

Municipalities Financial Recovery Act (Act 47) Amended Recovery Plan

Pittsburgh City Council Post Agenda

May 28, 2009



Presented by the Act 47 Coordinator

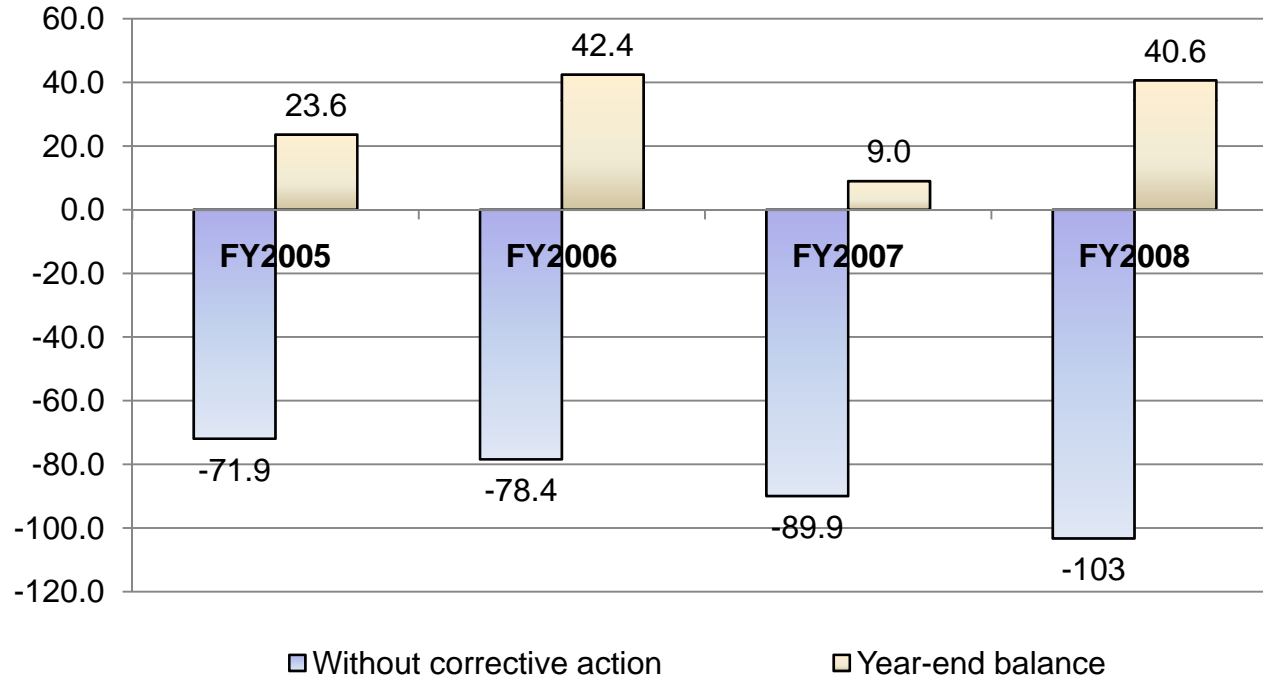
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Progress under 2004 Recovery Plan

Since adoption of the 2004 Recovery Plan, the City has turned in positive annual operating results, including transfers to reserves for capital and future debt service. This is a significant departure from the large deficits projected in the 2004 Plan if no action had been taken.

Annual General Fund Operating Balances



Source: 2005 - 2007 Comprehensive Annual Financial Reports. December 2008 Controller's Cash Flow Report

Progress under 2004 Recovery Plan

Key changes that have contributed directly to the City's improved financial condition include:

- Controlling expenditure growth across multiple departments;
- New collective bargaining agreements with all unions that incorporate major Plan initiatives;
- Improved training and new vehicles for the Bureau of Fire, combined with organizational restructuring and increased spending on the demolition of dangerous buildings;
- Competitive contracting of fleet, animal control, and solid waste collection services;
- Improved budget presentation and financial reporting;
- Credit rating upgrades from all three major rating agencies;
- Contributing funds toward capital projects on a "pay-as-you-go" basis;
- Increased cooperation with Allegheny County and neighboring municipalities (Wilkinsburg).

The Amended Recovery Plan addresses the City's progress on a department by department basis.

Rescission Decision

In December 2007 the City requested that the Secretary of Community and Economic Development rescind the City's distressed status, or provide a "blueprint" for achieving that goal.

After reviewing evidence and testimony from several stakeholders, the Secretary acknowledged the City's progress but decided it should remain in Act 47 under the following charge to the Act 47 Coordinator:

"Pittsburgh needs an amended recovery plan that would provide a blueprint for it to exit Act 47 and address pending legacy costs of debt, pensions, post retirement benefits, workers compensation along with a long-term capital plan, while maintaining positive operating budgets well into the future."

- DCED Release; July 16, 2008

Amended Recovery Plan Objectives

“Pittsburgh needs an amended recovery plan that would provide a blueprint for it to exit Act 47...”

The Amended Recovery Plan is designed to provide the City with a strategy to complete its recovery and exit Act 47. To reach this goal, the Amended Plan has two guiding principles:

- As an “exit strategy,” the Plan maintains the progress that the City has made since 2004 and sets parameters so the City can continue its financial recovery while giving the City greater flexibility to manage its own way toward that objective.
- While building coalitions for Statewide change is important, the Plan provides the City with an exit strategy that it can follow independent of Commonwealth action. A real blueprint for achieving independence from State oversight cannot be overly reliant on extended State support.

Amended Recovery Plan Objectives

“Pittsburgh needs an amended recovery plan that would...address pending legacy costs of debt, pensions, post retirement benefits, workers compensation...”

- Total City liability for workforce-related legacy costs is more than \$1.34 billion.

	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets
Workers' Comp	\$128,220,944	\$0
OPEB	\$320,367,117	\$0
Pension	\$899,248,578	\$375,368,724
Total	\$1,347,836,639	\$375,368,724

Date of Valuation: Workers' Comp. as of December 31, 2007; OPEB as of January 1, 2006; Pension as of January 1, 2007.

- The City also had \$723.1 million in outstanding general obligation debt principal entering FY2009. Approximately 19 percent of the City's projected FY2009 expenditures is for debt service

Amended Recovery Plan Objectives

“Pittsburgh needs an amended recovery plan...while maintaining positive operating budgets well into the future.”

