration of the Private Placement Separate Account).

^{6/}At its May 1989 meeting, the MILRITE Council directed its staff to undertake preliminary project design for development of this database.

EXHIBIT F-A

Profile Information on the
Pennsylvania Private Placement Separate Account

1. What are "private placements"? Private placements are long- and intermediate-term loans to corporations. Financings are supported either directly or indirectly by the general credit of an acceptable borrower; some also include liens against specific corporate assets. The terms of these loans are negotiated directly between the borrower and lender and do not entail any public offering. An investment banker may or may not be involved.
2. What is the PA Private Placement Separate Account? The Account is an investment pool capitalized by public and private pension funds and a consortium of insurance companies. Monies in the Account are to be used for "fixed-rate, longer-term debt financing for more mature, mid-sized companies for working capital, modernization and expansion." The economic development goal of the Account is to assist Pennsylvania businesses obtain needed capital to reach maximum growth potential. Based on the Council's 1983 study, loans from the Account were to be made primarily to manufacturing companies.
3. How and why was the PA Private Placement Separate Account created? The Account was initiated and designed by the MILRITE Council. The Council, through a study released in 1983, identified "capital gaps in business financing" and suggested two initiatives (venture capital and the private placement separate Account) which would allow pension fund assets to fill identified financing gaps. MILRITE legislative members introduced legislation to authorize the two largest state pension funds to make such investments.
4. What is the amount of the PA Private Placement Separate Account and who are the investors? In mid 1988 the Account officially closed with a total of \$72.5 million in pension fund commitments. The following is a breakdown by investment source and commitment amount in millions of dollars:

<u>Investors</u>	<u>Amounts</u>
PA State Employees' Retirement System	\$15.0
PA Public School Employees' Retirement System	15.0
State Workmen's Insurance Fund	15.0
Pennsylvania Insurance Federation	10.0
CIGNA Pension Fund	10.0
City of Philadelphia Pension Fund	5.0
Pittsburgh Operating Engineers	1.0
Carpenter's District Council	1.0
Western PA Electrical Employees	0.5
Total	<u>\$72.5</u>

EXHIBIT F-A (Continued)

Private Placement Separate Account Profile Information

5. How is the Account managed? CIGNA Investments, Inc., serves as Account Manager. In this capacity, CIGNA has full responsibility for day-to-day management of the Account, including marketing the Account and determining the investment mix of the Account and for underwriting and approving individual financings.
6. What has been Account activity to date? A total of ten proposals (or loan requests) were received by the Account Manager as of May 1989. Of this number, one proposal was approved and the first loan for \$4.1 million was made to an existing PA dinnerware manufacturer. This is the only loan which has been made from the Account. According to MILRITE Council staff, no additional proposals were under consideration as of May 1989.
7. What general guidelines apply to the Account? (a) Loans will only be made for uses of funds within Pennsylvania, (b) the maximum maturity of financings will range from ten to fifteen years, (c) loans will generally carry a fixed interest rate, (d) Loans will typically range from \$500,000 to \$3 million in principal amount, (e) borrowing companies will typically have between \$5 million and \$30 million in assets, and (f) loans will be used for plant construction, equipment or working capital financing, and will be secured or unsecured as appropriate. (One of the employment objectives is that any construction activities financed with loan proceeds will employ union labor.)
8. What is MILRITE's role in relation to the Account? The MILRITE Council's ongoing role relative to the Account is confined largely to monitoring the process and assisting in the formal marketing of the Account. Effective in early 1989, a special advisory group to CIGNA (the Account manager) was established. The MILRITE Council is represented on this advisory body along with representatives of institutional investors. (See Appendix C for information on the purposes, powers and objectives of this advisory group.)
9. How long will loans be available from the Account? Current agreements between the Account manager (CIGNA, Inc.) and the investors provide that loans cannot be made from the Account after April 30, 1990. The Account is scheduled to close at this time and the funding commitments made by the investors will expire.

Source: Developed by the LB&FC staff from information obtained from the PA MILRITE Council.

G. ABSENCE OF ANNUAL STRATEGIC PLAN OR AGENDA FOR MILRITE COUNCIL ACTIVITIES

The MILRITE Council does not have an annual or other long-range written strategic plan or agenda to guide its operations. While an annual strategic planning meeting has been initiated, a written plan has not been developed to operationalize and prioritize the issues and activities identified at these meetings. For example, although Council staff have indicated the need to conduct additional research and to pursue expansion of the Area Labor-Management Committee (ALMC) Matching Grant Program, there is no formal plan or timetable for such actions. Such a written plan could also provide a stronger link between planning and the Council's budget process and better enable the Council to deal with the situation in which a substantial portion of the General Fund monies appropriated to it both for general operations and the ALMC Program have been consistently lapsed.

DISCUSSION:

The Executive Director of the Council informed the auditors that the MILRITE Council staff does not develop an annual or other long-range plan to provide overall direction and priorities to its operation and activities. To partially address this need, the Council has initiated a special annual strategic planning meeting. According to one Council member, economic development initiatives and implementation strategies are discussed at these meetings. The Council member indicated that he considers such meetings to be beneficial because ideas of the Council members are freely discussed and it is possible to prioritize the various initiatives which are proposed for Council action.

The strategic planning meeting process would appear to be a useful means of establishing the Council's agenda. However, formal plans and objectives for Council operations are not generated as a result of discussion and agreements which are reached among the Council members and staff. While the auditors recognize that the nature of an organization such as the MILRITE Council requires the Council's agenda to be flexible enough to accommodate arising issues that may require immediate attention (often on a month-to-month basis), long-range planning could facilitate improved overall direction of Council activities.

In addition to assisting in the prioritization of ongoing activities and issue development, the preparation of a formal planning document could also assist in the preparation and justification of the MILRITE Council's annual agency budget request. A stronger link between planning and the budget process could also be of assistance to the Council in dealing with a situation in which funds for both general Council operations and the ALMC program are being lapsed. As shown on Tables BKG-1 and BKG-3 in Section III of this report, lapses of operational appropriations

have ranged from about \$6,000 - \$91,000 per year (from about 3% - 46%) and lapses in the ALMC appropriation have been in the \$60,000 - \$80,000 range per year (or from about 8% - 17% of total).

The creation of such a plan and accompanying goals and objectives statements could also provide the Council with a standard against which its performance over the year could be measured.

The importance of planning to a government organization was described as follows in a publication of the United States General Accounting Office:

Forward planning is necessary to determine and justify needs for financial, property, and personnel resources and to carry out operations effectively, efficiently, and economically. Such planning must consider the duties and responsibilities imposed by law on an agency as well as the means of carrying them out. It also includes establishing specific attainable objectives.

IT IS RECOMMENDED THAT:

1. THE MILRITE COUNCIL DEVELOP A WRITTEN ANNUAL PLAN TO GUIDE ITS OPERATIONS. THIS DOCUMENT SHOULD REFLECT PLANNED ACTIVITIES TO MEET THE COUNCIL'S STATUTORY MANDATES, INCLUDING SPECIFIC PROJECTS AND ACTIVITIES IDENTIFIED THROUGH THE ANNUAL STRATEGIC PLANNING MEETINGS WHICH ARE HELD BY THE COUNCIL. THE COUNCIL'S PLANNING EFFORTS SHOULD INCLUDE ALSO AN IDENTIFICATION OF MAJOR INITIATIVES AND RESEARCH TO BE UNDERTAKEN DURING THE UPCOMING YEAR WITH ASSOCIATED GOALS, OBJECTIVES AND TARGET COMPLETION/IMPLEMENTATION DATES.

2. A COPY OF THE COUNCIL'S ANNUAL PLAN BE PROVIDED TO APPROPRIATE OFFICIALS OF THE ECONOMIC DEVELOPMENT PARTNERSHIP (DEPARTMENT OF COMMERCE) AND THE DEPARTMENT OF LABOR AND INDUSTRY FOR INFORMATION AND COORDINATIVE PURPOSES.

H. CLARIFICATION NEEDED REGARDING AVAILABILITY OF LEGAL SUPPORT SERVICES TO THE COUNCIL

The MILRITE Council does not have an attorney on its staff. At the time of the audit, legal services were being provided to the Council by the Office of Administration. Legal services utilized by the Council have been limited to contract review and the Council's administration of the Area Labor-Management Committee Matching Grant Program. However, there are matters other than contract review in the operation of the Council which may require legal assistance. Examples of such matters include advice regarding compliance with the Sunshine Act and review of Council documents for compliance with the regulatory review process. At the time of the audit, Council staff was uncertain as to how such services would be provided to the Council.

DISCUSSION:

As of May 1989, the MILRITE Council staff consisted of four positions, including an executive director, two executive policy specialists and an administrative assistant. Legal services relating to contract review were being provided by the Office of Administration by an attorney assigned to the Bureau of Labor Relations.

The MILRITE Act, Act 1978-109, as amended, defines the Council as an independent agency and authorizes it to retain counsel. The Council has not, however, retained its own counsel for legal services and Council staff was uncertain as to how additional legal services, i.e., beyond contract review, would be provided.

In the past, legal services have been provided to the Council by staff assigned to the Office of General Counsel, the Department of Commerce (on a cost-reimbursement basis) and, most recently, the Office of Administration. The services provided, however, have related solely to contract review.^{1/} Additionally, Council staff reported that they had received what they considered to be conflicting information regarding the provision of their legal services.

The auditors were informed that the only legal services which had been provided by the Office of Administration were

^{1/}The Office of Administration has received authority from the Office of General Counsel to conduct the Council's contract review and sign off rather than sending it to the Office of General Counsel.

those entailing the review of and sign-off on contracts. Examples of other types of services which might be needed include, for example, advice to the Council regarding compliance with the Sunshine Act,^{2/} and review of agency documents for compliance with the regulatory review process (please see Finding D for further discussion of this issue), including the review of agency documents for determination of the need for statements of policy to be issued by the Council.

While, it does not appear that there is a need within the ALMC Program for an attorney on a daily basis, the MILRITE Council staff person assigned primary responsibility for the administration of the ALMC grant program indicated the preference to have an attorney available on an as needed basis. This is based on the possibility that issues may arise regarding, for example, contract compliance which would require an attorney's services.

While noting that conflicting opinions had been expressed in the past, a representative of the Office of General Counsel (OGC) informed the auditors that it is the opinion of the OGC that "the General Assembly intended to establish the MILRITE Council as part of the Commonwealth government. Since the MILRITE Council is not a part of the legislative or judicial branches, and it is not identified as independent in the Commonwealth Attorneys Act, it is by definition an executive agency that receives its legal services from the Office of General Counsel." Therefore, for future legal needs, the Council should contact the Office of General Counsel.

IT IS RECOMMENDED THAT:

The MILRITE Council contact the Office of General Counsel for the purpose of obtaining formal clarification that the OGC is to provide legal services to the Council.

^{2/}According to the MILRITE Council's Executive Director, the Council does not usually meet in executive session. The Executive Director indicated, however, that an executive session was held by the Council in 1988.

I. COORDINATION OF MILRITE COUNCIL FUNCTIONS/ACTIVITIES WITH STATE OFFICE OF LABOR-MANAGEMENT COOPERATION NOT FORMALLY DEFINED

It appears that a potential for overlap and duplication of effort and activities exists between the MILRITE Council and the Office of Labor-Management Cooperation (OLMC) within the PA Department of Labor and Industry. The OLMC was created by administrative action in July 1988 and was not yet fully staffed or operational at the time of this audit. While the stated intent of the OLMC is to complement and enhance rather than duplicate MILRITE activities, no formal coordinating mechanisms or joint plan of action have been developed by the two offices to guard against the potential for unnecessary overlap and duplication. The potential for overlap appears particularly evident in activities related to promoting and publicizing labor-management cooperation efforts and the promotion and establishment of labor-management committees (LMCs).

DISCUSSION:

As discussed in other sections of this report (see primarily Finding A), most of the activities of the MILRITE Council can be classified into two general categories. These are economic development initiatives and activities related to the promotion of labor-management cooperation.

