



CITY OF PITTSBURGH

"America's Most Livable City"

Office of Mayor William Peduto

June 3, 2014

Nicholas D. Varischetti
Pittsburgh's Intergovernmental Cooperation Authority
Four Northshore Center
106 Isabella Street, Suite 105
Pittsburgh, PA 15212

Chairman Varischetti:

Thank you for your letter dated June 2, 2014 regarding the proposed 2014 Amended Act 47 Recovery Plan. As you know, I have long been a proponent of remaining under Act 47 status in order to craft a sustainable, achievable exit plan from state oversight. While I don't agree with every recommendation in this plan, it is a strong baseline and a starting point for actions that we feel will lead to a more resilient city for many years to come.

The structural reforms that you lay out in your letter are exactly those that I have been working to address for many years on City Council and have made the focus of the conversation between my administration and the Act 47 team. I agree that the city has not done enough to fund our pension plans, we have not invested enough into retiree healthcare costs (OPEB), we must continue efforts to minimize workers' compensation claims and payouts, we must seek sustainable new revenue sources, and we must secure a lasting partnership with our large nonprofits. You will find no argument from me or my administration on any of these points. In fact, in some ways I believe the Act 47 plan does not go far enough, particularly on the issue of pension funding. I will add, however, that one of the most critical challenges we face is not addressed in your letter -- the need for increased and sustained capital spending to shore up our failing infrastructure and make smart investments in the future of our city. Without this none of the other plan initiatives can truly be successful.

On the issue of full implementation of the city's enterprise resource planning system, again you will find no disagreement from me or my administration as to the need for comprehensive financial management that is reliable, user-friendly, and responsive to our needs. I was a primary proponent of implementation of such a system when I served as City Council's Chair of the Committee on Finance and Law and I remain a proponent as Mayor.

On the specific issue of implementation of the system's payroll module, however, I would like to reiterate my administration's position, our actions to date, and our plan moving forward. When I took office and my senior staff began investigating the progress of this implementation we were alarmed to learn that despite years of work by the previous administration and millions of dollars of investment, the payroll system could not reliably perform even the most basic of

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tasks. The implementation process was poorly documented, civil servants who were familiar with the system had no confidence in its ability to perform its job, and invoices from the consultant hired to implement the system were piling up with no results to show for the work being billed. This is unacceptable. I immediately instructed my senior staff to stop work on the system, halted the contract with the current consultant, and moved to enter into contract with an independent firm which will perform an audit of the work done to date, develop a new implementation plan, and assist my administration with carrying it out.

I share your sense of urgency around the implementation of this tool but I will not allow any more staff time or taxpayer dollars to be invested into a broken system. It is essential that we find out what went wrong and fix it so that this tool -- and the benefits it would bring to day-to-day management and long-term budget planning -- becomes a useful and reliable part of our financial management system. I won't settle for anything less.

On the issue of the city's operating budget, as you know my administration has taken early steps to reduce costs, find efficiencies, and put in place new programs to maximize outcomes and control costs over time. In two rounds of budget amendments, in December 2013 and February 2014, we cut over \$500,000 from the operating budget. Additionally, we implemented the Severance Incentive Program, which offered incentives for some employees towards the end of their careers to move on from city service, allowing us to close over a dozen other positions. In total these efforts will save the city more than \$5 million over the next five years.

In addition to these immediate changes, we are in the process of moving toward a system of performance-based budgeting that will institute detailed analysis of each department, program, and service in the City of Pittsburgh. We will begin implementing a performance based budgeting system in the FY 2015 budget and will continue strengthening its capacity and effectiveness in the coming years. These efforts are just the beginning of a wholesale restructuring of the entire city government to bring our operations into the 21st century and deliver better, more cost-efficient services to our residents.

With this in mind, it was with great interest that I read your analysis that the city's operating expenses are 20% higher than necessary. Given the challenges we both acknowledge with the city's data collection abilities, and the lack of clarity that exists on the state of our current operations, I am unclear as to how this determination could be made. Until we have the systems in place to thoughtfully and deliberately analyze the performance of our departments, programs, and services, indiscriminately slashing our operating budget by 20% would be irresponsible and would likely result in a less effective, less responsive city government. However, I am interested to learn how the ICA made this determination and what your recommendations are for which city services to eliminate in order to achieve this level of savings.

Finally, I would like to again impress upon the ICA to serve as advocates for the structural reforms needed in Harrisburg to ensure that the changes we are making here in Pittsburgh will have the lasting impact we all want them to. Without serious bipartisan pension reform we can pour tens of millions of additional dollars into our pension fund but it will be a fruitless exercise. Without an adjustment to the state pension aid formula dictated by Act 205 we will be forced to continue to subsidize wealthy suburban municipalities at the expense of our residents. Without common-sense reforms to the arbitration process for public safety unions as dictated by Act 111 we will continue to be hamstrung in our efforts to control costs and build more professional public safety bureaus. We need the ICA to be a much stronger voice on these

issues. These are the real opportunities for structural change in Pittsburgh and throughout the Commonwealth, and the real drivers of our structural deficits.

I look forward to our continued work together throughout the Act 47 plan approval process and into the future. We share many common goals, as evidenced by our broad agreement on the points outlined in your letter, and we all want the City of Pittsburgh to be successful. Once an Act 47 plan is approved by City Council and we have a roadmap for implementing these reforms I welcome the opportunity to meet with you and your board to discuss a common plan of action toward achieving these goals.

Sincerely,

A handwritten signature in black ink, appearing to read 'W Peduto', written in a cursive style.

William Peduto
Mayor, City of Pittsburgh

Cc: Members of City Council
City Controller
ICA Board Members
Act 47 Coordinators