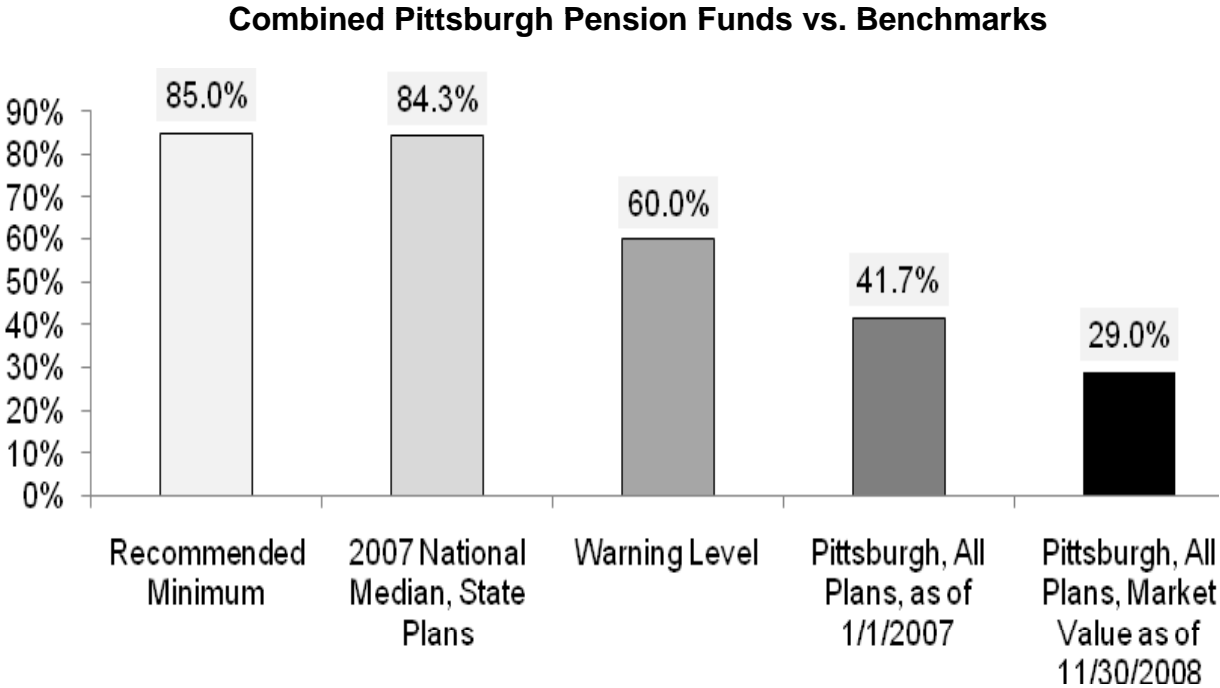
- The City’s FY2009 – FY2013 five-year plan projects a \$3.4 million positive operating result this year with small positive results in future years.
- Since Council acted on the FY2009 budget and five-year plan in January, there have been a few developments that threaten the narrowly balanced budget (see below). These developments will continue – some of them potentially to the City’s benefit (e.g. ARRA funding) – and the City has outperformed its projections each year since FY2004. But this uncertainty coupled with the very narrow margin in the FY2009 – FY2013 five-year plan emphasizes the need to maintain the core principles of the 2004 Recovery Plan.

Adjustment	2009	2010	2011	2012	2013	TOTAL
Reduced Commonwealth appropriation	(2,966,000)	(2,966,000)	(2,966,000)	(2,966,000)	(2,966,000)	(14,830,000)
Reduced non-profit contribution	24,000	(2,716,000)	(2,716,000)	(2,716,000)	(2,716,000)	(10,840,000)
COPS grant ends	0	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(8,000,000)
Total adjustment to revenues	(2,942,000)	(7,682,000)	(7,682,000)	(7,682,000)	(7,682,000)	(33,670,000)
Lower debt service fund escrow earnings	0	0	0	0	(2,406,491)	(2,406,491)
Landfill increase (5% in 2012)	0	0	0	(68,291)	(69,998)	(138,289)
Total adjustment to expenditures	0	0	0	(68,291)	(2,476,489)	(2,544,780)

Pittsburgh's Pension Crisis

While many governments face pension funding challenges, Pittsburgh's liabilities are staggering in scale.

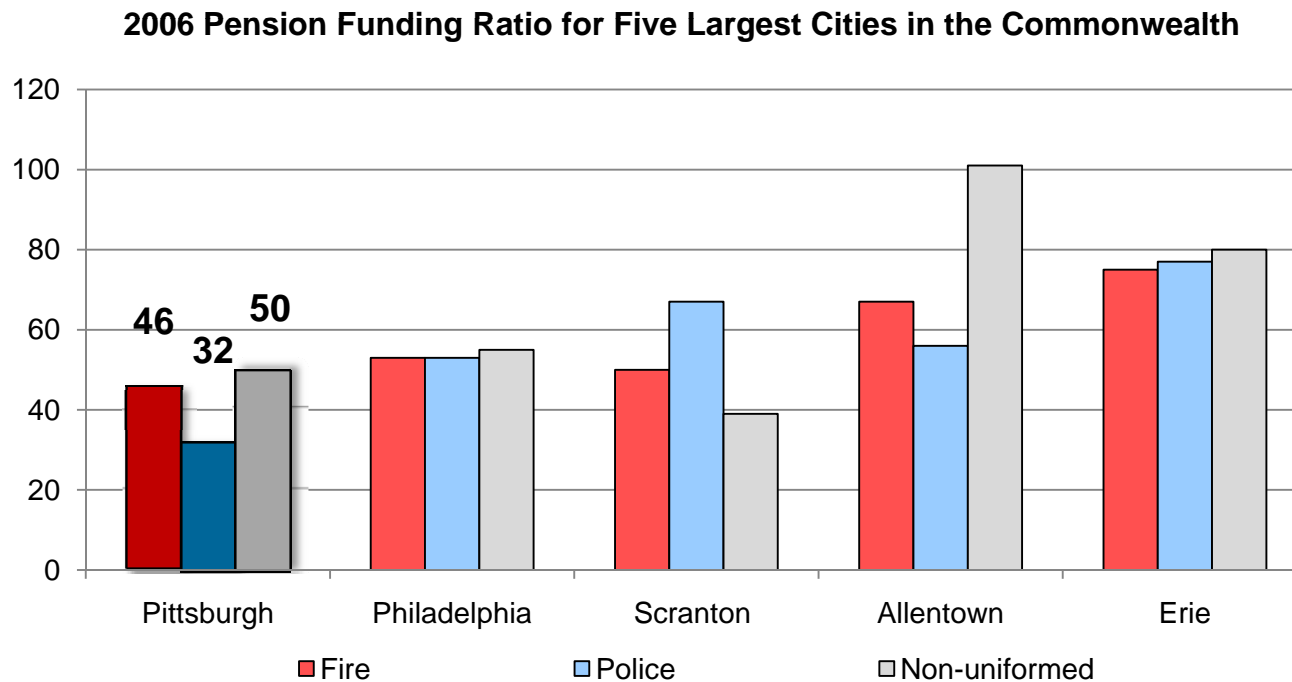
Before the market collapse last year the City's pensions were funded at 41.7 percent, only two thirds of the way toward the "warning level" of 60 percent. Substituting actual November 2008 market value for the estimate in the January 2007 valuation, that drops to 29 percent.