The focus of the Council's involvement in labor-management cooperation matters is the administration of the Area Labor-Management Committee (ALMC) Matching Grant Program. State grant monies administered by the MILRITE Council are intended to facilitate the creation and maintenance of area labor-management committees (ALMCs).

Area labor-management committees are voluntary coalitions of the community's labor and business leaders. According to the MILRITE Council's Executive Director:

[ALMCs] undertake a variety of activities designed to help improve the organizational effectiveness of local firms, the job satisfaction of their workers and to help the local economy. Their general philosophy is that poor labor-management relations should never be the reason behind the loss of market share or plant closing or the inability to attract new firms to the community.

Pennsylvania currently has fourteen area labor-management committees. (See map of ALMC locations in Finding C.)

The MILRITE Council is responsible for all aspects of the state-funded ALMC Program, from identification of geographic areas of the state which could potentially benefit from the

establishment of an ALMC to the provision of technical assistance and ongoing monitorship of ALMC performance.

Effective July 1, 1988, another office within state government was created which has responsibilities related to the promotion and development of LMCs within the Commonwealth. This organization, the Office of Labor-Management Cooperation (OLMC), was established by administrative action within the PA Department of Labor and Industry in response to a recommendation made by the Labor-Management Relations Task Force report to the Economic Development Partnership. While the Task Force recognized and expressed continued support of the MILRITE Council, a need was also expressed to involve the Department of Labor and Industry to a greater degree in promoting labor-management cooperation.

The stated intent of the OLMC is:

To improve the substance and image of labor-management relations in Pennsylvania through education, research, marketing, and the provision of technical assistance to organizations that want to establish area and in-plant cooperative processes to improve relations and organizational effectiveness.

For fiscal year 1989-90, the OLMC requested funding for the following initiatives:

- To create an industry-specific development plan at the regional level jointly with the Department of Commerce that integrates work innovation with other competitive factors.
- To form and support industry-wide labor-management committees to strengthen the competitive position of specific industries.
- To advance the work of the Schools Cooperation Committee.
- To expand a database containing organizations that are innovators in labor-management cooperation.
- To conduct case studies that will form the basis of a major marketing campaign.

An examination of the functions and responsibilities of the MILRITE Council and the OLMC indicates that, while differing in a number of respects, there are certain areas and activities which appear to be very similar in nature and intent.

One difference between the MILRITE Council and the OLMC is that the OLMC is reportedly to focus its efforts on developing regional or statewide labor-management committees (LMCs) for specific industry groups, while the MILRITE Council focus is to

be on LMC development on a geographic basis across multiple industry segments. Also, the OLMC is specifically charged to work toward improving labor-management cooperation within agencies of state government (initially within the Department of Labor and Industry). The MILRITE Council is not involved in labor-management relations at the state agency level.

While such distinctions exist, both agencies are nevertheless to be involved in promoting the establishment and operation of LMCs and conceivably could be simultaneously operating within the same areas of the state. Unless steps are taken to coordinate contacts and related LMC start-up efforts, such dual involvement could result in redundant activities and potential confusion among persons in business, labor, and economic development organizations.

OLMC functional statements note that the Office can function to establish LMCs in geographic areas not currently served by a MILRITE Council-funded ALMC. Coordination would again appear to be needed in that there are indications that the MILRITE Council has an interest in renewing efforts to expand into areas that are not presently covered by the ALMC program.

Conflicts might also arise because LMCs created via the OLMC initiative could conceivably be eligible to apply for state ALMC matching funds administered by the MILRITE Council.¹⁷ If this were to occur, competition might develop between existing ALMCs and newly formed labor management committees. To prevent this competition from becoming unhealthy, it would appear that close cooperation between MILRITE and OLMC staff would be necessary.

Likewise, both the MILRITE Council and the OLMC provide consultation and technical assistance in encouraging labor-management cooperation. Both are also involved in efforts to compile and maintain data pertinent to LMC developments and to publicize and promote state-level efforts to improve labor-management relations.

As stated earlier in this section, the OLMC has plans to undertake a "major marketing campaign" (including newsletters, brochures, and case studies) and to expand a database containing various information on labor-management cooperation. The MILRITE Council has also been involved in activities in each of these areas.

Similarities also exist in other areas. For example, the OLMC is to work closely with the Schools Cooperation Committee

¹⁷The OLMC does not currently administer any grant monies, although "seed money" for OLMC committees is included in the FY 1989-90 Executive Budget Request.

to promote labor-management cooperation in public schools.^{2/} The MILRITE Council also has involvement with Pennsylvania schools in that certain ALMCs which receive funding from the Council (e.g., those in Beaver and Mercer counties) conduct labor-management cooperation activities with school districts in their regions. In another area, both report past and/or planned involvement in the organization of statewide and regional conferences and seminars on labor-management cooperation issues.

Descriptive program material concerning the OLMC states that the Office is to "enhance and not duplicate the activities of the MILRITE Council" and that "the Office would be expected to work closely with MILRITE." The Secretary of the Department of Labor and Industry indicated at a meeting of the MILRITE Council that his Department shares the desire to increase the number of ALMCs and wants to act as a partner with the MILRITE Council in that effort.

In discussions with the Director of the Department's Office of Policy, Planning and Evaluation, the point was made that the proposed efforts of the OLMC will not duplicate those of the MILRITE Council but will instead be doubling existing attempts to establish labor-management committees and promote the concept of labor-management cooperation. This official indicated, however, that it would be important to coordinate the activities of the two agencies in the interest of efficiently using resources devoted to promoting labor-management cooperation.

The Director of the OLMC stated that, while no written agreement currently exists between the OLMC and the MILRITE Council regarding areas of responsibility and the coordination of various activities, his office is frequently in contact with staff of the MILRITE Council for the purpose of sharing information and planning activities. The Executive Director of the MILRITE Council also reported that current coordination and communication occurs through contacts with the OLMC Director but that the nature of the relationship is such that this interaction occurs on an informal basis.

^{2/}The current Administration established a "Schools Cooperation Committee" composed of leaders of organizations representing the public schools in the Commonwealth. The Committee is intended to provide "a forum where the parties convene to identify issues of common interest and to seek a joint resolution of these issues through a labor-management cooperation mechanism" (i.e., local school district cooperation committees).

IT IS RECOMMENDED THAT:

1. The MILRITE Council (through its Executive Director) initiate meetings with pertinent officials of the PA Department of Labor and Industry, including the Director of the Office of Labor Management Cooperation (OLMC), for the purpose of defining the working relationship which is to exist between the MILRITE Council staff and the OLMC. It is suggested that the relationship between the two offices be formalized in writing and that particular attention be given to outlining the respective roles and responsibilities in regard to the promotion, establishment, and maintenance of labor-management committees.
2. The MILRITE Council (through its Executive Director) explore the feasibility of a joint approach to the "major media campaign" reportedly planned by the OLMC to publicize state-level efforts to improving labor-management cooperation. At a minimum, the Council should work with the OLMC to produce a single, combined newsletter. (See also Finding J.)
3. The MILRITE Council also seek to coordinate other similar activities with the OLMC, including for example the holding of conferences and seminars and information collection and database development efforts.
4. The MILRITE Council annually provide a copy of its strategic plan (the development of which is recommended in Finding G) to the OLMC for information and coordination purposes. For similar reasons, the Council staff should request and review annual budgetary and other planning materials relevant to the OLMC.

J. NEED TO ENHANCE MILRITE COUNCIL PUBLIC INFORMATION EFFORTS

It does not appear that the MILRITE Council is presently giving sufficient attention to informing interested parties of its activities and initiatives. Except for a statutorily required annual report to the Legislature on the Area Labor-Management Committee (ALMC) Matching Grant Program, the Council has not recently been involved in the preparation of informational materials on the work of the Council. As of May 1989, the MILRITE Council was, however, planning to resume publication of a periodic newsletter. Because there has been a perception that a poor labor/management climate exists in Pennsylvania, it would appear to be especially important that Council activities and initiatives (particularly in the labor-management cooperation area) be effectively communicated to the business and labor communities and to economic development organizations.

DISCUSSION:

In recent years, the MILRITE Council has maintained a relatively low profile in terms of publicizing Council initiatives and activities. It appears that there is both a need for, and potential benefit in, expanding Council efforts in this area.

From 1985 through 1987, the MILRITE Council financed a newsletter prepared by the Center for Quality of Working Life of the Pennsylvania State University. This newsletter, entitled "QWL Report," focused on work place initiatives intended to improve productivity and news on ALMC events and activities. It was distributed on a bimonthly basis to individuals in the business, labor, academic and governmental fields. Since the discontinuation of the newsletter, no regular publication prepared by MILRITE staff serves to regularly inform interested parties (e.g., business and labor leaders and individuals and organizations within the economic development community) of Council activities or initiatives.

Although no annual report on the full range of Council operations is prepared, the Council does produce an annual report on the Area Labor-Management Committee Program which it administers. This report is mandated in law and its distribution is limited primarily to selected members of the General Assembly.

The MILRITE Council also prepared a publication entitled "Partners in Progress - The Pennsylvania MILRITE Council Three Year Report" in 1983. This report presented the Council's accomplishments in such areas as state development policies and programs, transportation, energy, and labor-management relations as well as a discussion of the Pennsylvania economy. The report has not been updated since its preparation in 1983 and no

similar publication profiling the activities of the Council has been developed or is currently planned.

While the MILRITE Council should exercise care so as not to be perceived as being self-promoting, there would appear to be advantages to expanded public information activities by the Council. For example, the MILRITE Council's administrative assistant indicated she on occasion receives inquiries from individuals in the business, labor and education communities regarding the nature and functions of the Council. The Council, however, does not have current publications which provide general information about its activities and purposes.

An observation made by the Executive Director of the PA Economic Development Association further illustrates the need for improved visibility of the Council. This individual reported that many individuals in the economic development community are unaware of the existence of the MILRITE Council, and he expressed the opinion that enhanced exposure of the Council's activities would be beneficial both to the Council and to the economic development community.

The importance of publicizing the state-level commitment to economic development and enhancement of the labor-management climate in the State is illustrated by efforts of the PA Department of Commerce to publicize the Commonwealth's business climate and available programs aimed at assisting employers.

On this subject, the Director of the Bureau of Economic Development within the Department of Commerce's Office of Communications stated that publicity efforts profiling the Commonwealth's willingness to work cooperatively with employers is important to the attraction and retention of jobs in the state. Among the areas being publicized by the Department of Commerce in its promotional material is that good labor relations in the State are bringing companies to Pennsylvania.

The MILRITE Council Executive Director informed the auditors that the Council has approved the re-institution of a newsletter which will cover both labor-management and economic development issues. However, plans are currently on hold pending the acquisition of adequate computer equipment necessary for the preparation of the newsletter and sufficient funding.

As a related matter, the auditors also observed that the FY 1989-90 budget request for the Office of Labor-Management Cooperation (OLMC) within the Department of Labor and Industry indicates plans for a "major marketing campaign" involving the use of case studies, newsletters and brochures. The request states that steps are to be taken to assure that the ". . . successes we achieve [in promoting improvements in the relationship between labor and management] become well known within the business, labor and economic development communities." (The need

for the MILRITE Council to coordinate its activities with the OLMC is discussed in Finding I.)

