

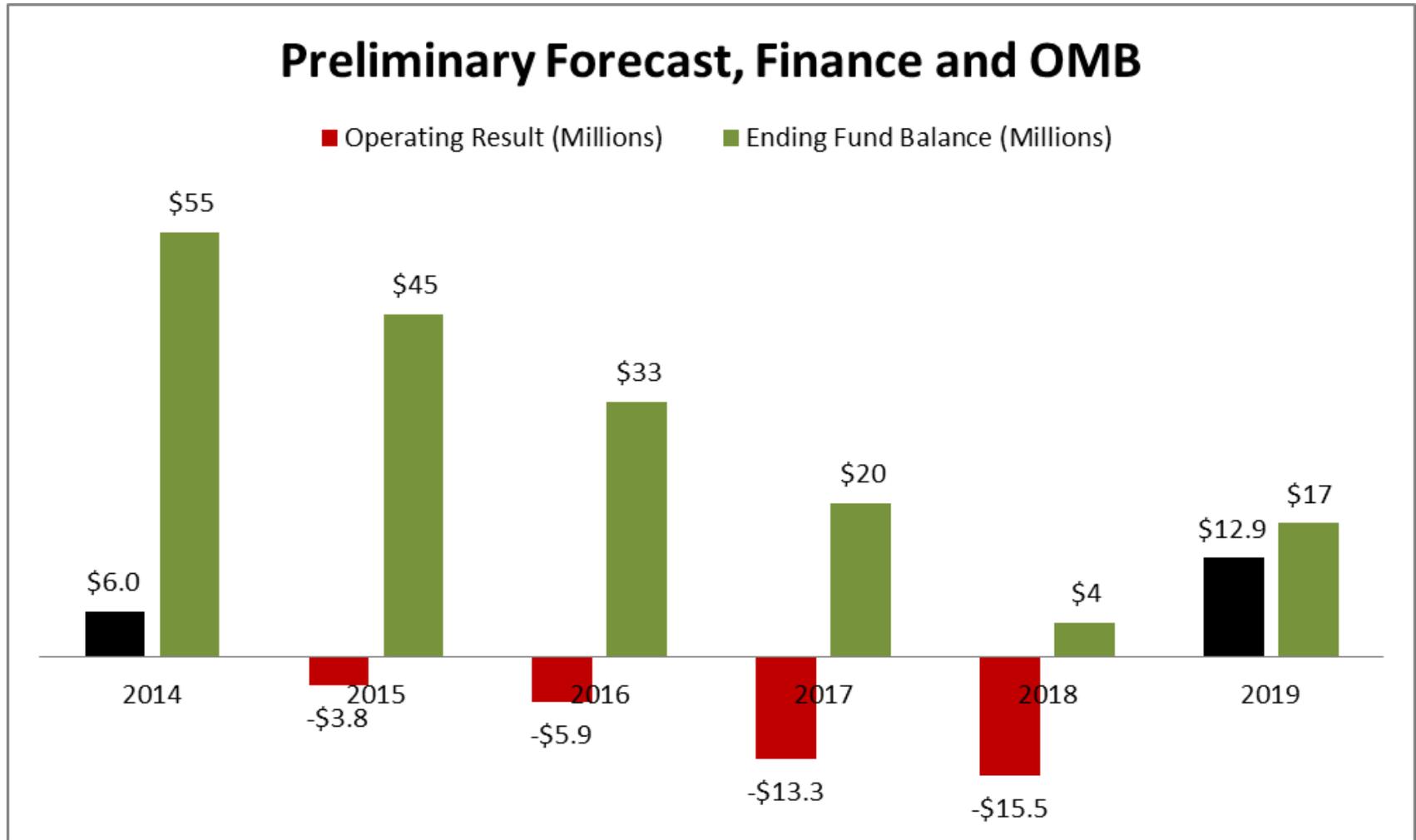


City of Pittsburgh 2015 Budget and Five-Year Plan

September 22, 2014



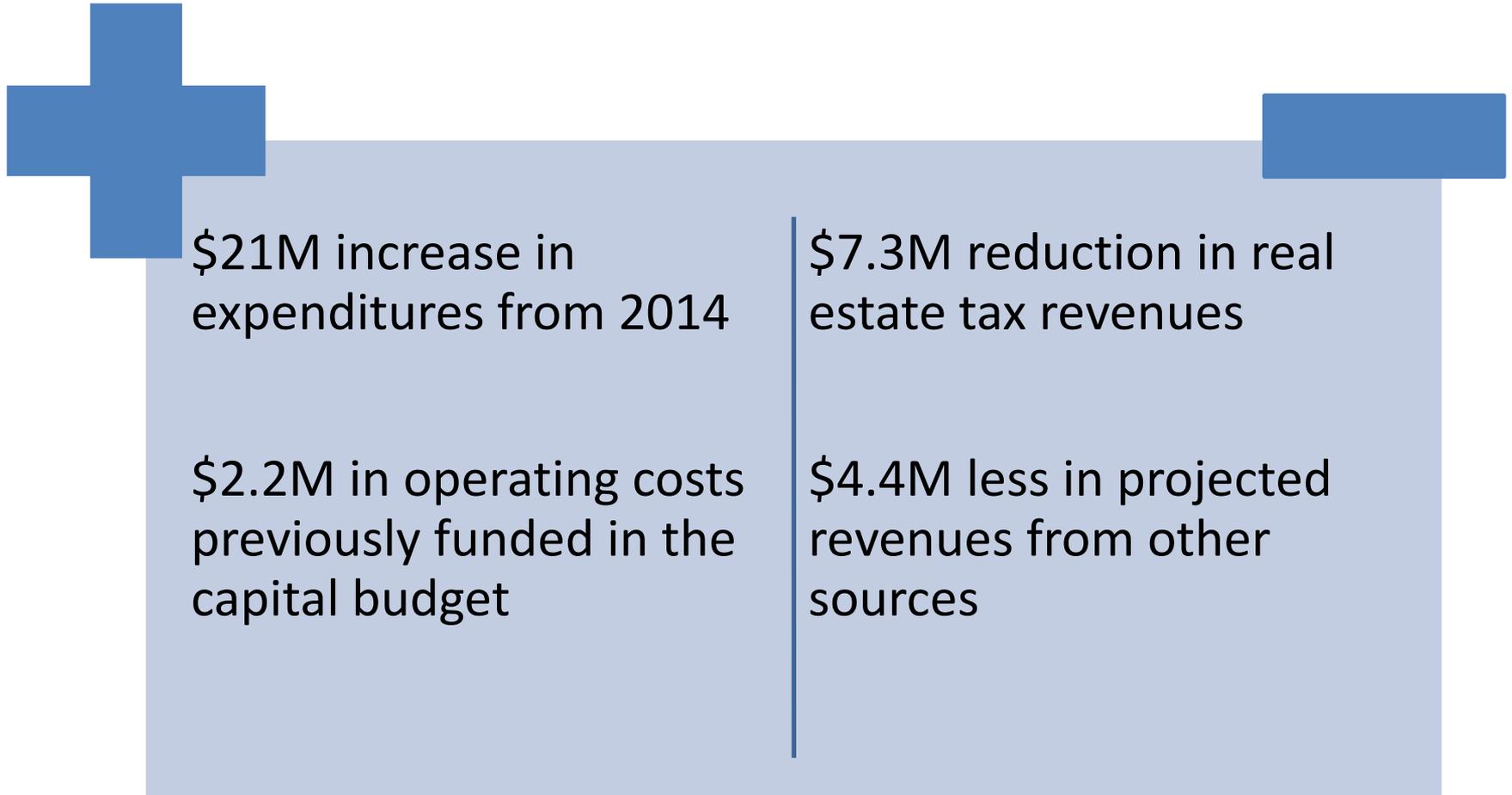
Our preliminary forecast indicated that the City would face significant deficits through 2018 and a shrinking fund balance each year



The City is required to have a balanced budget and present a five-year projection that achieves the primary objectives of the Amended Recovery Plan.



