



NATALIA RUDIAK

Councilwoman, City of Pittsburgh - District 4



Tuesday, November 22, 2011

Dear Mayor Ravenstahl,

I am writing today to ask for more information regarding your proposal to float between \$80 and \$120 million in general obligation bond debt to fund an expanded capital budget program over the next two years. This is a massive sum of money and a significant addition to the city's already substantial bond debt. However, the city's infrastructure is in need of investment and some borrowing may be in order. The amount and type of borrowing is dependent upon several factors that I hope will be publicly detailed in the coming weeks.

In initial discussions about a potential bond package the debt structure was described as being rather lop-sided, with little-to-no debt service payments at the beginning of the term, but that balloon toward the end of the term. The rationale for this is to allow new debt service payments to "fill-in" the drop-off in existing debt service payments that the city will experience beginning in 2018. What will the interest rate be on this new debt? Will the debt have a variable interest rate or a fixed rate? How much in total debt service will we spend on an \$80, \$100, or \$120 million bond package that is structured in this way?

The capital budgets that you propose over the next two years will be the largest in the history of the City of Pittsburgh. Not only are you proposing borrowing, but CDBG funds and potential pay-go funds will be added into the mix as well, creating capital budgets that could be as large as \$85 million each year. Considering our city has laid-off a quarter of our workforce since the state takeover, stretching our employees thin as it is, do we have the capacity to administer a capital budget this large? Do you think a smaller borrowing would be more prudent?

At the time of this writing, the City still does not have a debt policy. As a matter of practice, I am reluctant to support any new debt until a sound debt policy has been written into the City Code. Will you commit to supporting a process of compromise to ensure that a responsible debt policy is passed prior to any council action on your debt package?

Finally, the capital budget that you proposed to City Council on Monday, November 14th does not meet the requirements of city law. If you will recall, last year Councilman Burgess and I worked on legislation to bring transparency to our budgeting process—legislation strongly based on reforms that the state has required of us under Act 47. As of this writing, none of the components of this law have been enacted by your administration.

The law requires you to hold at least four public meetings on the budget in the spring, which did not happen. It requires you to submit a six year capital improvement plan in the summer, which

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did not happen. Most notably, the law requires that the capital budget include descriptive information for each line-item, including:

- A description of the geographic location of each proposed Capital Expenditure, including neighborhood census tract, and census block group. If the Capital Expenditure is for a general city-wide project, the Capital Program shall list anticipated locations, but note that the list may not be exhaustive.
- For Capital Expenditures related to the general maintenance of infrastructure, the total projected funds required to improve or rehabilitate the infrastructure type city-wide to an acceptable state of function of repair.
- An indication of the departmental or agency priority for each Capital Project related to a Capital Expenditure. A uniform system for indicating priority shall be designed by the Mayor and implemented across all departments.
- A report that details the distribution of funds between CDBG eligible census tracts and activities and non-CDBG eligible census tracts and activities.

After reviewing your proposed capital budget, it is clear that none of the legally required provisions of this law were included in your budget. I am reluctant to support the type of debt that you are asking us to incur as long as the transparency law that would illuminate how these funds are to be spent goes ignored. When will you be able to demonstrate significant progress toward implementing this law?

As I stated before, these are important questions for which I hope to receive answers before I am asked to vote on any proposed budget or debt package. The city certainly needs investment—that is something on which we can all agree. However, risky borrowing of unconventional and high interest debt is what caused this city's financial emergency and the economic downturn that has plagued our country for the last several years. I do not intend to repeat those mistakes and I am hopeful that a fuller vetting of your proposal will show it to be a reasonable proposition.

Best,



Natalia Rudiak
Councilwoman, District 4

CC:
Pittsburgh City Council
Scott Kunka, Director of Finance