IT IS RECOMMENDED THAT:

1. The Council proceed with its plan to reinstitute publication of a periodic newsletter on its ALMC activities as well as economic development initiatives. As discussed in Finding I, the Council should consult with staff of the Office of Labor Management Cooperation in order to explore the feasibility and possible cost-benefit of issuing a single combined newsletter.
2. If the Council resumes publication and distribution of a periodic newsletter or other public information document, that a statement soliciting input from the business, labor and economic development communities as well as from the general public be included as a permanent feature of the publication. This statement should generally define the mission of the MILRITE Council and should solicit comments, ideas and suggestions regarding the Council's ALMC grant program and/or other matters related to economic development and labor-management cooperation issues. (See also Finding B concerning public input and participation in MILRITE operations.)
3. The Council consider expanding the format of its annual ALMC Program report to include the full range of Council activities and that distribution of this report be expanded to include interested individuals and organizations outside the Legislature.
4. If not done on an annual basis as suggested in #3 above, the Council consider periodically issuing a multi-year (e.g., three year) progress report as was done in 1983.
5. The Council collaborate with the Office of Labor Management Cooperation in the Office's plan to prepare case studies on positive labor-management cooperation in Pennsylvania that will reportedly form the basis of a "major marketing campaign." Specific case examples of labor-management cooperation initiatives (especially involving the ALMC Matching Grant Program) may be very pertinent to this effort and could serve to increase the visibility of MILRITE activities.
6. The Council also consider working with the Department of Commerce's Office of Communications for the purpose of providing information on successful economic development and labor-management cooperation initiatives. Such information would appear to be appropriate for inclusion in Department of Commerce promotional materials aimed at attracting employers to the State.

III. BACKGROUND DESCRIPTIVE INFORMATION ABOUT THE PENNSYLVANIA MILRITE COUNCIL

A. Legal Background

The MILRITE Council is a quasi-public, independent, economic development agency. The Council was established by Act 1978-109, 73 P.S. §391.1 et seq. (the "MILRITE Act"), to bring together "the expertise and influence of labor and business with government policy makers." The acronym "MILRITE" is formed from "Make Industry and Labor Right in Today's Economy."

The Council is directed in its enabling legislation to "act as a catalytic agent" to reduce the fragmentation of Pennsylvania's resources and to "establish the linkages necessary for a successful planning and economic development delivery system" for the Commonwealth. The legislative purpose section of the enabling legislation states that the Council "shall have the capability to create strategy and implementing machinery to maintain Pennsylvania as a leading industrial state." (The specific statutory powers and duties of the Council are set forth in part C of this section.)

Under Act 1978-109, the Council received a \$200,000 appropriation and was scheduled for termination in 1984, unless reestablished by the General Assembly. Act 1984-77, amending Act 1978-109, subsequently extended the life of the Council to June 30, 1990, stipulating that "evaluation, review, termination, reestablishment and continuation of the agency" was to be conducted pursuant to the provisions of the Sunset Act (Act 1981-142).

Act 1984-77 also provided for the establishment and operation of an "area labor-management committee" program. As defined in the Act, area labor-management committees (ALMCs) are organizations formed by and composed of multiple employers of diverse industries and multiple labor organizations operating within or focusing upon city, county or contiguous multi-county jurisdictions for the purposes of (1) improving communications between labor and management; (2) providing a forum to discuss and investigate ways to further the goals of increased quality of work life and increased productivity; (3) discovering ways to improve organizational effectiveness; (4) finding solutions to problems of mutual concern to both labor and management not susceptible to resolution within the collective bargaining structure; and (5) enhancing economic development within the jurisdiction through labor management cooperation.

Act 1984-77 also required the Council to carry out specific activities relative to the ALMC Program. These include, for example, the solicitation, review and evaluation of proposals from area labor-management committees for matching grant assis-

tance. (The Council's specific duties in this area are defined in part C of this section.) The Council was also directed to designate to the Department of Commerce the area labor management committees entitled to receive ALMC matching grants. The sum of \$500,000 was appropriated (via Act 1984-77) to the Department of Commerce for use in carrying out the ALMC provisions of the Act.

Act 1984-77 further required the Council to annually report on the accomplishments and specific expenditures of each area labor-management committee to the chairmen and minority chairmen of the House and Senate Appropriations Committees, the chairman and minority chairman of the Senate Labor and Industry Committee, and the chairman and minority chairman of the House Labor Relations Committee.

Act 1986-104 amended Act 1978-109 (as amended), and assigned additional duties to the Council. Specifically, this amendment required the Council to (1) undertake research, including the hiring of consultants, into the cost of doing business in the Commonwealth including recommendations for changes and estimates of future costs, with comparative analysis of both intrastate and interstate costs and (2) undertake research, including the hiring of consultants, to determine if the Commonwealth can more effectively use its mediation services to discourage and shorten the duration of labor management disputes.

Act 1986-104 also required that grants made to the area labor management committees by the Council be matched with as much non-state funds as possible, and used for the establishment of new area labor management committees and to ensure the continued existence and expansion of established committees.

Most recently, Act 1987-31 amended Act 1978-109, as amended, to authorize the MILRITE Council to directly make grants to the area labor management committees.

B. Composition

By law, 73 P.S. §391.5, the MILRITE Council consists of 15 members appointed by the Governor. They include one member selected by the Governor, two members selected by the President Pro Tempore of the Senate, two members selected by the Speaker of the House, and five members each from lists provided by the Pennsylvania AFL-CIO and the Pennsylvania Chamber of Business and Industry. (Members of the Council are to be selected from "outstanding leaders in business, and labor who are the policy-making and policy-implementing executives of their respective unions and companies.") The two members selected by the President Pro Tempore of the Senate and the two members selected by the Speaker of the House are required to be members of the majority and minority parties in each body. Members serve six-year

terms or until a successor is appointed and qualified, and are eligible for unlimited reappointment.

The Council elects one of the nongovernmental members as Chairman and elects a member to serve as alternate chairman to preside in the absence of the regular Chairman. The Chairman and Vice Chairman serve three-year terms. Candidates for Chairman and Vice Chairman are limited to members representing the labor and business groups, the Chairman to be of one group and the Vice Chairman to be of the other group.

Council members receive no compensation but are entitled to receive an allowance for expenses incurred in the performance of their duties. An action or order of the Council requires eight affirmative votes.

C. Powers and Duties

The primary mission of the PA MILRITE Council is to foster economic development in the Commonwealth through the cooperative efforts of business, labor and government. The specific powers and duties which are set forth in law, 73 P.S. §391.6, for the Council are as follows:

1. Undertake research and investigation relating to the promotion of the industrial potential of Pennsylvania.
2. Create plans for economic revitalization of Commonwealth industries.
3. Recommend implementation procedures for all plans, maximizing existing mechanisms with proven ability to accomplish tasks, linkages among current programs, business, labor and government insights into practicality and workability of suggested approaches.
4. Encourage and stimulate cooperation and coordination among Federal, State and local programs.
5. Recommend structural changes and updating of economic delivery tools of State Government to the Governor and General Assembly.
6. Draw upon labor, management and government participants to promulgate plans and implement procedures.
7. Recommend organizational structure and participants particularly suited to local needs and conditions.
8. Undertake research, including the hiring of consultants, into the cost of doing business in this Commonwealth, including recommendations for changes and estimates of future

costs, with comparative analysis of both intrastate and interstate costs.

9. Undertake research, including the hiring of consultants, to determine if the Commonwealth can more effectively use its mediation services to discourage and shorten the duration of labor management disputes.

The Council also has the power to:

- Enter into contracts.
- Appoint, fix compensation of, and prescribe duties of an executive director, secretary and such other personnel as the council deems necessary to accomplish the purposes of this act.
- Retain counsel.
- Accept grants from public and private sources.
- Borrow money and issue obligations, secured or unsecured, to acquire, hold, own and pledge or dispose of funds, money, securities and other property, real or personal, tangible or intangible to the extent necessary to carry out the purposes of this act.
- Adopt and promulgate rules and regulations necessary to accomplish the provisions of this act.

The MILRITE Council also has specific duties and responsibilities related to the administration of the Area Labor Management Committee (ALMC) Program. These are set forth in 73 P.S. §391.6a. and are as follows:

1. Establish standards and criteria for the selection of area labor management committees to be assisted by grants.
2. Solicit proposals from area labor management committees and review and evaluate the relative merits of such proposals and select those proposals for funding which best meet the standards and criteria established by the Council.
3. Designate area labor management committees which are entitled to receive grants.
4. Report annually to the Senate and House Appropriations Committee, the Senate Labor and Industry Committee, and the House Labor Relations Committee on the accomplishments and specific expenditures (e.g., salaries, rent, contracts, and other operational costs) of each area labor management committee.

D. Staffing

The MILRITE Council has a staff of four persons who are headquartered in Harrisburg. As shown on Exhibit BKG-A, the staff complement includes an executive director, two executive policy specialists and one administrative assistant.

The "Sunset Pre-Audit Survey Questionnaire" completed by the MILRITE Council indicated that staff time and activities are divided fifty percent for economic development issues and fifty percent for issues related to administration of the area labor management committee program. The Council does not have an in-house fiscal specialist or attorney. Fiscal and legal services are obtained from the Office of Administration.

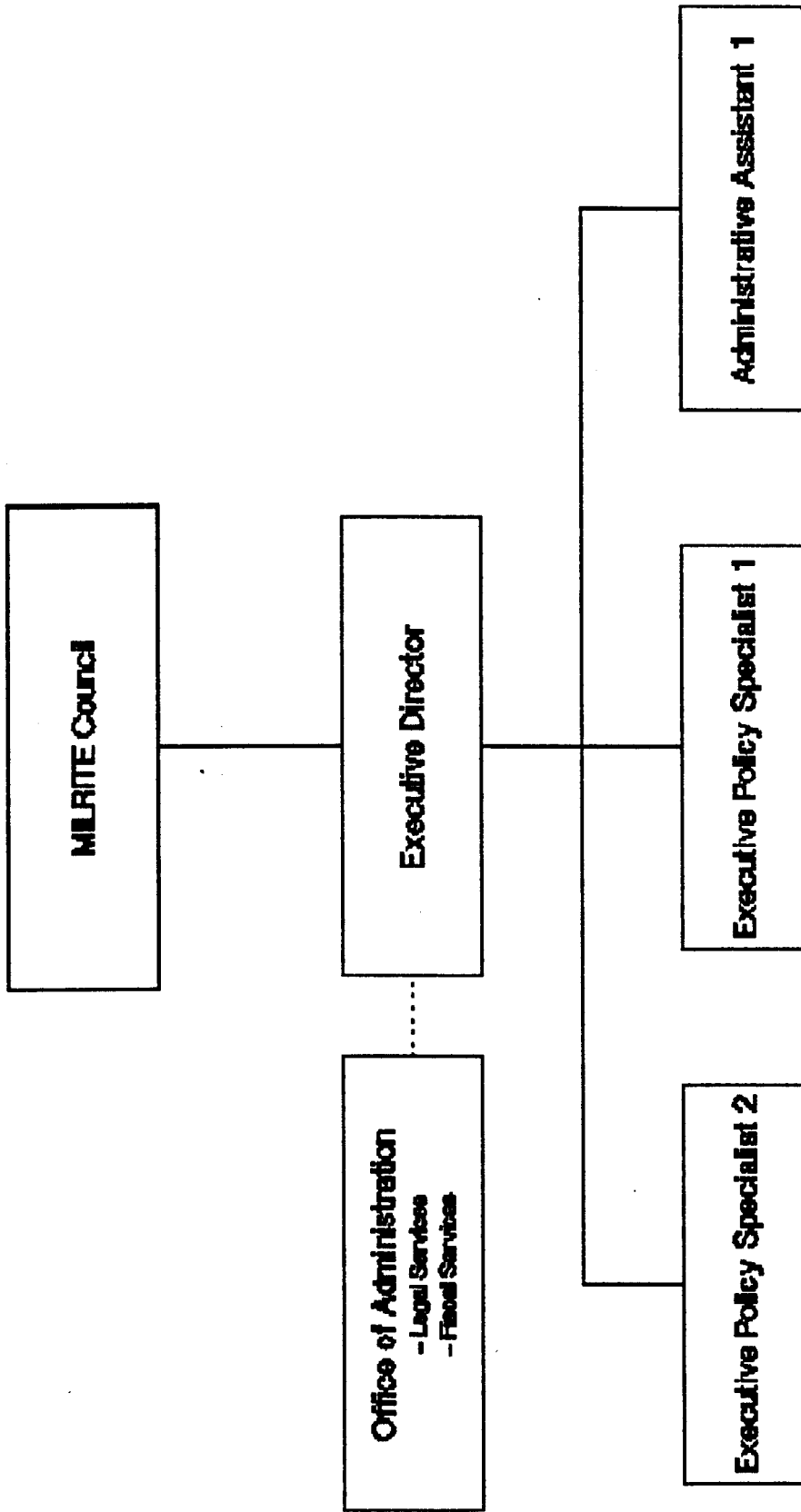
E. Fiscal Information

The operations of the MILRITE Council are funded from an appropriation from the State General Fund. As shown on Table BKG-1, the FY 1987-88 amount of this appropriation was \$203,000^{1/} of which \$181,496 was expended. A minor object breakdown of FY 1987-88 expenditures is presented on Table BKG-2.