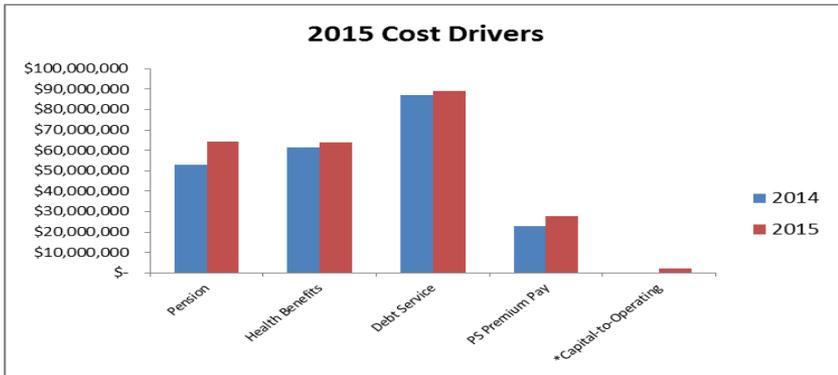
The projected deficits were the product of increased expenditures, revenue shortfalls, and poor budgeting practices of the past



The Act 47 Plan included increased legacy costs and increased real estate tax revenue, but did not include the \$7.2M increase for public safety or the \$4.4M gap in other revenues.

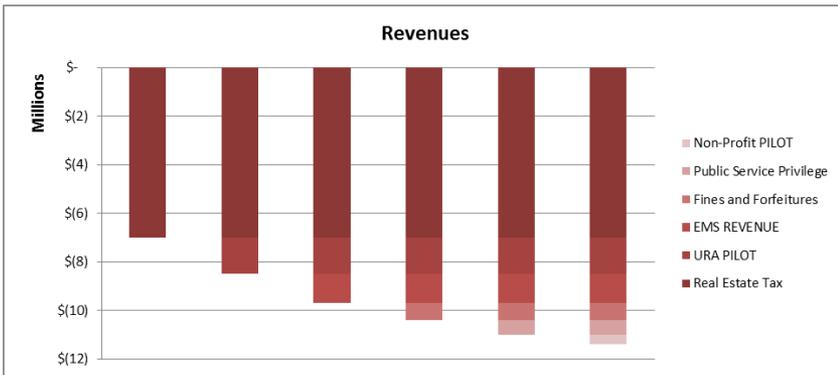


Our proposed solution to declining revenues and increased costs will start with truth in budgeting and provide a solid plan for the City's finances



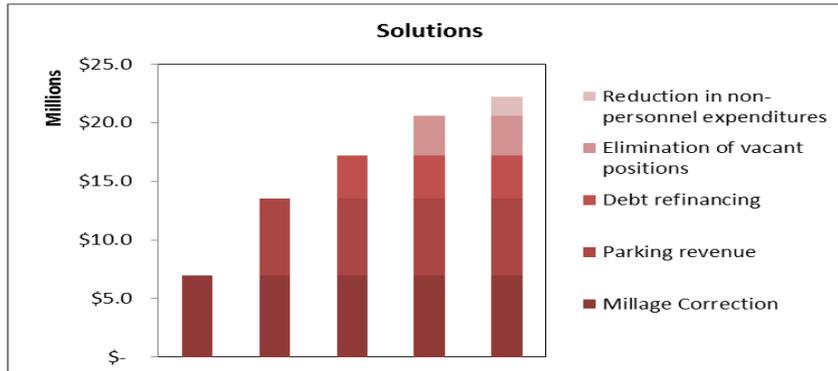
Expenditures: \$23.2M additional

- Pension: The December 2013 action to lower the assumption on investment returns without identifying a corresponding revenue created an \$8M gap that combined with changes in mortality rates will increase costs by \$11.4M.
- Health benefits: \$2.7M increase based on current plans.
- Debt Service: \$2M increase based on current structure.
- Public Safety premium pay: \$5M increase based on truth in budgeting.
- PS equipment/other expenses in the capital budget: \$2.2M



Revenue: \$11.7M revenue gap

- Real Estate: \$7.3M less due to millage reduction in 2013
- Revenue gaps compared to Act 47 Plan projections:
 - URA PILOT: \$1.5M
 - EMS Revenue: \$1.3M
 - Public Service Privilege: \$600K
 - Fines & Forfeitures: \$500k
 - Non-Profit PILOT: \$400k