Pittsburgh's Pension Crisis

Many large Commonwealth cities are struggling to fund their pensions but Pittsburgh's funding ratio is low even in that comparison group.

Based on 2006 funding ratios (i.e. before the market collapse) Pittsburgh's funding ratios for its fire and police plans were the lowest among the five largest Pennsylvania cities. The non-uniform plan had the second lowest ratio.

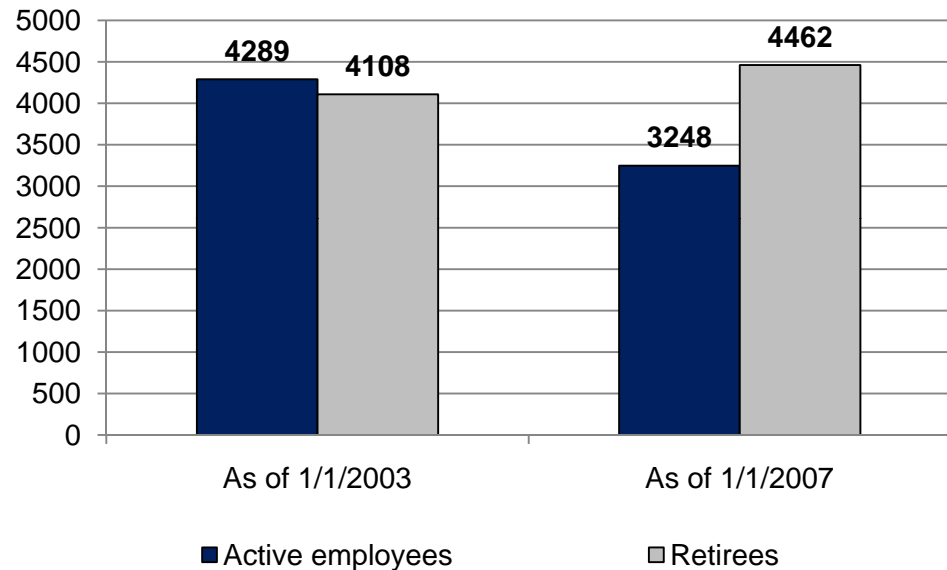


Source: December 2008 PERC Report

Pittsburgh's Pension Crisis

In addition to the low funding ratio, other trends raise the possibility that Pittsburgh's pension crisis will get even worse without corrective action.

- As of 1/1/07 the City had more retired employees drawing benefits from the pensions than active members contributing to it.
- Pittsburgh had 1 active employee for every 1.4 retirees while the national median is 1 active employee for every 0.5 retirees.



- Despite meeting the annual required contribution (ARC) every year, the City's pension funds are losing money due to the ratios outlined above and investment returns below assumptions.
- Low funding levels drive the City's annual pension contributions higher, leaving less funds to maintain critical services. The impact of the pension crisis extends beyond employees to all community stakeholders.

Pension Rescue Plan

In recognition of this crisis and the need to address it to exit Act 47 oversight, the Amended Recovery Plan has a multi-faceted “Pension Rescue Plan” that involves increased funding, liability management, sound pension plan administration and building partnerships for state reform.

To increase funding, the Amended Recovery Plan requires the City to contribute an additional \$10 million above its baseline (projected Minimum Municipal Obligation) to its pension funds in FY2010, rising to \$12 million in FY2011 and FY2012, and \$14 million in FY2013 (PN01, p30).

	FY2009	FY2010	FY2011	FY2012	FY2013	Total
Baseline (Projected MMO)	44,187,695	44,603,343	45,041,675	45,503,949	45,970,967	225,307,629
Additional contribution (City Five-Year Plan - ICA approved)	2,209,385	2,230,167	2,252,084	2,275,197	2,298,548	11,265,381
Additional contribution (Amended Recovery Plan PN01)	-	10,000,000	12,000,000	12,000,000	14,000,000	48,000,000
Total	46,397,080	56,833,510	59,293,759	59,779,146	62,269,515	284,573,010

This builds on the additional \$2.2 million contribution that Council approved in the FY2009 – FY2013 five year plan. It also builds on the February 2008 governance pledge between the Mayor and Council to contribute an additional 15% above the MMO.

Pension Rescue Plan

In contrast with a \$523.9 million unfunded liability, the \$48.0 million in additional contributions by FY2013 is only an initial step. The pension crisis did not develop in a year or two, and its resolution will not be achieved in such a time frame.

However, the annual additional contribution does have a compounding impact. Using the City's proposed new target 8.0 percent annual investment earning assumption, \$10.0 million contributed in FY2010 grows to \$12.6 million in FY2013 and then to almost double its initial size by FY2019. As the City increases its additional contribution and the compounding effect grows, the City will generate over \$187 million in pension assets by FY2019, increasing assets by over 70 percent.

Compounding Effect (Dollars are in Thousands)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	10,000	10,800	11,664	12,597	13,605	14,693	15,869	17,138	18,509	19,990
2011		12,000	12,960	13,997	15,117	16,326	17,632	19,042	20,566	22,211
2012			12,000	12,960	13,997	15,117	16,326	17,632	19,042	20,566
2013				14,000	15,120	16,330	17,636	19,047	20,571	22,216
2014					14,000	15,120	16,330	17,636	19,047	20,571
2015						14,000	15,120	16,330	17,636	19,047
2016							14,000	15,120	16,330	17,636
2017								14,000	15,120	16,330
2018									14,000	15,120
2019										14,000
Total	10,000	22,800	36,624	53,554	71,838	91,585	112,912	135,945	160,821	187,686

Pension Rescue Plan

To fund this additional pension contribution, address other legacy costs and operating needs and maintain an adequate fund balance, the City will need to generate an additional \$10 million per year in expenditure reductions or revenue increases beyond those already identified in the Amended Recovery Plan. In keeping with our charge that this Plan set parameters so the City will address its legacy costs while giving the City maximum flexibility to determine its own course for doing so, initiative RE01 (page 272) establishes the following:

Preferred Revenue Plan

The City shall pursue options at its discretion to generate \$10 million per year which may include:

- Additional savings or revenues beyond those identified in the Plan.
- Alternative funding approaches such as leasing the Parking garages.
- Pursuing changes to the Local Services Tax or payroll preparation tax, which require State action.

Failsafe Revenue Plan

If the City cannot establish these changes in its budget and all other required legal actions by November of each year, the City shall pass sufficient increases in locally controlled taxes to fund the pension and other legacy cost contributions.