The MILRITE Council is also responsible for administration of a State General Fund appropriation for the area labor management committee (ALMC) program. In FY 1987-88, the amount of this appropriation was \$727,000 and \$825,000 in FY 1988-89 (see Table BKG-3).

^{1/}The fiscal year 1988-89 MILRITE Council operating appropriation was \$228,000; the amount requested in the Governor's FY 1989-90 budget for Council operations was \$257,000.

PA MILRITE COUNCIL ORGANIZATION CHART



Source: Developed by the LB&FC staff.

TABLE BKG-1

State General Fund Appropriations
to the PA MILRITE Council and Amounts Expended
and Lapsed, FY 1980-81 Through FY 1989-90 (Budget)

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Lapses</u>	<u>Percent of Appropriation Lapsed</u>
1980-81	\$200,000	\$108,610	\$91,390	45.7%
1981-82	203,940	197,555	6,385	3.1
1982-83	204,000	197,729	6,271	3.1
1983-84	208,000	161,814	46,186	22.2
1984-85	216,000	205,351	10,649	4.9
1985-86	211,000	168,389	42,611	20.2
1986-87	397,000 ^{a/}	363,361	33,639	8.5
1987-88	203,000	181,496	21,504	10.6
1988-89	228,000	175,315 ^{b/}	c/	--
1989-90 (Budget)	257,000 ^{d/}	--	--	--

a/According to the MILRITE Council Executive Director the Increase in the FY 1986-87 appropriation was due to the provision of an additional \$200,000 for grants to universities to conduct labor study activities. These funds were not augmentations to the operational budget of the MILRITE Council however the Council acted as a conduit through which these funds were passed to the eventual grant recipients. Grant monies provided by these supplemental funds were reportedly used by their recipients to conduct basic research and prepare informational pamphlets relative to Commonwealth labor issues.

b/Represents total expenditures and commitments as of 4/28/89.

c/Appropriation balance available was \$52,685 as of 4/28/89.

d/As presented in the FY 1989-90 Governor's Executive Budget.

Source: Developed by the LB&FC staff from "Status of Appropriations Reports" prepared by the Office of the Budget, the FY 1989-90 Governor's Executive Budget, and information provided by the MILRITE Council staff.

TABLE BKG-2

Breakdown of FY 1987-88
MILRITE Council Expenditures by Minor Object

<u>Object of Expenditure</u>	<u>Amount</u>
Salaries	\$ 88,146
Consultant Fees	14,078
Retirement Contribution	11,369
Travel	11,187
Social Security Contribution	6,560
Printing	6,552
Postage	4,602
Employee Hospitalization	4,441
Contract Maintenance Service Office Equipment	4,278
Out-Service Training	3,480
Furniture and Furnishings	2,856
Annual Hospitalization Insurance	2,623
Office Supplies	2,369
Conference Expenses	2,113
Employee Health and Welfare Fund (State Share)	2,090
State Workman Insurance	1,992
Subscriptions	1,651
Membership Dues	1,530
Conference Registrations	1,478
Rent of Real Estate	1,215
Equipment and Machinery	1,080
Higher Class Pay	818
PANET	811
Educational Books	760
Contracted Personnel Services	705
Phone/Telegraph Monthly Costs	646
Specialized Services	621
Phone/Telegraph Equipment	418
Long Distance Tolls	293
Contracted Repairs	245
Employee Group Life Insurance	234
Freight Charges	205
Contract Maintenance Service Telephone Equipment	40
Insurance-Surety, Fidelity	11
Interest Penalties	5
Total	<u>\$181,502^{a/}</u>

a/This total differs slightly from the total expenditures shown on Table BKG-1 due to variations in reporting.

Source: Developed by LB&FC staff from ICS Reports XABC6410 (6/30/88) and XABC643 (9/30/88), the Office of Administration, the "Status of Appropriations Report" prepared by the Office of the Budget, and from information obtained from the MILRITE Council staff.

TABLE BKG-3

State General Fund Appropriations for
 Area Labor-Management Committees and Amounts
Expended and Lapsed, FY 1984-85 Through FY 1989-90 (Budget)

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Lapses</u>	<u>Percent of Appropriation Lapsed</u>
1984-85 ^{a/}	\$500,000	\$394,198	f/	f/
1985-86 ^{a/}	500,000	416,649	\$83,351	16.7%
1986-87 ^{a/}	500,000	444,564	55,436	11.1
1987-88	727,000	664,001	60,999 ^{b/}	8.4
1988-89	825,000	744,557 ^{c/}	d/	--
1989-90 (Budget)	825,000 ^{e/}	--	--	--

a/During these fiscal years ALMC grant monies were appropriated to and disbursed through the PA Department of Commerce. All other aspects of the program (e.g., proposal solicitation, evaluation and award of grants) were administered by the MILRITE Council.

b/Balance remaining of \$2,000 as of April 28, 1989.

c/Represents total expenditures and commitments as of April 28, 1989.

d/Appropriation balance available was \$80,443 as of April 28, 1989.

e/As presented in the FY 1989-90 Governor's Executive Budget.

f/Information on the amount of the ALMC appropriation which was lapsed in this year was not available in fiscal reports available to the auditors. Neither the Department of Commerce nor the staff of the MILRITE Council had this information in their files.

Source: Developed by the LB&FC staff from "Status of Appropriation Reports" prepared by the Office of the Budget, the FY 1989-90 Governor's Executive Budget, and information provided by the MILRITE Council staff.

IV. DEFINITION OF THE AUDIT PROCESS AND METHODOLOGY

A. Description of General Audit Methodology

Interest in the accountability of government spending has increased substantially in recent years. In response to this interest by public officials, legislators and private citizens, much growth has taken place in the academic community, generally under the heading of evaluation research, and in the professional auditing community, under the title of performance auditing. The auditing profession has identified a number of specific requirements and standards that define methods and standards in the performance audit process. These characteristics of an acceptable performance audit process are widely accepted and are followed by the U.S. General Accounting Office and various state audit organizations. Some of the more important requirements and standards are:

- All audit findings must be fully supported by an objective analysis of all pertinent facts.
- All auditors and their supervisors must be totally independent from the agency being audited.
- The performance audit report shall include information on any impairments encountered during the audit, such as denial of access to information.
- The audit agency should obtain the views of the audited agency on the audit findings and recommendations prior to the audit's public release.

It is widely recognized that a performance audit cannot address in detail all problem areas discovered during the audit process. The accepted practice is to identify in the early stages of the audit the most important problems and to structure the audit so that such problems are addressed by priority. As a result, frequently, some issues are not addressed in the audit simply because other issues are deemed of greater importance.

B. Explanation of Efficiency and Effectiveness

A sunset performance audit is aimed at an evaluation of several aspects of the agency being audited. Two of the more important aspects are the effectiveness of the agency in meeting its own objectives and the program goals intended by the Legislature and the efficiency with which the agency utilizes its resources.

Effectiveness

This term refers to the relationship between the agency's actual results and the desired results for which

the agency was established. The measurement of effectiveness requires that the agency being audited has identified its goals and objectives and has a method for measuring them, or that such definition and measurement can be accomplished by the agency conducting the audit.

Efficiency

In performance auditing, this term has a specific definition; it is the ratio of agency input (e.g., dollars expended or personnel used) to agency output (e.g., products or services). It is usually expressed in terms of activities per dollar or vice versa. Generally, judgement on the efficiency ratio can be shown in comparison with the efficiency ratio of similar agencies or when an alternative, less expensive method that will yield acceptable output can be identified.

C. Description of the Specific Methodology Used in the Audit

The information presented in this audit report has been collected from a variety of sources. Certain preliminary information was obtained via an LB&FC pre-audit survey questionnaire which was completed by the Executive Director of the Pennsylvania MILRITE Council early in the audit process. Additionally, questionnaires were mailed by the audit staff to each of the members of the Council as well as to the executive directors of the Commonwealth's fourteen state-funded Area Labor-Management Committees. Reviews of relevant statutes, especially the MILRITE Council's enabling legislation (Act 1978-109, as amended), was another major audit activity. LB&FC staff also met with several MILRITE Council members and interviews and follow-up contacts regarding specific issues were conducted by the auditors with the MILRITE Council Executive Director and staff, representatives of the PA Business Roundtable, the PA Chamber of Business and Industry, the PA AFL-CIO, the PA Economic Development Association and the PA Economy League.

The auditors also examined grant proposals and audit reports submitted to the MILRITE Council by the various Area Labor Management-Committees (ALMCs) as well as the ALMC program annual reports for the purposes of identifying achievements and measuring the comparative activity levels of the individual Committees. The auditors also participated in a meeting of the Area Labor-Management Committee executive directors held in Pittsburgh in May 1989, met with several ALMC Directors, and attended several monthly meetings of the MILRITE Council. Minutes of past MILRITE Council meetings were also reviewed to familiarize the audit staff with past Council activities and initiatives.

Contact was also made with legislative staff to pertinent standing committees of the General Assembly and with Executive branch officials involved in state economic development and labor-man-

agement cooperation efforts including, for example, the Deputy Secretary for Development, the Director of the Bureau of Economic Policy, Analysis and Development, the Associate Director of the PA Economic Development Partnership Board, the Director of the Bureau of Economic Research and Legislative Analysis, and the Director of the Office of Communications' Bureau of Economic Development within the PA Department of Commerce. Contact was also made by LB&FC staff with the Director of the PA Department of Labor and Industry's Office of Labor-Management Cooperation and the Director of the Bureau of Mediation. The auditors also met with staff persons of various state agencies that are responsible for the administration of grant monies, the Chief of the Office of Administration's Division of Fiscal and Office Services, and a former Executive Director of the MILRITE Council who is presently the Director of the Office of Policy Planning and Evaluation of the Department of Labor and Industry.

Finally, the auditors contacted officials of the U.S. Department of Labor's Bureau of Labor-Management Relations and Cooperative Programs and the Federal Mediation and Conciliation Service. Associations of organizations and agencies involved in labor-management cooperation programs were also contacted including the Consortium of Labor-Management Initiatives and the National Association of Area Labor-Management Committees, in the interest of developing certain comparative information. The LB&FC staff also met with the team of Harvard University researchers currently conducting a study of statewide policies and programs in various states intended to foster labor-management cooperation.

D. Explanation of How the Seven Sunset Criteria were Applied in this Audit

This sunset audit was planned so as to address the seven sunset criteria specified in Act 1981-142. Operational definitions of these seven criteria were developed and served as the framework within which the audit was conducted. Below is a brief description of how each of the sunset criteria was applied to the audit.

1. Whether termination would significantly harm or endanger the public health, safety or welfare.

This criterion was addressed through a review of the legally mandated functions of the Pennsylvania MILRITE Council and a determination of whether the termination of these functions would pose a serious threat to the public.

2. Whether there is an overlap or duplication by other agencies that permit the termination of the agency.

This criterion asks whether or not any other entity, such as the federal government or other state agency, currently performs the same major functions, either

directly or indirectly, as does the MILRITE Council. If sufficient overlap does exist, then termination of the Council could conceivably be possible without significant harm resulting to the public.