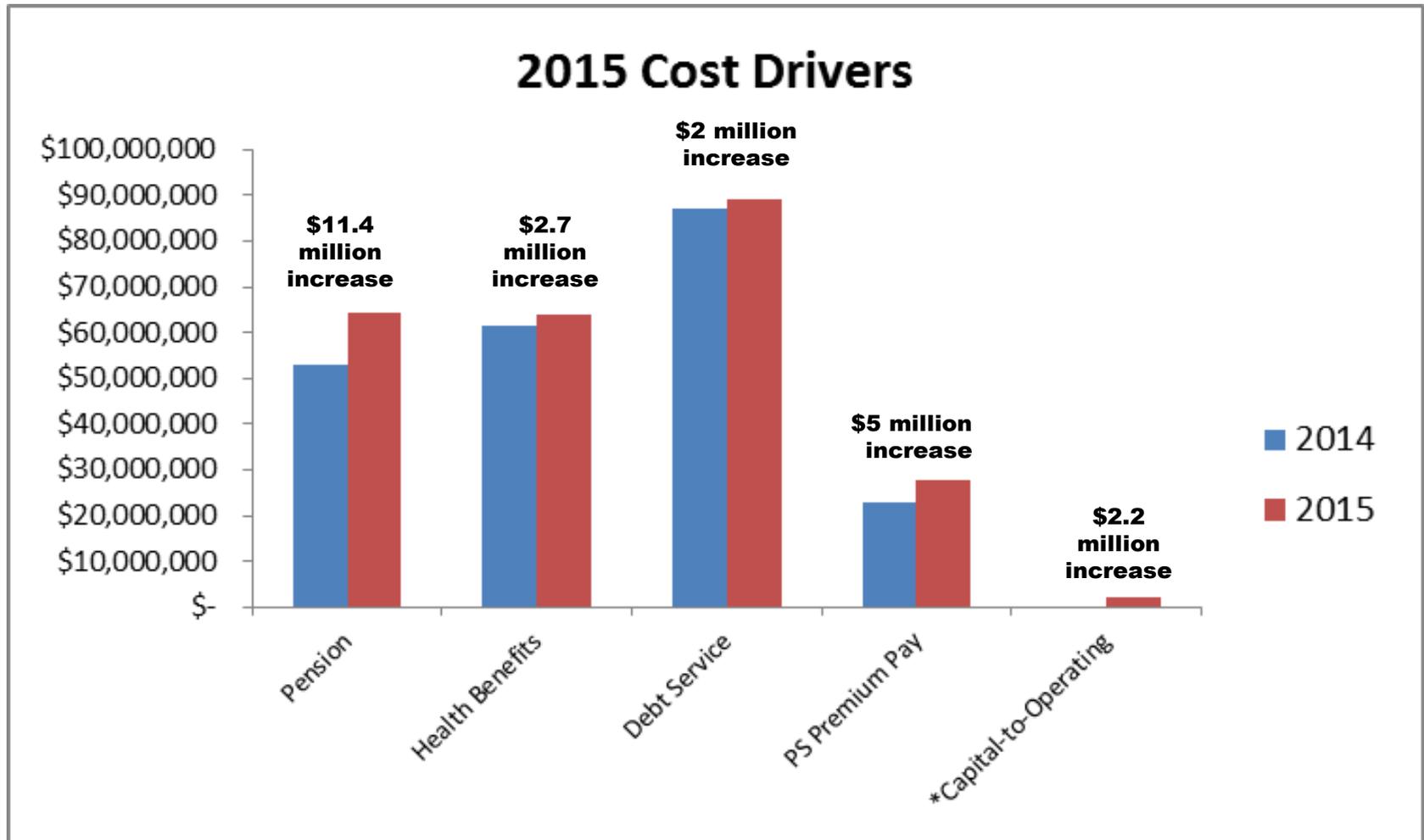


Key Components of the Solution

- Parking Revenue: \$10M increase over the Parking Authority's 2013 contributions to the City.
- Elimination of 75 vacant positions: \$3.4M
- Debt Refinancing: \$3.7M savings due to current low rates
- Reduction in non-personnel expenditures: \$1.6M
- Maximum Compensation Allocations and Other Act 47 Initiatives: \$8.2M
- Real Estate: Revenue-neutral millage adjustment of 0.5 mills to generate ~\$8M in accordance with the Act 47 Plan. 4