Pension Rescue Plan

- This “preferred – failsafe” revenue approach is consistent with the 2004 Recovery Plan that proposed a “preferred revenue plan” with several changes to the tax structure, some of which required State action, and an “alternative safety net” that included increases in locally controlled taxes.
- This approach gives City leadership flexibility to pursue options at its own discretion and allows the possibility that the City could find other means not prescribed in the Amended Recovery Plan. ***The Amended Recovery Plan sets parameters so the City can continue its financial recovery while giving the City greater flexibility to manage its own way toward that objective.***
- This approach is not a “commuter bail out” as it has been described. The Amended Recovery Plan does not emphasize any particular alternative (like the LST) as the optimum choice to accomplish this objective.
- While the Plan gives the City flexibility to pursue other options, the City’s ability to rescue its pension funds cannot be contingent on outside action. If no other option is implemented by November of each year, the “failsafe” takes effect and the City will have to raise locally controlled taxes. ***The Amended Recovery Plan provides the City with an exit strategy that it can follow independent of Commonwealth action.***

Pension Rescue Plan

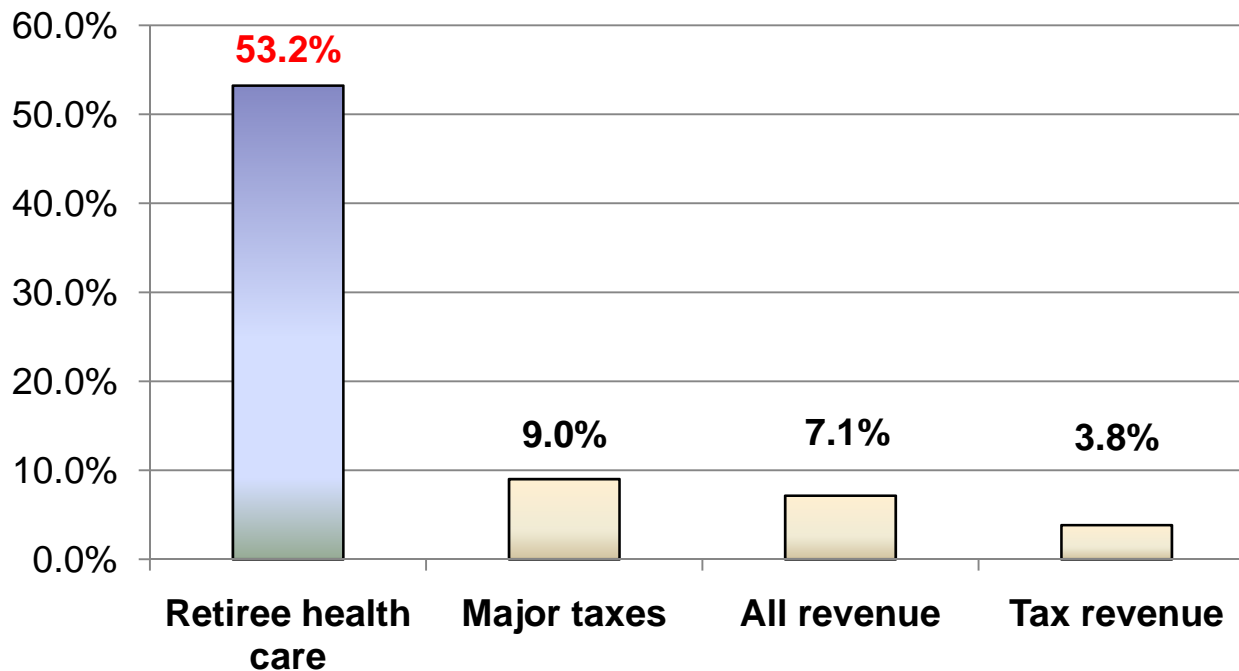
Other pension related initiatives include:

- **Liability management:** No pension enhancements; removing overtime from the firefighter pension benefit calculation for new hires; exploring the creation of a new, less expensive defined benefit pension plan for new employees (initiatives PN04 – PN06, p33 – 34).
- **Plan administration:** Continue the progress in evaluating pension performance regularly and making a portion of the pension contribution earlier in the year as done in Q1 FY2009 (initiatives PN09 and PN10, p36).
- **State partnerships:** The Amended Plan supports the Mayor's efforts to build a statewide coalition to reform pensions by rewriting the State pension aid formula, allowing plans to consolidate, banning overtime from pension contribution formulas and eliminating the mandate for certain jurisdictions to provide defined benefit retirement plans. Other alternatives worth consideration include establishing varying levels of state oversight or administration dependent on funding ratios and setting maximums and minimums for adjusting pension funding assumptions (initiative PN12, p36).

Legacy Challenge: OPEB

- The City's liability for other post-employment benefits (OPEB), the largest of which is retired employee health insurance, receives less attention but is still a threat to the City's financial health.
- This liability was valued at approximately \$320 million as of January 1, 2006. The City funds these benefits on an annual basis plus a \$200,000 contribution in the FY2009 – FY2013 five-year plan. But the rapid growth in these costs creates risk that OPEB, if funded only on an annual basis, could overrun resources needed to meet operating and capital budget needs.

Growth Rates, FY2005 – FY2008



Legacy Challenge: OPEB

- The 2004 Recovery Plan provides long term OPEB cost control by eliminating retiree health care for employees hired after 1/1/2005 and requiring that firefighters retiring after 1/1/2006 pay any increases in healthcare premiums during retirement (FOP retirees already had that provision).
- The Amended Recovery Plan continues those valuable provisions. But that alone will not impact the large number of employees who retired before 2005 for whom the City bears most cost increases at their high growth rate (see previous slide).
- The Amended Recovery Plan has a multi-faceted approach to addressing OPEB.
 - Establish an OPEB trust fund with a \$2 million contribution per year beginning in FY2011 (PN03, p32).
 - Eliminate City contribution to retiree life insurance for new hires (PN08, p34).

Legacy Challenge: Workers' Compensation

- Reforming workers' compensation was a key part of the 2004 Recovery Plan, and has been an area of strong focus for the City's leadership.
- New claims are being handled in a professional and active manner and legacy claims have been reduced from over 1,000 in 2005 to just over 700 in 2008. The City has also used \$4.0 million to settle 71 cases and save \$38.0 million since 2004.
- Even with this progress, the City's liabilities rose from \$97.3 million in 2004 to \$128.2 million in 2009 (31.8 percent). The growth in medical costs is a particular area of concern.

Baseline Workers' Compensation Expenditures

Category	2009 Budgeted	2010 Projected	2011 Projected	2012 Projected	2013 Projected	2009-13 Growth
Medical	6,057,256	6,269,260	6,488,684	6,715,788	6,950,841	14.8%
Indemnity	15,794,589	15,794,589	15,794,589	15,794,589	15,794,589	0.0%
Disability	1,296,147	1,335,031	1,375,082	1,416,335	1,458,825	12.6%
Mitigation	1,500,000	0*	750,000	500,000	0	-100.0%
Total	24,647,992	23,398,880	24,408,355	24,426,712	24,204,254	-1.8%

* Note: The City plans to use \$1.0 million for mitigation in FY2010, but will use the Workers' Compensation Commutation Trust Fund (WCCTF) instead of the General Fund.