3. Whether there is a more economical way of accomplishing the objectives of the agency.

The key information related to this criterion is whether the overall cost of the operation of the MILRITE Council can be reduced while still enabling the agency to accomplish its objectives. The criterion also asks whether some other entity, governmental or private, can accomplish the same results at a lesser cost.

4. Whether there is a demonstrated need, based on service to the public, for the continuing existence of the agency.

This criterion requires specific examples of MILRITE Council activities that have benefited the public and, particularly, the public health, safety or welfare. There may be overlap here with criterion #1 in that one implied question is "are the benefits that the MILRITE Council was originally established to provide at the time of the creation of the agency still necessary?"

5. Whether the operation of the agency has been in the public interest.

A key word in this criterion is "operation," indicating that it deals with the MILRITE Council's activities. This criterion addresses both the effectiveness with which the Council carries out its functions and whether the Council has held the public interest above any possible self-serving interest of the individual Council members.

6. Whether the agency has encouraged public participation in the making of its rules and decisions, or whether the agency has permitted participation solely by the persons it regulates.

The specific question addressed by this criterion is "to what extent have the MILRITE Council's decisions been open to, and influenced by, the public point-of-view?"

7. Whether there is an alternate, less restrictive method of providing the same services to the public.

This criterion asks whether a less restrictive means of regulation may adequately protect the public. As applied to the MILRITE Council, an aspect of this criterion is whether an alternate method of developing economic development initiatives and/or distributing ALMC grant program monies could be developed which would be less restrictive while accomplishing the same ends and providing the same services.

V. APPENDICES

APPENDIX A

Membership of PA MILRITE Council

APPENDIX A

Membership of the Pennsylvania MILRITE Council

William Lehr, Jr.
Chairman
Sr. Vice President-Secretary
Hershey Foods Corporation

Robert T. McIntyre
Vice Chairman
Executive Vice Pres.
Pennsylvania AFL-CIO

Clifford L. Jones
President
PA Chamber of Business
& Industry

William M. George
Secretary-Treasurer
United Steelworkers
of America

Joseph McEwen
Chairman of the Board
Modern Group Limited

John L. Weaver
Former President
Local 5, International
Brotherhood of
Electrical Workers

Richard E. Meyers
Executive Vice President
Meridian Bancorp, Inc.

Herman Wooden
Secretary-Treasurer/
Director
United Food and
Commercial Workers
Local 1776

Bradley H. Stone
President
Castle Rubber Company

Lois Hartel
District Manager
Hazelton-Wyoming Valley
District Council

Senator James J. Rhoades
29th District
Schuylkill, Carbon and
Monroe Counties

Rep. Robert E. Belfanti
107th District
Columbia, Montour and
Northumberland Counties

Senator William J. Stewart
35th District
Cambria, Clearfield and
Somerset Counties

Rep. Richard A. Geist
79th District
Blair County

Honorable Harris L. Wofford
Secretary
PA Department of Labor & Industry

Source: Developed by LB&FC staff from information provided by
the Pennsylvania MILRITE Council as of May 1989.

APPENDIX B

List of PA MILRITE Council Publications and Reports

APPENDIX B

Pennsylvania MILRITE Council Publications and Reports

- Abramowitz, Adina and Polzin, Michael, "A Union Member's Guide to Corporate Finances: A Manual For Trade Unionists", 1987.
- Berger, Carlton R., "An Evaluation of the Pennsylvania Bureau of Mediation," 1987.
- Coy, Robert W., "Human and R&D Resources for Advanced Technology in Pennsylvania," 1983.
- Coy, Robert W., "Pennsylvania Public and Private Pension Funds for Economic Development," 1982.
- Coy, Robert W., "The Pennsylvania Economy: Past, Present and Future," 1984.
- Coy, Robert W., "Three Views of the Future of Conrail: Conrail, United States Railway Association, and U.S. Department of Transportation," 1981.
- Coy, Robert W., "The Potential for Worksharing Unemployment Compensation in Pennsylvania," 1983.
- Garraty, Robert G., "Linking Labor-Management Cooperation Efforts with State and Local Economic Development Strategies," 1988.
- Garraty, Robert G., "The Use of Mediation in the Solving of Public Policy Disputes: A Review Essay", 1988.
- Hansen, Derek, "The Pennsylvania Loan Loss Reserve Program: A Proposal for Expanding Bank Lending to Small Business in Pennsylvania to Create Jobs and Productive Growth," 1982.
- Hogler, Raymond L. (Editor), "Substance Abuse in the Workforce: Readings in the Labor-Management Issues," 1987.
- Juravich, Thomas and Howard Harris, "Pennsylvania Employee Involvement Data Base: Final Report to the MILRITE Council," 1989.
- Juravich, Thomas and Howard Harris, "A Union Members Guide to Employee Involvement", 1987.
- Keidel, Robert, "How to Form an In-Plant Labor-Management Committee," 1981.
- Litvak, Larry and Michael Barker, "Pension Funds and Economic Development: How Public and Private Pension Funds Can Contribute to the Pennsylvania Economy," 1983.
- Pennsylvania MILRITE Council, "Business and Industrial Development Corporations: Unleashing Private Capital for Business Expansion and Job Creation in Pennsylvania", 1988.

Source: PA MILRITE Council

APPENDIX B (Continued)

Pennsylvania MILRITE Council, "Pennsylvania Private Placement Separate Account," 1983.

Pennsylvania MILRITE Council, "The Area Labor-Management Committee Grant Program Annual Report For the Period July 1, 1986 to June 30, 1987", 1988.

Pennsylvania MILRITE Council, "The Area Labor-Management Committee Grant Program Annual Report For the Period July 1, 1985 to June 30, 1986", 1987.

Pennsylvania MILRITE Council, "The Area Labor-Management Committee Grant Program Annual Report For the Period July 1, 1984 to June 30, 1985", 1986.

Pennsylvania MILRITE Council, "Advantages and Economic Impact of a High Speed, Intercity Passenger Rail Service," 1982.

Pennsylvania MILRITE Council, "Three Year Report," 1984.

Philadelphia Area Labor-Management Committee, "BUILT-RITE: How It Works -Implementation of Labor-Management Cooperation at the Construction Worksite," 1988.

Philadelphia Area Labor-Management Committee, "How to Form an Areawide Labor-Management Committee," 1981.

Robertson, Gregg and David Allen, "Silicon, Sensors and Software: Listening to Advanced Technology Enterprises in Pennsylvania," 1983.

Scranton-Lackawanna Labor-Management Committee, "Labor Management Cooperation at Work - A Video", 1988.

Squire, Katherine, Michael Kieschnick, and Julie Parzen, "Employee Ownership: An Employee Buyout Handbook," 1983.

APPENDIX C

Information on the PA Private Placement
Separate Account Investors Forum

APPENDIX C

PRIVATE PLACEMENT SEPARATE ACCOUNT INVESTORS FORUM */

- Purpose:** Provide a setting where CIGNA Investments reports progress or lack thereof in meeting the investment objectives of the Account. The MILRITE Council as initiator of the Account will coordinate quarterly meetings at which CIGNA Investments provides updates on the administration and performance of the Account, and addresses any concerns or comments of the investors.
- Powers:** No formal or binding authority over CIGNA Investments procedures; any comments/suggestions are for informational purposes only. Pension funds retain certain individual rights and powers as indicated in their separate agreements with CIGNA Investments.
- Objectives:** Assess the extent to which CIGNA Investments is adhering to the basic guidelines of the Agreement, including such issues as credit quality, geographic targeting, pricing of loans, competitive return, comparability with other fund sources available, etc. Investors are free to make suggestions regarding the administration of the Account which are non-binding. The intent of comments/suggestions is to assist CIGNA Investments in achieving and/or exceeding the desired return on investment for the investors, with an underlying interest in the utilization of the funds by the portfolio firm in a way that benefits the company, its employees, its stockholders, and the state's economy.

*/This is an advisory body established in early 1989 to consult with and advise CIGNA Investments, Inc., regarding the Private Placement Separate Account. The MILRITE Council is also represented on this body.

APPENDIX D

Copy of Fiscal Year 1989-90
Area Labor-Management Committee
Grant Program Request for Proposal

REQUEST FOR PROPOSAL
AREA LABOR-MANAGEMENT COMMITTEE GRANT PROGRAM
FISCAL YEAR 1989-90

ISSUING OFFICE: COMMONWEALTH OF PENNSYLVANIA
MILRITE COUNCIL
513 FINANCE BUILDING
HARRISBURG, PA 17120
(717)783-7408

February 1, 1989

**REQUEST FOR PROPOSAL
 AREA LABOR-MANAGEMENT COMMITTEE GRANT PROGRAM
 FISCAL YEAR 1989-90**

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**AREA LABOR-MANAGEMENT COMMITTEE GRANT PROGRAM
APPLICATION FOR FINANCIAL ASSISTANCE
PENNSYLVANIA MILRITE COUNCIL
FISCAL YEAR 1989-1990**

PART A - GENERAL INFORMATION

A.1. INTRODUCTION

Since 1984, the Pennsylvania General Assembly has appropriated funds to the Pennsylvania MILRITE Council to make grant awards to Area Labor-Management Committees (ALMCs). The attached guidelines apply to FY 89-90 and must be followed when making a proposal for funding under the grant program. Grants will be awarded to ALMCs on a competitive basis in conjunction with the established performance standards and criteria mandated by Section 6.1 of the MILRITE Act (73 P.S. Section 391.6a).

A.2. ELIGIBILITY FOR FUNDING

To be eligible for a grant under the ALMC grant program, an ALMC must be formed by and comprised of multiple employers of diverse industries and multiple labor unions, as defined in Section 2(5) of the National Labor Relations Act (29 U.S.C. Section 152). In addition, an ALMC must be incorporated as a non-profit entity (15 Pa.C.S.A. Sections 7101 et seq.). Finally, the ALMC will have applied for tax-exempt status under Section 501(c)(3) of regulations promulgated by the Internal Revenue Service at 26 C.F.R. Section 1.501(c)(3)-1.

A.3. GOALS AND OBJECTIVES

The objective of the ALMC Grant program is to help communities strengthen their economies through improved labor-management relations both at the worksite and community levels. ALMCs act as a catalyst agent to enhance an area's economic development delivery system through a comprehensive plan comprised of programs and services addressing labor-management cooperative efforts. The condition of labor-management relations at all levels of the community plays an important role in an area's economic development. At the firm level, the willingness of labor and management to work together to resolve problems of mutual concern is positively related to the firm's productivity and quality of life. At the community level, labor-management cooperation on important community concerns such as the attraction of new and retention of existing firms, can lead to an increase in total employment and the competitive standing of a community.

ALMCs have been instrumental in developing ways to improve organizational effectiveness, product quality, and employee satisfaction. The general philosophy behind an ALMC is that poor labor-management relations should never be the reason behind the loss of market share or plant closings, or the inability to attract new firms to the community because of the existence of a poor labor climate in a given area. These committees achieve these objectives by developing and implementing programs and services designed to meet the following goals:

(1) to strengthen the local economy through the delivery of programs and services designed to improve communications and effective working relationships between labor and management within the jurisdiction of the area labor-management committee.

(2) to provide labor and management with opportunities to explore new and innovative approaches to improving organizational effectiveness and ways of eliminating problems which reduce the competitiveness of a community, industry, or firm.

(3) to conduct education and training forums designed to advance community awareness of labor-management concepts and benefits.

(4) to assist labor and management in solving problems of mutual concern which do not fall within the scope of the collective bargaining process.

(5) to promote areas of labor-management cooperation which have the greatest impact on the community-at-large.

(6) to promote and stimulate the development and implementation of worksite labor-management committees designed to expand and improve working relationships between workers and managers.

(7) to provide a forum to discuss and investigate ways to further the goals of increased quality of work life and increased productivity.