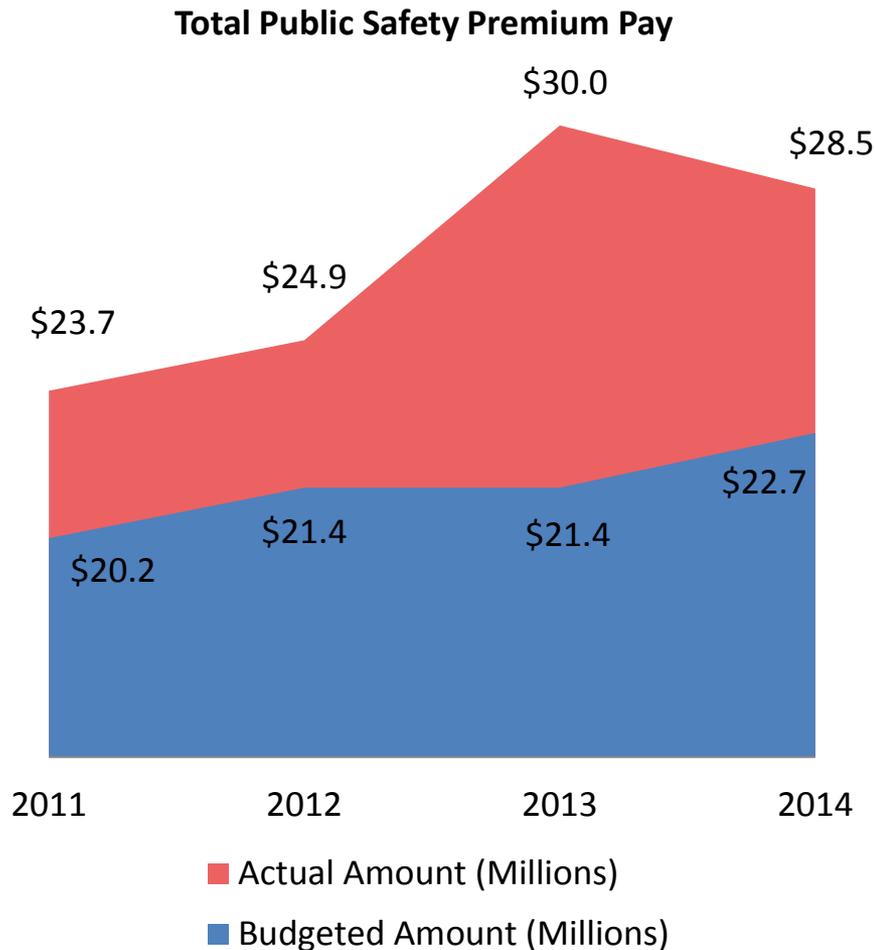
Pension, health care, debt service, and public safety are the main cost drivers for the 2015 Budget, a \$23.2M increase over the 2014 Budget



***OMB identified \$2.2M in public safety equipment previously funded in the capital budget that must be funded in the operating budget to comply with City Code and the Act 47 Plan.**



Public Safety premium pay historically has been under-budgeted, requiring significant year-end transfers to cover actual costs