Legacy Challenge: Workers' Compensation

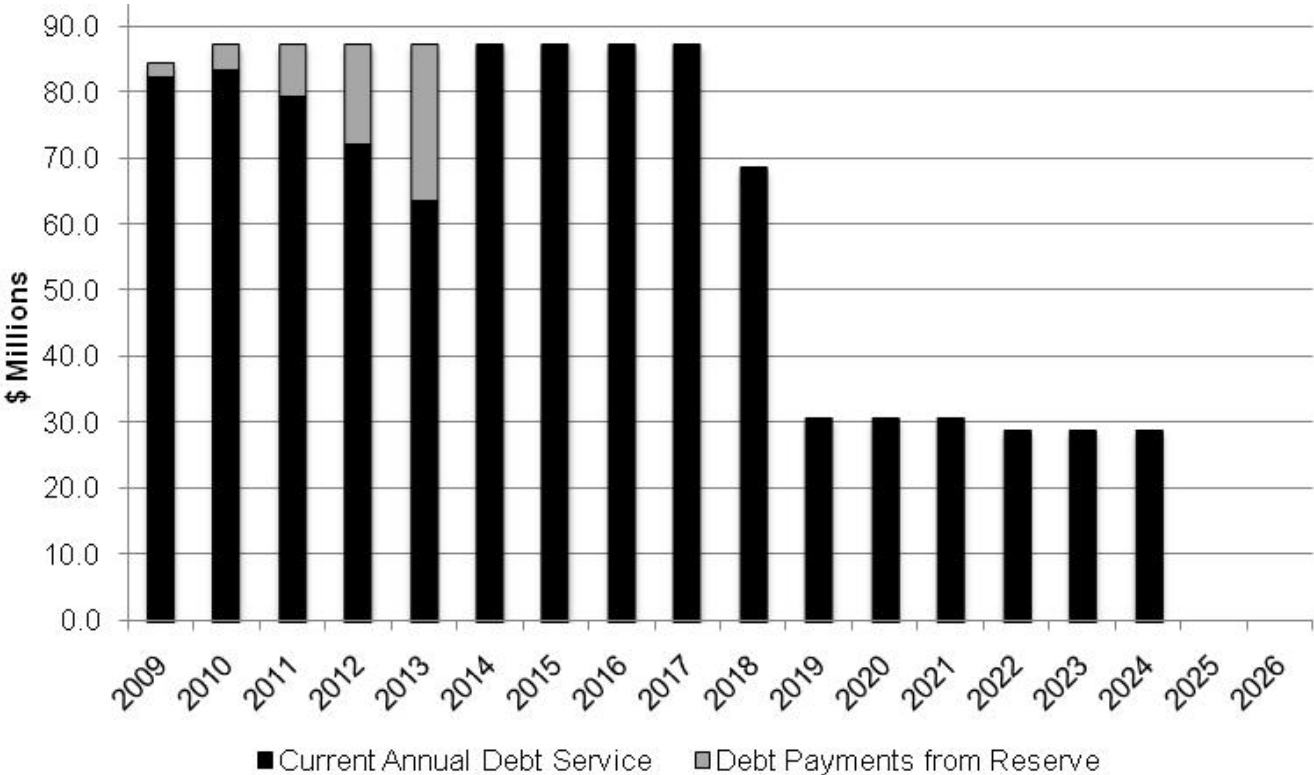
The Amended Recovery Plan initiatives build on the City's progress since 2004:

- The Workers' Compensation Act requires injured workers to treat with medical providers selected by the City for the first 90 days after injury in return for the City providing wage loss and medical care. The City provides more benefits than required (e.g. leave accrual, time credited toward pension) so it is fair to have more oversight of medical treatment. Initiative WC01 requires employees to treat with City panel physicians for the duration of their disability to ensure treatment by trained occupational physicians (p43).
- Initiative WC05 provides \$500,000 for the settlement program in FY2013 (p45).
- Initiative WF03 maintains and extends the City's wellness program to include a health management component (p67). Participation in the program is voluntary, however, employees who choose not to participate in the health management program will be required to pay 20 percent of health insurance premiums instead of 15 percent. The higher contributions will fund the City's existing health screening and new health management programs .

Legacy Challenge: Debt

The City has \$723.1 million in outstanding general obligation debt principal entering FY2009. Much of it is refunded or non-callable, so there is little flexibility to restructure. Approximately 19 percent of projected FY2009 expenditures is on debt service. While this is not ideal, the City did make progress toward addressing this problem by transferring \$45.4 million to a restricted fund to pay debt service.

Obligation and Pension Obligation Bond Debt Service



Legacy Challenge: Debt/Capital Improvements

- While the City's high debt burden prohibits it from issuing new debt in the short term and the Amended Recovery Plan continues the Administration's strategy to fund capital projects on a "pay as you go" basis, this is a good time for the Administration and Council to put together a strong policy that lays out how debt should be used.
- The Amended Recovery Plan requires the City to draft a Council approved debt management and capital funding policy that provides the parameters for when the City would use certain kinds of debt tools, when the City would refund debt and how much General Obligation debt the City should have as a percentage of its budget (initiative DS03, p54).
 - For the ratio of debt to operating expenditures, Fitch Ratings considers anything over 10 percent "a level at which budgetary competition is a significant consideration." Using FY2008 data, Moody's calculated Pittsburgh's ratio at 18 – 21.4 percent depending on the definitions used. Page 51 of the Amended Recovery Plan shows Pittsburgh's ratio in comparison to similarly sized cities.
- The Amended Recovery Plan also requires the City to develop a formal interdepartmental process that results in an annual capital budget and six year capital plan to be submitted to City Council with the annual Operating Budget and approved with the budget each year (CB01, p245).
- Along with meeting the funding requirements in the Amended Recovery Plan, to exit Act 47 oversight, the City must show that it is ready to manage its debt and CIP process in a way that protects its fiscal health so the City does not return to fiscal distress later. The City has dramatically improved its operating budget process. Now it must do the same with the capital budget.

Capital Improvement Program Funding

The Amended Recovery Plan provides a strategy for pay-as-you-go CIP funding at \$55 million a year through FY2013:

- Expenditure controls enabling transfers from the General Fund in FY2011 and FY2012 (CB04, p246).
- Freezing the parking tax at the current rate and directing incremental revenue to fund capital projects. This would require Commonwealth approval but would also provide more money to invest in regional assets (e.g. roads, bridges) that benefit residents and commuters (RE02, p274).
- Possible debt restructuring in FY2012, if it meets the debt service policy criteria (DS02, p54).
- Funding from Federal, State and CDBG sources are projected based on recent historical information.

If the parking tax freeze is not achieved, this would reduce the amount available for the CIP.