A.4. SELECTION CRITERIA

The following criteria will be used by the MILRITE Council in evaluating proposals:

(1) the actual performance of an existing committee during the current funding year compared to the goals and objectives identified in the committee's proposed work plan for the current funding year.

(2) the extent to which the application has clearly identified the problems and justified the needs that proposed programs and services will address.

(3) the degree to which appropriate and measurable goals and objectives have been developed to address the problems and needs of the area. For existing committees, this will include the extent to which the Committee will focus on expanding current efforts and the initiation of new efforts.

(4) the feasibility of the approach proposed to attain the goals and objectives of the proposed programs and services and the perceived likelihood of accomplishing the intended results.

(5) the feasibility and thoroughness of the implementation plan in specifying major milestones and target dates.

(6) the cost-effectiveness and fiscal soundness of the application's budget request as well as a comparison of fiscal feasibility against the proposed goals and approach.

(7) the demonstration of local and non-local support as evidenced by financial contributions from the private sector, local and federal governments.

(8) the appropriateness of committee membership and the degree of support and commitment of the membership to the goals and objectives of the application.

Applicants that are awarded a grant will be notified by the MILRITE Council in writing. The MILRITE Council reserves the right to reject any proposal which does not meet its selection criteria.

A.5. FUNDING FORMULA AND MATCH REQUIREMENTS

The ALMC Grant Program is a matching grant program. The funding formula is as follows: Under the funding formula, a committee shall be eligible for a matching grant, up to a maximum of \$100,000 per year, in accordance to its year of existence, for all allowable operating and program costs. A committee must make up the difference between the percentage of allowable operating and program costs. The funding formula is as follows:

YEAR	MILRITE FUNDING	MATCH REQUIREMENT
1	90%	10%
2	80%	20%
3	70%	30%
4 and 5	60%	40%
6 and thereafter	50%	50%

All matching funds must be in cash rather than in-kind goods or services. The state grant percentage represents the maximum percentage allowable and the Committee's percentage represents the minimum percentage allowable. Matching funds may come from private sector sources (e.g., business and labor, etc.) or Federal or local governments. Approval of first year funds is no guarantee of future funding. Federal funding may comprise up to fifty (50) percent of the required match share. Priority will be given to funds raised in the private sector. Expected project income may be used for matching purposes, provided it is generated from activities within the area served by the committee. State project grants obtained from other agencies of the Commonwealth, are not eligible to meet the non-state government share.

Funding for grants awarded under the Area Labor-Management Committee Grant Program are subject to the availability of state and private match funds and the successful performance of the applicant in prior grant years.

A.6. AUDITS

An audit of each Committee's activities is required at the end of each fiscal year. If the audit shows that a Committee's actual match fell short of the required match, the MILRITE Council reserves the right to take such action as it deems necessary to maintain the integrity of the program (e.g., reducing a grant award in future years).

For further information about the ALMC Grant Program or for assistance in completing the grant application, please contact Patricia J. Gustin, Executive Policy Specialist, Pennsylvania MILRITE Council, 513 Finance Building, Harrisburg, PA, 17120, (717)783-7408.

PART B - REQUIRED PROGRAM ELEMENTS

The application for financial assistance must follow the format presented below. **Committees applying for continued funding under this program should complete only sections B.3 through B.10. NEW COMMITTEES MUST COMPLETE ALL SECTIONS.**

B.1. GEOGRAPHIC AREA

This section will provide basic information about the geographic area in which the Area Labor-Management Committee will concentrate its activities. The applicant should discuss as much relevant data related to the area as possible. The discussion will include, but is not limited to, the following data. Please provide as much detail as possible.

- (a) the geographic boundaries of the area in which the Committee will carry out its activities.
- (b) total population of the area and size of the workforce.
- (c) industrial characteristics of the area, such as total employment by SIC code, major industry of the area, and other related information.
- (d) percent of the area workforce organized by labor unions and identification of the unions.
- (e) major employers within the area.
- (f) brief history of the area.

B.2. PROBLEM STATEMENT

Discuss, in detail, what specific problems face the area that will be addressed by the Committee. Document the problems using as much relevant data as possible and discuss the full range of effects these problems could have or are having on the area or industry. Include in the discussion why labor-management cooperative efforts are needed. Examples of problems include, but are not limited to:

- (a) loss of firms which has resulted in an increase in unemployment within the area.
- (b) strikes, work stoppages, and other related problems which have had a negative impact on the local economy, employment levels, and the community-at-large.
- (c) relationships between labor and management and its effect upon the area's business climate.
- (d) general economic factors which have precipitated the need for labor-management cooperative efforts within the area.

B.3. CURRENT ASSESSMENT OF THE AREA

All applicants should provide a brief discussion about the current status of the ALMC's service area. The discussion should provide an assessment of the area with regard to the needs and demands for labor-management related programs and services, if there has been a transition in the provision of services and programs (e.g., from the private to the public sector), and major, on-going and new initiatives.

B.4. FISCAL YEAR WORK PLAN

This section will establish the work plan of an ALMC and will provide a narrative of the programs and services proposed for the upcoming fiscal year. Services and programs should be clearly identified and should specify the strategy the Committee will employ to accomplish its goals and objectives. This section should also provide a detailed description of the results or benefits expected, and focus on the effects the ALMC's efforts will have, both in terms of individual initiatives and to the community-at-large. Include names of firms, unions, number of employees, type of services rendered, duration of involvement, etc. Existing committees should also focus on (1) the results of expanded efforts; and (2) how proposed programs integrate with past programs. The section should also include an implementation plan that indicates what major steps, operating activities and objectives will be accomplished. The goals, objectives, and expected accomplishments will become the foundation for future monitoring and evaluation efforts. Complete this section using the following subtitles as they apply to a particular ALMC.

- worksite committees
- special program initiatives
- training and education
- economic development
- public relations
- membership
- community awareness initiatives
- other (specify)

B.5. MAJOR MILESTONES

This section will provide a graphic display of the timetables for accomplishing work plan goals and objectives as discussed in Section B.4, above. The milestone chart should identify what specific activities and accomplishments will be completed, by month, over the life of the grant. The chart should indicate months as numbers 1, 2, etc., rather than by name of month. The accomplishments of these tasks and objectives, as well as problems and delays in completion, will serve as the basis for quarterly progress reports to the Council.

B.6. MEMBERSHIP AND LETTERS OF COMMITMENT

a. List the members of the ALMC by name, title, and names and address of the organizations by whom they are employed or represent. The listing

should be completed in the following order: (1) Co-Chair; (2) Executive Board; and (3) general membership. Only one complete listing is needed to satisfy this requirement.

b. Include letters from each Committee member expressing a commitment to support the ALMC's activities and attend its meetings. Letters of commitment must accompany the proposal to avoid unnecessary delays in processing the ALMC's application for funding.

B.7. STAFF REQUIREMENTS

Complete a list of all staff employed by the ALMC. The list should include the name, title and salary of the staff person and whether staff is full or part-time. Include a job description and resume for each staff member, unless no turnover in staff has occurred during the course of the current grant year. Also, include a copy of all consultant resumes and contracts for services. One person should be identified as the ALMC Executive Director. This individual is responsible for coordinating all activities between the ALMC and the MILRITE Council.

B.8. JUSTIFICATION FOR STATE FUNDS

Describe why state funds are needed to implement the programs and services proposed under Section B.4, above. Include in the description how state funds will be utilized to carry out the goals and objectives of the ALMC.

B.9. OTHER REQUIREMENTS

In this section, submit data indicating how many employers and employees are covered or represented by both management and labor members of the ALMC and identify the company or union. Give the total number of organizations which are members of the ALMC by category and total number of employees represented by the organizations. S.I.C. Industry classification breakdowns can be used provided the company and union members within those classifications are identified.

B.10. ASSURANCES

Provide written assurances for the following requirements:

(a) that the ALMC will not interfere with any collective bargaining agreements or actively participate in any collective bargaining process.

(b) that written minutes of all committee meetings will be prepared and made available to the MILRITE Council with quarterly progress reports.

(c) that quarterly progress reports will be submitted in the format established by MILRITE and within the prescribed time frames.

(d) that the ALMC accepts and will comply with all terms and conditions of the grant agreement made between the ALMC and the MILRITE Council and will brief all contractors providing program-related services of the provisions contained therein.

(e) that the ALMC will report any revisions made subsequent to the completion of the fiscal year work and financial plans contained therein, as they occur during the life of the grant and will provide written notification to MILRITE reflecting such provisions.

PART C - FINANCIAL PLAN

This section must be completed by all applicants for grant funds.

The financial plan is divided into two parts: (a) Sources of Funds, which will identify all sources of revenues of the ALMC; and (b) Fiscal Year Budget, which will identify the ALMC's program and operational expenditures. The financial plan must include estimates of the amount of state funds and matching private sector, federal, and local government funds. All revenues and expenditures must be definitive.

C.1. Sources of Funds. Identification of funds should be completed in the format established below. Committees will be identifying both actual revenues for FYs 87-88 and 88-89, and projected revenues for FYs 89-90 and 90-91. Sources of funds should be summarized. Specific financial commitments from non-state sources should be accompanied by letters of commitment from those sources. Sources of funds include MILRITE grant award, business and labor contributions, federal and/or local government funding, foundations, project income, and all other sources of funds generated by the ALMC. Identify all sources of funds. Designation of revenues as "other" will not be accepted. For the purpose of this section, "project income" is defined as money earned by a project above and beyond the state or the grantee cash share of the project cost. Project income may be used as match, provided it is earned within the area served by the ALMC.

SOURCES OF FUNDS

<u>Category</u>	<u>FY 87-88</u>	<u>FY 88-89</u>	<u>FY 89-90</u>	<u>FY 90-91</u>
MILRITE				
Business				
Labor				
Federal Government				
(specify)				
Local Government				
(specify)				
Foundations				
(specify)				
Other sources				
(specify)				
Project Income				
Total Revenues				

C.2. Program and Operational Costs by Budget Category

This section will identify how the Committee expects to budget the estimated total program and operational funding from all sources among the below-listed line-item categories. The budget is divided into two categories: (a) FY 89-90 Program Budget; and (b) Financial Plan. All line items must be definitive.

C.2.1. FISCAL YEAR 1989-90 PROGRAM BUDGET. This section will cover all estimated costs directly related to the delivery of specific programs and services during fiscal year 1989-90. Budget categories include both direct and indirect costs. Include all categories applicable to the particular Committee.

(1) **Personnel.** List each position by job title and show annual salary rates.

(2) **Fringe Benefits.** Indicate each type of benefit included in your computation and salary percentages in amounts per employee, as applicable.

(3) **Taxes.** Indicate each type of tax included in the computation and salary percentages in amounts per employee, as applicable.

(4) **Professional Development.** Indicate type of activity related to this category, such as for training, memberships in professional organizations, subscriptions and publications, and the like.

(5) **Contractual.** For the purpose of the grant program, contractual is defined as legal agreements entered into between the ALMC and individuals or service providers which directly relate to the delivery of programs and services of the ALMC as set forth in the yearly work plan. This does not include equipment or office leases, or the retention of legal or accounting services. Show name and type, proposed daily fee or retainer, and amount of time to be devoted to the project.

(6) **Travel.** Estimate total travel expenses, including local, area-wide, lodging and subsistence. Include estimated expenses for attendance at a minimum of two (2) statewide Area Labor-Management Committee Executive Directors meetings.

(7) **Equipment.** Indicate equipment to be purchased or leased by type, number and pieces, unit price and total price.

(8) **Supplies.** Include all consumable office supplies, training materials, and forms. List by type and amount.

(9) **Communications.** Include postage, marketing materials, brochures, newsletters, and other related materials. List by type, monthly or other amount, and total amount.

(10) **Printing and Publishing.** List expenses under two categories: (1) programmatic and (2) operations. Include a breakdown, to the extent possible, of type, total number of copies, and total amount.