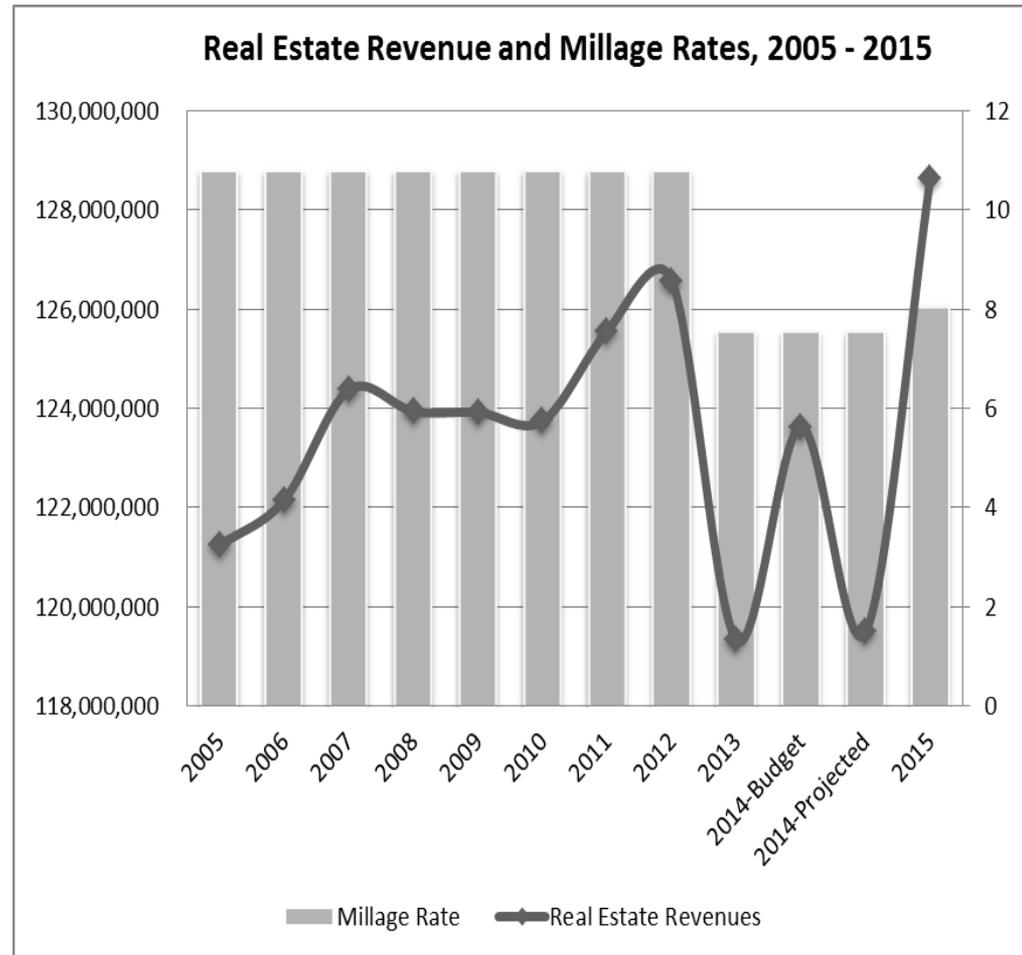
- The budgeted amounts for Police premium pay remained stagnant since 2009; EMS since 2008.
- End of year transfers covered shortfalls each year.
- Key cost drivers include the following:
 - Police: Over \$3M for court time, FLSA, and worked holidays.
 - Fire: Over \$9M related to callbacks for minimum staffing; worked holidays and FLSA are also factors.
 - EMS: Staffing to meet operational needs, worked holidays.
- Budget overages were covered through a combination of strategies:
 - Holding approvals for adding new classes of Public Safety personnel to generate savings in the salaries accounts; and
 - Maintaining high vacancy rates in other City departments, which impacted the delivery of core municipal services.

The 2015 Budget for Public Safety includes realistic projections for premium pay based on staffing and operational needs and increased oversight to monitor controllable costs.



The real estate tax is the City's largest revenue source, but the 2013 millage adjustment created a \$35M hole in the five-year plan