Capital Improvement Program Funding

CIP Funding, FY2009 – FY2013

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Capital Balance	78,323,210	51,435,930	30,228,600	24,108,311	23,376,950
Transfers from General Fund	0	0	15,000,000	18,900,000	0
Parking tax revenues*	0	3,792,670	3,879,711	3,968,639	4,059,978
2012 Debt Refunding**	0	0	0	1,400,000	0
CBDG	18,002,958	16,000,000	16,000,000	16,000,000	16,000,000
Federal/State Funding	14,719,578	14,000,000	14,000,000	14,000,000	14,000,000
Annual Capital Spending	(59,609,816)	(55,000,000)	(55,000,000)	(55,000,000)	(55,000,000)
Remaining Capital Fund	51,435,930	30,228,600	24,108,311	23,376,950	2,436,928

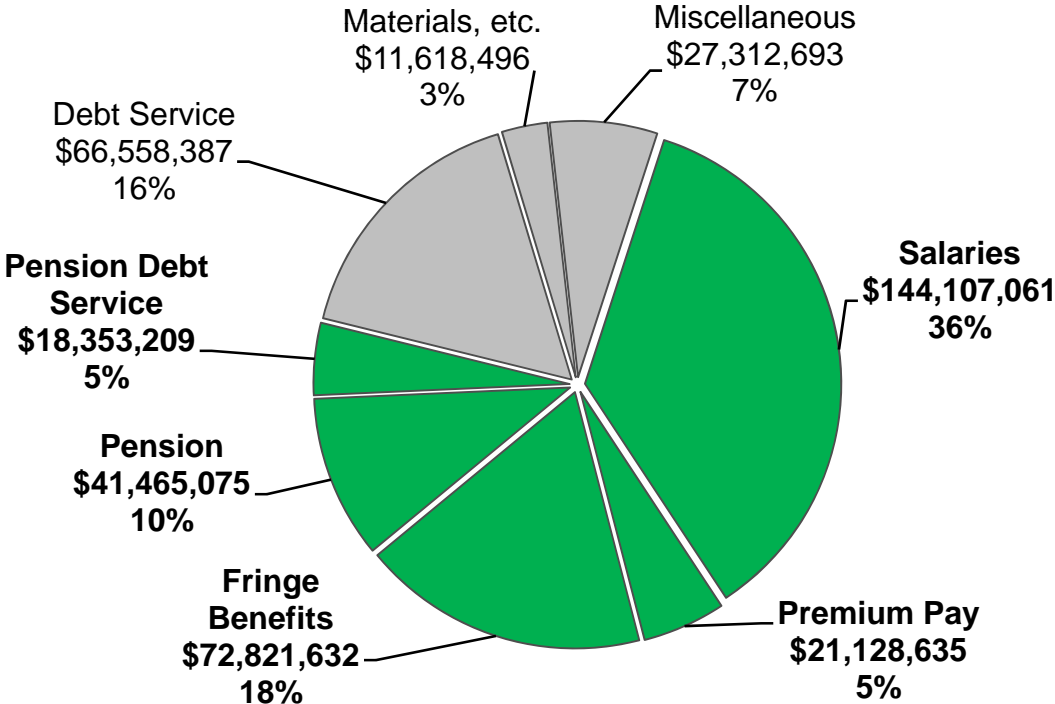
* This would require Commonwealth approval but would also provide more money to invest in regional assets (e.g. roads, bridges) that benefit residents and commuters.

** Contingent on meeting criteria in the City's debt policy.

Workforce & Collective Bargaining

As in 2004, the initiatives related to the City's workforce and collective bargaining are a major part of the Amended Recovery Plan. At more than 70 percent of the City's expenses, there is no way to address the large legacy costs that impede the City's financial recovery without also addressing workforce costs.

Workforce Related Costs, FY2008 Actual



Workforce & Collective Bargaining

- The ongoing national recession has constrained public and private sector employers' ability to provide wage growth. While Pittsburgh has certainly fared better than other areas, it is not immune to this broader trend:
 - National unemployment in April 2009 reached 8.9 percent, the highest in twenty-six years. Since the recession began in December 2007, 5.7 million jobs have been lost in the U.S.
 - In Pennsylvania, unemployment rose from 4.9 percent in March 2008 to 7.8 percent in March 2009. Between February 2009 and March 2009, the Commonwealth lost 30,500 jobs.
 - The unemployment rate in the Pittsburgh region was 7.6 percent in February 2009 and March 2009 (not seasonally adjusted). Current unemployment is at the highest rate in fifteen years and notably higher than the 5.1 percent unemployment rate of March 2008.
- At the same time, inflationary pressures are low. Over the last three months of 2008, the chained consumer price index (C-CPI-U), considered by BLS to be the best approximation for cost-of living, *declined* by 3.3 percent nationally. Over the full calendar year that index fell by 0.5 percent. The Federal Reserve Bank First Quarter Survey of Professional Forecasters projected CPI increases of just 0.2 percent this year.
- While most large governments are struggling with the prospects of wage cuts, furloughs or layoffs, Pittsburgh can offer pay raises that are moderated so the City can address its legacy costs as outlined in the Amended Recovery Plan.

Workforce & Collective Bargaining

Instead of prescribing a specific wage pattern over the five year period and mandating freezes and reductions in other kinds of cash compensation and leave, the Amended Recovery Plan provides parameters within which the City and collective bargaining units can negotiate changes to compensation (WF02, p63).

- In the first year of a new collective bargaining agreement (FY2010 for non-represented employees) each full time employee receives a \$1,000 bonus (\$500 for part-time). Base wages do not increase so the City is better positioned to address legacy costs, especially employee pensions.
- In subsequent years the Amended Recovery Plan establishes specific maximum dollar amount allocations for each bargaining unit within which the City and bargaining unit can negotiate compensation component changes. Negotiable components include, but are not limited to, wage/salaries, longevity, shift pay, vacation, holidays and other paid leave. Certain items are not negotiable (e.g. pension enhancements, employee contributions to health care premium costs).
- If the entire allocation were directed to a base salary increase, employees would receive a 2.0 percent increase in the second year, 2.0 percent increase in the third year, 2.5 percent increase in the fourth year and a 3.0 percent increase in the fifth year of the new bargaining agreement.
- The City and collective bargaining unit negotiate the changes within the parameters set by the Amended Recovery Plan. The Act 47 Coordinator verifies that the negotiated changes fit within those cost parameters.

Workforce & Collective Bargaining

- The Amended Recovery Plan continues the protection of management rights established in the 2004 Recovery Plan (WF01, p63). These provisions are not new, but they are critical to the City's ability to manage its workforce to meet changing needs and service demands in the most efficient and effective manner possible.
- The Amended Recovery Plan continues the employee health care premium sharing arrangement established in the 2004 Recovery Plan, except that employees who elect not to participate in the health management program pay 20 percent of premiums instead of 15 percent (WF03, p67).
- The Amended Recovery Plan provides a cap such that the City's contribution to active employee health insurance (including medical, dental and vision benefits in the aggregate) for each bargaining unit shall not increase by more than 9.0 percent in any year. Any annual increase in excess of 9.0 percent shall be paid by the employees through higher premium contributions and/or adjustments to plan design as necessary.