(11) **Other Operational Costs.** List, by category and amount, all other costs incurred to the operations of the ALMC. Included in this category are the following line items:

- Office Space (rental/month x 12 months) = total
- Telephone expenses (monthly charges x 12 months) = total
- Legal and Accounting Fees (by retainer or hourly amount) = total
- Insurance = total amount
- Janitorial services (fee/month x 12 months) = total

In completing this section, provide a breakdown of the amount of the total budget to be allocated to each line item category as applicable to the following ALMC activities:

- (a) Worksite LMCs(LMC)
- (b) Special Program Initiatives(SI) (e.g., displaced workers program)
- (c) Training and Education(TE) (includes forums, seminars, etc.)
- (d) Special Events(SE) (events sponsored for a specific reason and at a given point in time (e.g., labor-management cooperation day)
- (e) Public Relations(PR) (marketing materials, brochures, etc.)
- (f) Administrative (ADM) (office and business management, etc.)
- (g) other (specify)

<u>Object Class</u>	<u>Category</u>	<u>TOTAL</u>	<u>LMC</u>	<u>SI</u>	<u>TE</u>	<u>SE</u>	<u>PR</u>	<u>ADM</u>	<u>OTHER</u>
1. Personnel:									
	-- Salaries								
	-- Fringe Benefits								
	-- Taxes								
	-- Prof. Develop.								
2. Contractual									
3. Travel									
4. Equipment									
5. Supplies									
6. Communications									
7. Print/Publishing									
8. Other (specify)									

TOTALS

C.2.2. FINANCIAL PLAN. In this section, summarize how the Committee expects to budget its total funding from all sources. This budget will encompass the fiscal years 1987-88 (actual figures), 1988-89, 1989-90, and 1990-91 (estimated figures). Bottom-line figures should be used to complete this section. Indicate the percentage of MILRITE funds to be used to cover each expense. This will demonstrate the degree of emphasis the ALMC intends to give the programs and services to show the amount of funds and percentage of the total budget to be used for delivery of the programs and services.

Object Class Category	FY 87-88/Z	FY 88-89/Z	FY 89-90/Z	FY 90-91/Z
1. Personnel				
2. Fringe Benefits				
3. Taxes				
4. Staff Development				
5. Contractual				
6. Travel				
7. Equipment				
8. Supplies				
9. Communications				
10. Printing and Publishing				
11. Other (specify)				

Totals

PART D - OTHER REQUIREMENTS

D.1. Articles of Incorporation/By-Laws. Provide a copy of the ALMC's current articles of incorporation and bylaws. This requirement applies to all new committees and to existing committees applying for funding for fiscal year 1989-90.

D.2. Supplemental Information. In this section, applicants may include additional information which supports the grant proposal, such as S.I.C. Industry listings, or information on programs and services being delivered. Information supplied under this section should be broken out into appendices, by title, and should reference the particular section of the grant application corresponding to the information. Completion of this part is at the discretion of the applicant.

APPENDIX E

Sampling of Comments Submitted to the MILRITE Council
by Local Business and Labor Officials Regarding
State-Funded Area Labor-Management Committees

APPENDIX E

Sampling of Comments Submitted to the MILRITE Council by Local Business and Labor Officials Regarding State Funded Area Labor-Management Committees

The LB&FC staff reviewed letters which were submitted to the MILRITE Council by various business and labor leaders. These "letters of commitment" were submitted to the Council as a condition of the FY 1989-90 Area Labor-Management Committee Matching Grant Program request for proposal process.

1. In the last two years, BCALMC has made significant strides in a start-up effort to encourage a positive labor management climate in the Beaver County area. Assistance is being provided to Employers and Unions to develop a positive labor management climate through seminars, educational forums and on-site assistance programs. We are extremely proud of their accomplishments. I believe personally from having observed area labor management committees in many states that the Beaver County program serves as a model effort for not only changing the labor management climate but ultimately the bottom line, creating a positive economic climate.

2. The founding members and staff of BCALMC have created an organization focused on improving the quality of business life in the Beaver County area through a variety of programs and activities. Results, to date, are impressive and have been accomplished in an extremely efficient and cost-effective manner. Failure to provide additional funding to these activities would send a clear message to the private sector, both union and management, that their mutual efforts to improve the area's economic climate are not being taken seriously.

3. I, personally support the philosophies of CALM and feel the establishment of the council will be a positive influence in the Central Pennsylvania industrial community.

4. I feel fostering better labor/management relationships and a positive labor/management image is very important to us and to the future employment efforts throughout Crawford County.

5. As I travel the United States and talk with business representatives from other areas, Pennsylvania is viewed for many reasons as not a good state to locate a manufacturing business.

Source: Compiled by LB&FC staff from a review of letters submitted to the PA MILRITE Council for the Area Labor-Management Committee Matching-Grant Program (FY 1989-90 funding year).

APPENDIX E (Continued)

Sample Comments Regarding State Funded
Area Labor-Management Committees

Although I feel this is a false assumption, the stigma, nevertheless, is there. I believe by fostering a better labor and management relationship in Crawford County, we will be helping build our economic base for the future.

6. Positive labor/management relationships are very important to us in economic development. The labor/management concept has been effective in improving working conditions at our school. The labor/management workshops/conferences in our county are establishing positive linkages to improve working conditions and productivity.

7. I personally believe that a positive labor/management relationship is essential to remaining competitive in today's global economy, and in preserving the dignity of man in the workplace.

8. In addition, their involvement in efforts to promote and retain industry in the Fayette County Area speaks for itself. I call attention to the "saving" of the Steel Scaffolding firm in Fayette County, which essentially was going to close. However, through the planning and diligent involvement by Fayette County Labor Management, the Steel Scaffolding firm remained in our county. I think that was truly an accomplishment by Fayette County Labor Management Committee of major proportions. The Fayette County Labor Management Committee is a tremendous asset to the community, and dedicated to the growth as well as total cooperation of labor management factors within our community.

9. I wanted you to know that Steel Scaffolding considers the FLMC to be a valuable resource in our endeavor to create a working relationship between labor and management. We have come a long way from the days of adversarial relations. The financial support from the Milrite Council has made the training of an in plant coordinator possible. The skills this individual has obtained is the ingredient that gave us the edge to make our program work.

10. I have been a member of the Mercer County Labor Management Committee for several years. During this period of time I have seen a change take place in the participating membership's relationship to each other. I have seen a belief develop, that Labor and Management can work together to accomplish mutual objectives. These objectives are consistent with the needs of the Pennsylvania economy: growth and security.

11. The activities of the Mercer County Labor Management Committee have proven that labor-management cooperation can work when both sides attempt to look for areas of common interest instead

APPENDIX E (Continued)

Sample Comments Regarding State Funded
Area Labor-Management Committees

of acquiescing to more traditional adversary roles. The education community, which I represent, has specifically benefited from the activities of the Committee. The labor-management teaching teams have been a big success in the Mercer County Public Schools. The labor-management cooperation project in the Greenville School District would not have been possible without the guidance and assistance of you and other committee supporters.

12. I believe that considerable progress has been made in promoting Labor-Management cooperation. Even though there has been a reduction in unemployment in the area, the overall labor-management attitude has helped retain more jobs than we have lost. The climate is starting to change and in large part due to the hard work done by the members of the local Committee. It is certainly a sound approach in continuing efforts to improve these relationships

13. The efforts of the New Castle Area Labor Management Committee show in the increasing cooperative climate between labor and management in this area. We feel the actions of this committee have been a positive force to help reduce the negative image of a labor troubled Western Pennsylvania.

14. We are located in this area of high unemployment and we have permanently lost a number of factories in the last few years. The entire area has benefited tremendously from the efforts of the Labor/Management Committee. The success of the Labor/Management Committee in New Castle and Lawrence County will create a positive attitude for our citizens and this will be reflected to outsiders that industrial investments can be profitable in New Castle.

15. We are located in an area of high unemployment and we have permanently lost a number of factories in the last few years. The entire area has had a reputation for having a bad labor climate. A successful LMC would go a long way toward changing this perceived "bad labor" area and it will create a positive attitude for our citizens and this will be reflected to outsiders that industrial investments can be profitable in New Castle.

16. PALM has become a major force for cooperative labor-management relations in Southeastern Pennsylvania over the last several years. With the establishment of BUILT-RITE, PALM has expanded its sphere of activity to include the construction industry and the many building trades unions, contractors and construction users in the Delaware Valley. PALM provides a valuable and needed forum for joint discussion and problem solving.

APPENDIX E (Continued)

Sample Comments Regarding State Funded
Area Labor-Management Committees

17. The Philadelphia Area Labor-Management Committee (PALM) has been remarkably instrumental in helping to improve the business climate of the Philadelphia area. The forum PALM provides has served to open lines of communication in all sectors of the economy. We use PALM as a valuable tool in our economic development program.

18. The Philadelphia Zoo continues to be an active and enthusiastic member of the Philadelphia Area Labor Management Committee and has through the programs of that organization increased the productivity of its work force while building bridges of trust with its employees. I do not believe there is anything that would be more helpful to the economic future of the State of Pennsylvania than more labor-management cooperation in the area of productivity and quality which is the very reason for PALM's existence.

19. It is clear that the activities of the SLLMC and its in-plant labor management committee program have had a positive impact on our area's business climate. Their results have become an important economic development tool in our efforts to promote the growth of the Greater Scranton area, and our organization has pledged its continuing support -- both moral and financial -- to ensure that its good works continue.

20. Beyond question, the activity of the Three Rivers Area Labor Management Committee has been beneficial to the efforts to improve the climate in western Pennsylvania.

21. The work we are doing together has proven beneficial to our business enterprise as well as the on-going relationship with our workforce. We continue to be impressed with the dedication, contributions and progressive efforts of the TRALMC. The job the organization has undertaken to ensure labor and management work together cooperatively in the best interest of the region is paying considerable dividends in the economic development area.

APPENDIX F

Selected Activities and Accomplishments of
MILRITE-Funded Area Labor-Management Committees

APPENDIX F

Selected Activities and Accomplishments of MILRITE-Funded Area Labor-Management Committees

Pennsylvania's ALMCs report benefits accomplished in their work with worksite labor-management committees in both large and small settings and in the public and private sectors. This exhibit profiles selected activities.

1. BUILT-RITE - The Philadelphia Area Labor-Management Committee's (PALM) BUILT-RITE initiative has facilitated communication between labor and management on 21 construction projects at 12 different worksites in its 6 years of operation. To date, over 6,600 skilled laborers have reportedly been involved in the BUILT-RITE communication and problem-solving process on construction jobs whose costs are estimated to be approximately \$4.5 billion. In addition, at the industry level, three PALM-sponsored task forces continue to meet regularly to address industry issues of productivity and cost effectiveness, safety and health, and communications and training.
2. The Mercer County Labor-Management Committee and the New Castle Area Labor-Management Committee cosponsored the Construction Alliance initiative, established in December 1986. The Construction Alliance is composed of contractors, representatives of the building trades, and construction-industry customers from Ohio and Pennsylvania. Working with Penn State and Youngstown State University, a 10-session, 30-hour program was developed aimed at building trades employees utilized as foremen. A total of 7 programs have been held for 186 participants from 15 different local unions and 6 contractors. In addition to the construction foreman's training program, the Construction Alliance facilitated information and orientation programs on provisions of "right-to-know" laws as they relate to hazardous chemicals.
3. Greater Pittsburgh International Airport - Midfield Terminal Project - Involved since June 1988, Three Rivers Area Labor-Management Committee (TRALMC) has participated in a process involving the development of a working agreement with the contractors and the construction unions involved in the construction of the Midfield Terminal at the Greater Pittsburgh International Airport; a \$560 million airport expansion project. The purpose of this agreement is to standardize work rules and establish procedures to eliminate jurisdictional problems among the 17 unions involved in the project. Estimates of employees to be affected are reported to exceed 5,000 during the construction phases.
4. Tobyhanna Army Depot - The worksite labor-management committee at the Tobyhanna Army Depot, initiated with assistance from Scranton/Lackawanna Labor-Management

APPENDIX F (Continued)

Committee (SLLMC), has reportedly become a permanent part of the labor relations process at the depot and is involved in the resolution of joint problems between labor and management. During FY 1986-87, the Depot received recognition from the United States Army and the United States Department of Labor as representing a model for labor-management cooperation for all other depots throughout the country. The Depot employs 4,600 workers.