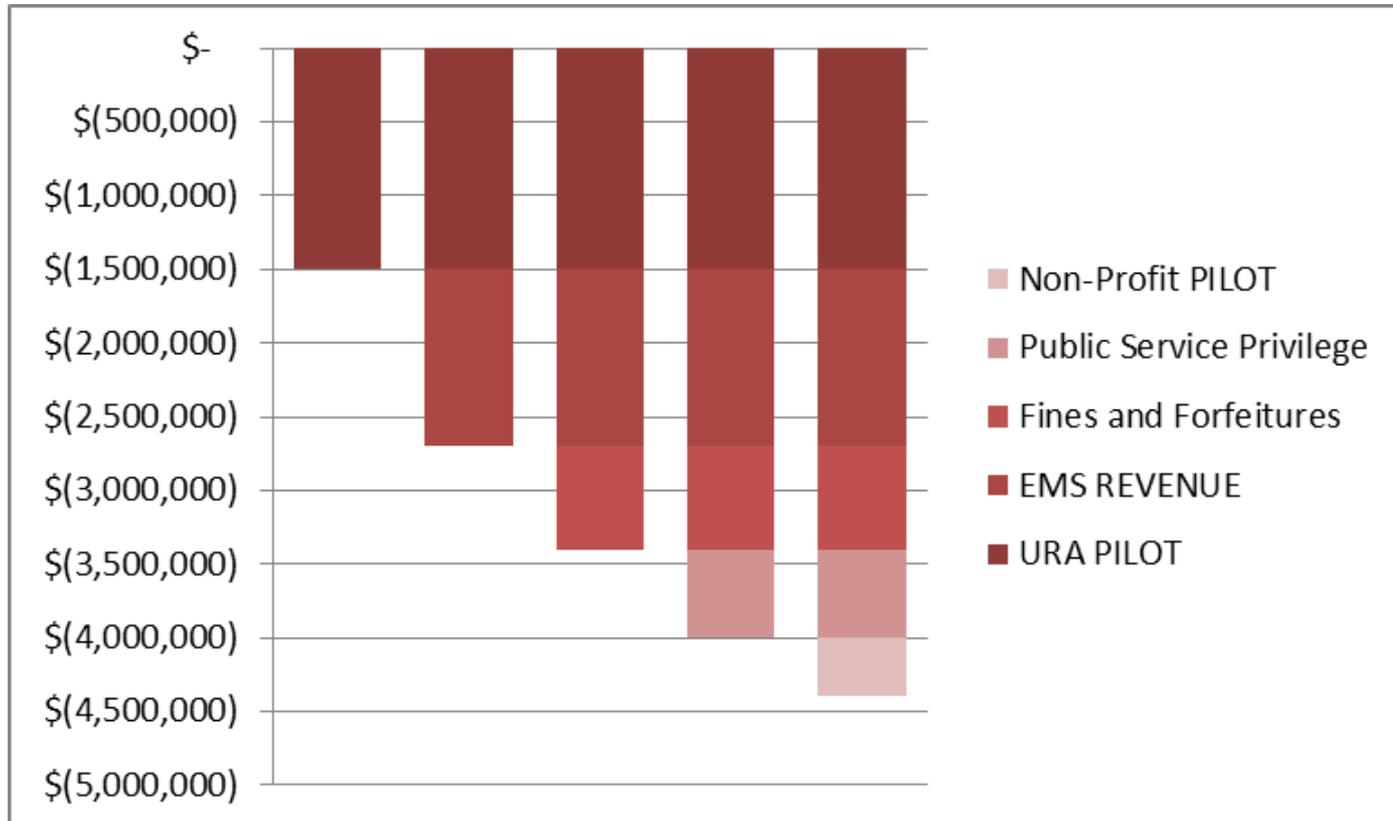
- In 2013 the City reduced the millage rate 30%, from 10.8 mills to 7.56 mills.
- While these efforts were intended to keep the current year real estate tax revenues at the prior year's level, actual real estate tax revenues declined from \$126.6M in 2012 to \$119.3M in 2013. The result is a \$35M hole in the City's five-year plan.
- A revenue-neutral millage adjustment of 0.50 mills would allow the City to regain the revenue lost from reducing the rate in 2013 and avoid drastic reductions in core municipal services that would be required to fill the gap:
 - Reducing the number of Police Officers by 75; or
 - Closing 5 Fire Stations; or
 - Eliminating City Planning, Building Inspection, and Animal Control; or
 - Eliminating 20% of the Department of Public Works



The Act 47 Plan requires the City to restore real estate revenue lost in 2013 to generate \$128M in 2015 without relying on one-time responses that do not provide sustainable revenue.