Revenue Initiatives

- The Amended Recovery Plan follows the 2004 Recovery Plan's strategy to broaden the City's revenue base beyond the four taxes – current year real estate, earned income, parking and payroll preparation – that accounted for 63 percent of General Fund receipts in FY2008. Governments with a diverse revenue base are better positioned to weather economic downturns.
- Along with the previously discussed revenue initiatives related to the additional pension and capital improvement plan contributions, the Amended Recovery Plan includes an initiative to secure non-profit contributions of at least \$6.0 million per year (RE03, p274). Consistent with the focus on providing the City with flexibility, the Amended Recovery Plan leaves it to the City's discretion to pursue options including, but not limited to the following:
 - Increased voluntary contributions through a revised agreement with the Public Service Fund through the Pittsburgh Foundation.
 - Pursuing changes to State law that allow the payroll preparation tax to be applied to non-profit institutions.
 - Establishing new, legally enforceable fees applicable to services rendered to tax exempt institutions.
- The Administration and Public Service Fund have negotiated an agreement for the years FY2008 – FY2010 yielding contributions of \$6.5 million. The Coordinator recommends that Council approve that agreement with the understanding that additional contributions will be sought as outlined in the Amended Recovery Plan.

Revenue Initiatives

- The 2004 Recovery Plan directed the City to undertake a global increase of its fees to generate revenue. Since then few if any fees have been adjusted to account for inflation of over 10 percent, prevailing rates in adjacent communities, or the actual cost of providing services. The Amended Recovery Plan requires the City to adjust selected fees to generate an overall fee revenue increase of 30 percent by FY2011 (RE04, p275).
- The 2004 Recovery Plan suggested that the City establish a Market Based Revenue Opportunity (MBRO) program, which includes advertising, exclusivity arrangements, rental agreements and corporate sponsorships. Despite some progress, the City has not established an MBRO policy, released a Request for Proposals to qualified vendors or achieved any revenue as targeted in the 2004 Recovery Plan. The Amended Recovery Plan requires the City to implement the MBRO program by October 1, 2009 (RE05, p275).
- Other revenue related initiatives (e.g. improved delinquent tax collection, increased recycling revenue) are addressed in the Amended Recovery Plan outside the revenue chapter and are discussed elsewhere in this presentation. The parking tax freeze is addressed on slides 21-22.

Controlling Expenditure Growth

The City has successfully held actual year-end expenditures below budget each year since FY2005 once they are adjusted to exclude non-recurring transfers to pay-as-you-go capital funding (FY2007, FY2008) or the new restricted debt fund (FY2008).

	FY2005	FY2006	FY2007	FY2008
Budgeted expenses	416,828,765	427,501,378	425,657,607	423,755,326
Actual expenses	399,389,834	401,232,146	393,981,638	403,365,187
Difference (\$)	17,438,931	26,269,232	31,675,969	20,390,139
Difference (%)	4.2%	6.1%	7.4%	4.8%

In view of this success, the Amended Recovery Plan requires the City to reduce its general fund expenditures by 1 percent below its projection in the FY2009 – FY2013 five-year plan beginning in FY2010 (FI01, p107). The source of that reduction is left to the City's discretion.

Enterprise Resource Planning (ERP) System

- One of the City's critical operational needs is a new ERP system to manage its financial, accounting, payroll and human resources information. The Amended Recovery Plan gives the City flexibility to implement the solution it thinks best, but provides parameters for that implementation.
- The City and County are working toward migrating the City's financial functions to the County's ERP platform, allowing the City to take advantage of the County's financial management software while keeping each government's information separate, secure and confidential.
- Merging these systems would provide an excellent base from which additional shared services, for information technology or other areas, could be developed over time.
- The Amended Recovery Plan encourages this process but, in recognition of the City's timely need for this system, sets a December 31, 2009 deadline for doing so, after which the City would issue an RFP for a different solution (EP01, p131).
- The Amended Recovery Plan sets other parameters such as establishing a project management team, setting up employee training and ensuring that the new system can meet certain financial management needs (EP02 – EP06, p131 – 133).

Other Financial Management Initiatives

Other Amended Recovery Plan initiatives focused on financial management include:

- Completing a comprehensive inventory of all City facilities and equipment (IR04, p137).
- Supporting and expanding the proposed Facility Maintenance Plan to include an evaluation of space utilization (PF04, p121).
- Maintaining an Annual Purchasing Plan (APP) for vehicles and integrating it into the annual operating and capital budget process (PF03, p120).
- Establishing a Risk Manager position to coordinate other initiatives that generate savings by reducing the number or severity of incidents resulting in claims, lowering policy premiums or improving coverage so that the City has less exposure to cover costs on its own (IR01, p136).

Public Safety: Building Rescue Capacity

Many initiatives in the Amended Recovery Plan's Public Safety section are based on work by the public safety operations consulting firm TriData which studied the City's Bureaus of Building Inspection, Emergency Medical Services (EMS) and Fire in 2008.

Initiatives from the EMS and Fire studies include:

- Improve cooperation between the Bureaus of EMS and Fire through coordinated training, including potentially building a new joint training facility (PS01, p139)
- Enhance rescue services by building the Bureau of Fire's capacity (PS02, p140).
 - TriData highlighted a mismatch between potential service needs and available resources, citing vehicle extrication incidents where Fire units arrive at the scene before the EMS rescue unit but can only provide limited support until the EMS rescue unit arrives.
 - The City's Public Safety Director has articulated a vision for a pyramid-shaped emergency response system with a few highly trained people at the top and a broad base of personnel with more basic skills that can be deployed quickly.
 - Therefore, the Amended Plan directs the City to build rescue capacity in Fire which has more staff available than EMS on a per shift basis and more locations from which staff can be deployed quickly.

Public Safety: Bureau of Building Inspection

- In its Bureau of Building Inspection (BBI) report, TriData states, “Many inspectors do not have the minimum certifications required by either the Pennsylvania Uniform Construction Code or the International Code Council” (TriData study, page 16). The Commonwealth’s Uniform Construction Code (UCC) requires that code inspectors obtain certification for the categories in which they perform inspections.
- In response to this critical, immediate need, the Amended Recovery Plan requires the City to restructure employee training, including establishing a training academy program at which all new inspector recruits must gain three basic certifications: Building Code Official, Residential Building Inspector and Property Maintenance. The City will verify that all existing employees and third-party inspectors have the certifications needed to conduct inspections (BI01, p156).
- Other initiatives include:
 - Performing more asbestos inspections in-house to reduce the cost associated with building demolition (BI02, p157).
 - Decentralizing code inspection to improve coordination with police, which is already in progress (BI03, p158).