5. School Districts - ALMCs have participated in various activities involving Pennsylvania's school districts. For example, in 1986, the New Castle Area Labor-Management Committee was cited by the New Castle Federation of Teachers for its influence in the settlement of an "early bird" contract between the teachers of the New Castle School System. In each of the three prior contract negotiations, the School District had experienced strikes. Similarly, Cambria-Somerset Labor Management Committee reports participation in providing assistance to help establish positive working relationships in the Johnstown School District. The ALMC reports that at a mid-year follow-up meeting participants learned that over half the goals they had set were already accomplished or were underway. Problem-solving or other activities with school districts are also reported by, for example, Beaver County Area Labor-Management Committee, Crawford County Labor-Management Committee, and Mercer County Labor-Management Committee.

6. SEPTA and the Transportation Workers Union - PALM's single largest worksite involvement is with SEPTA and the Transport Workers Union (TWU). As part of this initiative, PALM has undertaken three years of senior-level team building and planning and has established six working committees to address issues in specific areas and to begin diffusing the process throughout the workplace. Called the "New Route," the SEPTA-TWU effort consists of a formal labor-management committee structure. The six working committees are involved in problem-solving around substantive issues such as job classifications, scheduling, conflict resolution and safety.

7. A Transition Assistance Program was also created by PALM to provide help to workers laid off as a result of plant shutdowns or cutbacks. Assistance is designed to help workers with the stress of losing a job and to develop the skills and confidence necessary to find new employment. Since the program began, these "survival and opportunity workshops" have been conducted for 4,500 workers at 34 worksites. Approximately 3,500 dislocated workers have reportedly found new jobs.

8. Other - Other improvements attributed to worksite labor-management committees' working together, and reported by ALMCs, include, for example, an improved rejection rate at a

APPENDIX F (Continued)

manufacturing firm, cost savings identified by company officials resulting from labor-management cooperation efforts, job creation, reduced turnover, reduced grievances, enhanced productivity, and other successes and improvements which have permitted companies to reconsider and avert plant closings or relocations.

Source: Developed by LB&FC staff from information provided to the MILRITE Council by various Pennsylvania ALMCs and the FY 1986-87 ALMC Grant Program Annual Report.

APPENDIX G

Information on Public and Private Sector Work
Stoppages in Pennsylvania, 1971 through 1988

APPENDIX G

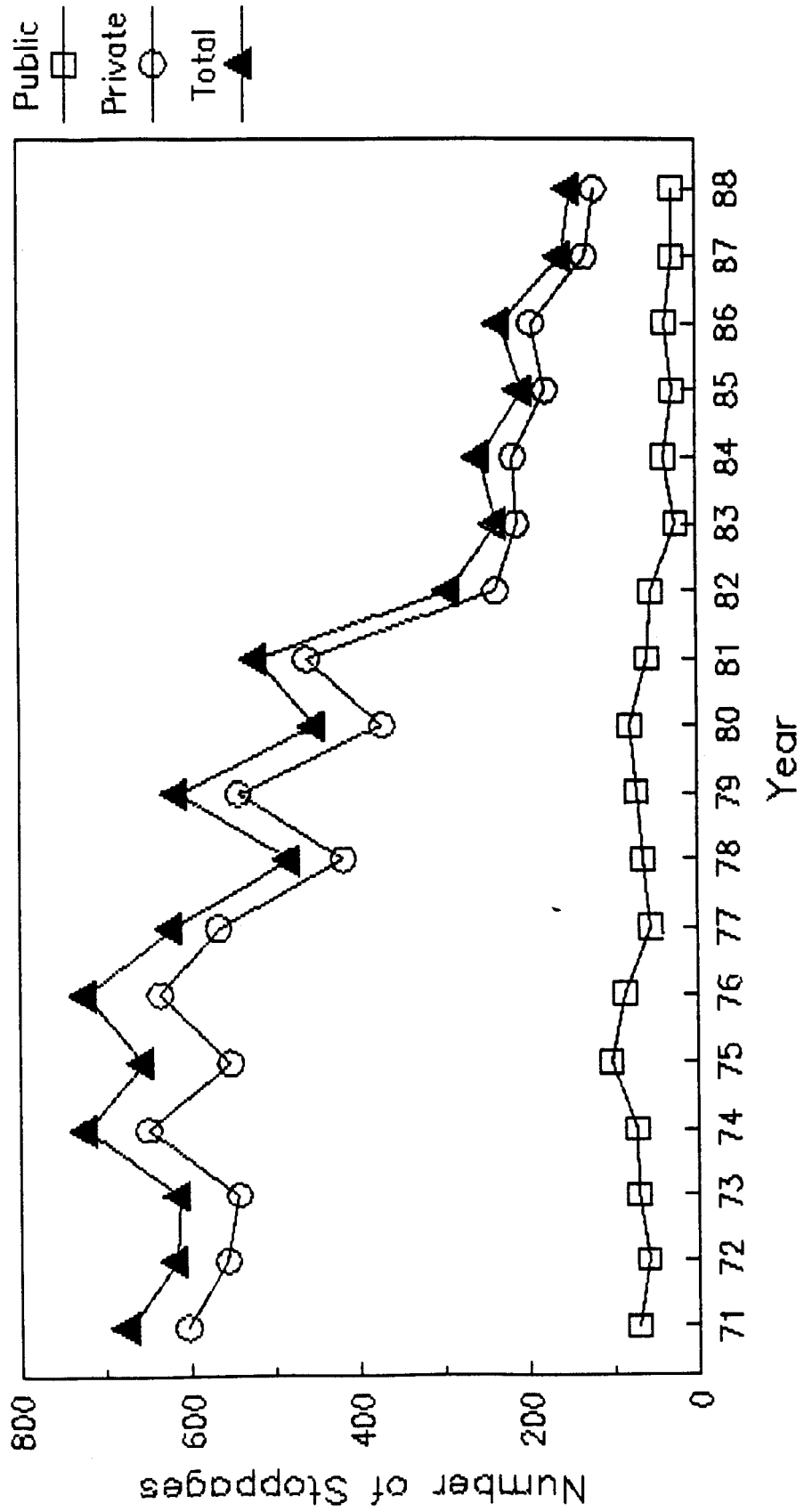
Historical Information on Public and
Private Sector Work Stoppages in Pennsylvania
1971 through 1988

<u>Year</u>	<u>Public Sector</u>	<u>Days Lost Due to Work Stoppages (Public Sector)</u>	<u>Private Sector</u>	<u>Total Work Stoppages</u>
1971	70	ND	604	674
1972	59	ND	557	616
1973	70	ND	543	613
1974	72	617	649	721
1975	102	1402	552	654
1976	86	1367	635	721
1977	55	1112	565	620
1978	63	1010	417	480
1979	71	1081	541	612
1980	79	1497	370	449
1981	58	1214	459	517
1982	53	1438	236	289
1983	23	285	211	234
1984	38	511	215	253
1985	27	544	177	204
1986	36	549	193	229
1987	27	328	130	157
1988	27	514	119	146

Source: Developed by LB&FC staff from information obtained from the Bureau of Mediation, PA Department of Labor and Industry.

APPENDIX G (Continued)

Number of Public and Private Work Stoppages in Pennsylvania



APPENDIX H

Responses to this Report



PENNSYLVANIA MILRITE COUNCIL

Make Industry and Labor Right in Today's Economy

513 Finance Building • Harrisburg, Pennsylvania 17120 • (717)783-7408

MEMBERS

William Lehr, Jr., Chairman
Sr. Vice President-Secretary
Hershey Foods Corporation

Robert T. McIntyre, Vice Chairman
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Northumberland Counties

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Representative
79th District, Blair County

William M. George
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United Steelworkers of America
Legislative Committee of Pennsylvania

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Schuylkill, Carbon and Monroe Counties

William J. Stewart
Senator 35th District
Cambria, Clearfield and Somerset

Bradley H. Stone
President
Castle Rubber Company

John L. Weaver
Former President
Local 5, International Brotherhood of
Electrical Workers

Harris L. Wofford
Secretary
Department of Labor & Industry

Herman Wooden
Secretary-Treasurer/Director
United Food & Commercial Workers
Local 1776

Robert G. Garraty
Executive Director

June 23, 1989

Philip R. Durgin, Executive Director
Legislative Budget and Finance Committee
400 Finance Building
Harrisburg, Pennsylvania 17105-8737

Dear Mr. Durgin:

On behalf of the Pennsylvania MILRITE Council I would like to thank you and your staff for conducting a comprehensive Sunset Performance Audit on the MILRITE Council's activities. The professionalism exhibited by Messrs: Stine, Morehouse, Mortimor and Ms. Berger in conducting the audit was most appreciated by the Council members and staff.

We will explore the findings and recommendations outlined in the audit report. A number of the recommendations are already being worked on by staff and include the following:

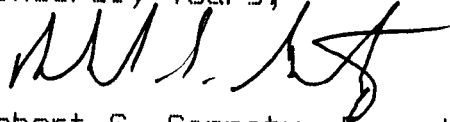
1. Discussions with the Office of the Comptroller on the standardization of the audit procedures for the Area Labor-Management Committees have commenced.
2. A Joint Task Force consisting of representatives from the Department of Labor and Industry's Office of Labor-Management Cooperation and MILRITE has been established and will be working on developing an agreement between the two entities defining the roles of each agency.
3. Discussions with the Account Manager of the Pennsylvania Private Placement Separate Account, CIGNA Investments Incorporated, on how to better market the account are continuing.
4. Contact has been made with the Department of General Services on the establishment of a newsletter which addresses the MILRITE Council's activities.

We anticipate the Council taking action on the other recommendations discussed in your report.

Considering our limited resources, we are proud of the Council's accomplishments. The continued support from the business and labor community in Pennsylvania is the main reason for our success. In addition, the activities of the Area Labor-Management Committees show that the Commonwealth is a leader among the states in fostering partnerships that promote the economic development of Pennsylvania.

Again, thank you for a most thoughtful review of the Pennsylvania MILRITE Council.

Sincerely, Yours,



Robert G. Garraty, Executive Director
Pennsylvania MILRITE Council

cc: Lehr
McIntyre



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE BUDGET
COMPTROLLER OPERATIONS

COMPTROLLER'S OFFICE
CENTRAL SERVICES
P.O. BOX 2769
HARRISBURG, PA 17105
(717) 783-3250

June 20, 1989

Mr. Philip R. Durgin
Executive Director
Legislative Budget & Finance Committee
400 Finance Building
P. O. Box 8737
Harrisburg, PA 17105-8737

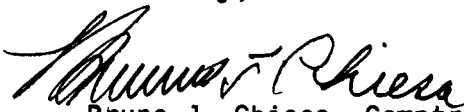
Dear Mr. Durgin:

Thank you for the opportunity to review the confidential draft copy of the sunset performance audit report on the Pennsylvania MILRITE Council.

We have reviewed the report and concur with Finding IIC, Issues Related to Council Administration of the Area Labor-Management Committee (ALMC) Matching Grant Program. Recently, representatives from my audit staff met with Patricia Gustin, Executive Policy Specialist for the MILRITE Council. During the meeting my staff supplied samples of grant guidelines and discussed terms and conditions which should be incorporated into the ALMC grant program. We will continue to assist the MILRITE Council in developing adequate grant guidelines. Additionally, during the 1989/90 fiscal year Central Services will conduct audits of selected grantees.

You may direct any questions you may have to Joe Lawruk of my staff at 3-7543.

Sincerely,


Bruno J. Chiesa, Comptroller
Central Services