Public Safety: Bureau of Fire

- In accordance with the 2004 Recovery Plan, the City restructured the Bureau of Fire, eliminating the equivalent of seven companies, reducing the number of battalions from five to four, and closing six fire stations.
- TriData found that “Station 12 has too much overlap in coverage with Engine 13 given the current demand” and recommends that Station No. 12 be closed and Station No. 13 be moved to a new facility so that Station No. 13 can “[continue] to provide excellent coverage to the area previously covered by two stations and [provide] the required backup to the adjacent stations of 19 and 20” (TriData study, page 229).
- Given the operational advantages and TriData’s conclusion that this is an “immediate [change] that can be made without compromising public safety” (TriData study, p83), the Amended Recovery Plan includes this change (FB01, 177).
- Based on its study of risk and demand analysis and operational factors, TriData also advises that any additional large scale Bureau restructuring should occur within the context of a long term plan that includes building demolition, prevention and fire facility investments.

Public Safety: Bureau of Police

The International City Managers Association (ICMA) suggests a ratio of 3 sworn police employees for every 1 civilian police employee. It is not unusual for similarly-sized cities to have a higher sworn-to-civilian ratio than 3:1 but Pittsburgh does so by a larger margin than others.

	Sworn	Civilian	Ratio
Pittsburgh, PA	850	62	13.7
Akron, OH	474	45	10.5
Toledo, OH	669	136	4.9
Buffalo, NY	708	148	4.8
Cleveland, OH	1,655	366	4.5
Cincinnati, OH	1,107	256	4.3
Rochester, NY	734	173	4.2
Newark, NJ	1,227	396	3.1

Source: 2007 FBI Uniform Crime Report

The 2004 Recovery Plan identified 38 positions where work performed by sworn police officers could be performed more cost-effectively by civilians, a conclusion generally supported by the International Association of Chiefs of Police (IACP) review in 2005. The Amended Recovery Plan directs the City to follow through with this civilianization and identify other opportunities where it can put more officers in traditional police duties, like patrol, through civilianization (PB01, p190).

Intergovernmental Cooperation

The Act 47 Coordinator received several recommendations that would push the City toward functional consolidation with the County or other governments. Those recommendations are worthy of further pursuit and demonstrate a commendable eagerness to think broadly and creatively about how to serve Pittsburgh's residents better.

Given the limited progress that the City has made on some initiatives from the 2004 Recovery Plan, the Amended Recovery Plan instead focuses on "next steps" that, if achieved successfully, would provide a platform for expanding cooperation to other areas and partners.

- Pursue joint collection of delinquent taxes and fees with the County, School District and Pittsburgh Water and Sewer Authority (IG01, p237).
- Establish a Shared Services Organization with the County for information technology and other functions (IG03, p238).
- Pursue intergovernmental service arrangements with other municipalities, like the current refuse collection arrangement with the Borough of Wilksburg (IG10, p241).

The previously mentioned ERP system and facility maintenance plan initiatives also provide opportunities for intergovernmental cooperation.

Other Operational Initiatives

Other initiatives in the Amended Recovery Plan include the following:

- Conduct a compensation comparability study for major benchmark job classifications across the City, and for selected highly competitive specialties, to ensure continued competitiveness for recruitment and retention and evaluate the pay grade system (PC01, p75).
- Develop a Citywide strategic plan that identifies training and professional development needs, current programs and resources to address those needs, and remaining unfunded training needs. While the needs identified will likely be more than available resources, having this plan in place can help the City plan appropriately, much like an Annual Purchasing Plan for vehicles (PC04, p76).
- Achieve a target Act 101 recycling rate of 15 percent by 2013. Pittsburgh has a low recycling rate relative to other Commonwealth municipalities, signaling an opportunity to attain more funding through the Commonwealth's Performance grants, reduce land fill costs and support the Administration and Council's green conscience initiatives (PW02, p207).

Conclusion: Plan Objective Revisited

“Pittsburgh needs an amended recovery plan that would provide a blueprint for it to exit Act 47 and address pending legacy costs of debt, pensions, post retirement benefits, workers compensation along with a long-term capital plan, while maintaining positive operating budgets well into the future.”

Conclusion: Initiative Impact

Like the 2004 Recovery Plan, the initiatives in the Amended Recovery Plan generate additional revenues and reduce projected expenditures. The revenue related initiatives generate \$65.9 million over five-years and the expenditure related initiatives reduce projected costs by \$60.8 million.*

Amended Recovery Plan Initiative Impact (\$000s)

	2009	2010	2011	2012	2013
Baseline Revenue	438,474	433,409	441,275	445,170	450,366
Initiatives - Increased Revenue	192	12,043	17,268	17,897	18,535
Total Revenue	438,666	445,453	458,542	463,067	468,901
Baseline Expenditures	437,976	441,001	448,657	452,773	460,360
Initiatives - Reduced Expenditures	(879)	(12,385)	(13,896)	(15,667)	(17,997)
Total Expenditures	437,097	428,616	434,761	437,106	442,363

* Note: This calculation and the chart above assumes the City uses \$5 million in increased revenue and \$5 million in decreased expenditures to generate the \$10 million required in initiative RE01. Any combination of revenues and expenditures totaling \$10 million is possible and would not change the total impact of the Amended Recovery Plan initiatives.

Conclusion: Addressing Legacy Costs

Beyond the City's operating balance, the Plan – and the City itself - has another critical objective: to address the legacy costs that block Pittsburgh's financial recovery. The Amended Recovery Plan directs \$54.5 million to the legacy costs and \$51.0 million to support the Administration's pay-as-you-go capital funding strategy while maintaining a fund balance of at least five percent of general fund revenues.

Amended Recovery Plan Legacy Cost Impact (\$000s)

	2009	2010	2011	2012	2013
Incoming Fund Balance	41,935	43,504	46,549	37,450	25,143
Total Revenue	438,666	445,453	458,542	463,067	468,901
Total Expenditures	437,097	428,616	434,761	437,106	442,363
Address legacy cost – Pension	0	(10,000)	(12,000)	(12,000)	(14,000)
Address legacy cost – OPEB	0	0	(2,000)	(2,000)	(2,000)
Address legacy cost - Workers' Comp.	0	0	0	0	(500)
Capital Project Funding	0	(3,793)	(18,880)	(24,269)	(4,060)
Year-End Fund Balance	43,504	46,549	37,450	25,143	31,121
Fund Balance as % of Revenues	9.9%	10.4%	8.2%	5.4%	6.6%

Conclusion: A Golden Opportunity

- The City has made remarkable progress in turning projected multi-million dollar deficits into annual positive operating balances. The residents, elected and appointed leaders, municipal employees, the non-profit and business community, the Commonwealth and the ICA all contributed to this turnaround.
- Now those stakeholders have an opportunity – a golden opportunity considering how most major cities are struggling in the prolonged national recession – to take on the challenges that prevent the City’s full recovery.
- Using the accumulated fund balance wisely, building a diverse revenue base, controlling expenses and improving management of legacy costs and capital needs as laid out in the Amended Recovery Plan comprises a strong strategy to meet those challenges.