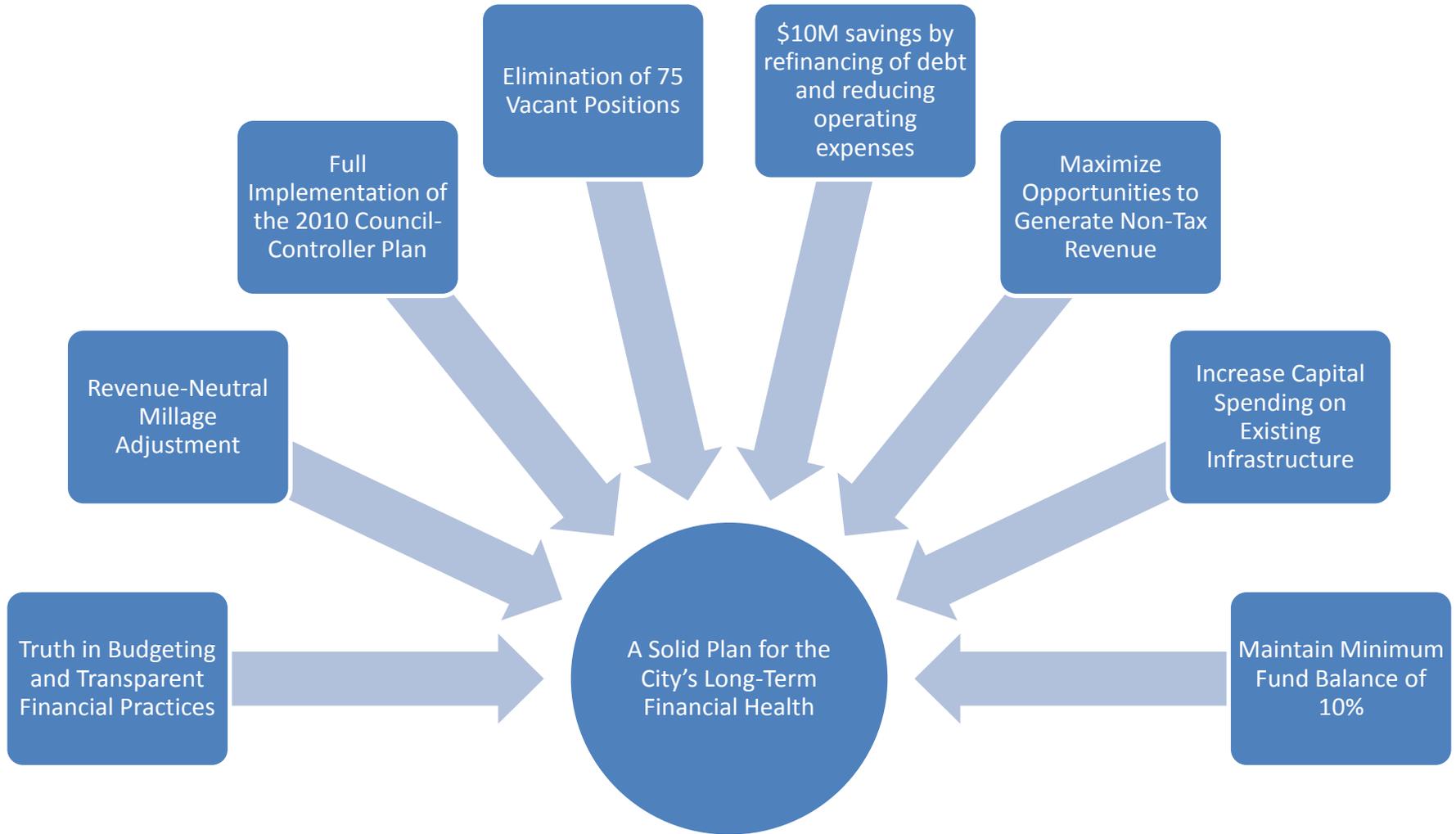
In addition to the decline in real estate tax revenue, the City faces an additional shortfall of \$4.4M in revenue compared to the Act 47 Plan



The City's projections were reviewed with the Act 47 Coordinators, the ICA, the City Council Budget Office, and the City Controller as part of our consensus revenue forecasting process.



The 2015 Budget and Five-Year Plan will strengthen the City's finances, modernize city government, and prevent cutbacks in essential services



With the 2015 Budget and Five-Year Plan, we will focus on bringing honesty, transparency, and leading practices to budgeting and financial management methods.

The 2015 Budget includes strategic initiatives to improve the delivery of essential services and enhance the quality of life in our neighborhoods



Public Safety

- Funding for 892 Police Officers, 657 Firefighters, and 175 Paramedics.
- Creation of new positions to improve data analysis and support the vision and plans of our new Police Chief.

Community Development and Planning

- Increased funding for City Planning to strengthen its core functions and deliver better customer service in an environment of increasing zoning applications, increasing strategic and neighborhood planning, and growing demand for data-driven decision-making.

Building Inspection and Code Enforcement

- Transformation of the Bureau of Building Inspection through organizational redesign, process automation and improvement, expanded use of technology, and enhanced customer service.

Service Delivery Innovation and Transformation

- Expanded use of technology to deliver Public Works services more efficiently and effectively.
- Leverage grant funding to spur government modernization and develop data-driven management tools for leadership.



The Mayor's proposed Five-Year Plan achieves the primary objectives of the Act 47 Plan and strengthens the City's long-term financial position

City of Pittsburgh Operating Budget Fiscal Year 2015

Five-Year Financial Forecast

	<u>2014 Estimate</u>	<u>2015 Budget</u>	<u>2016 Forecast</u>	<u>2017 Forecast</u>	<u>2018 Forecast</u>	<u>2019 Forecast</u>
REVENUES						
Real Estate Tax	\$ 124,645,607	\$ 133,805,579	\$ 134,810,911	135,823,904	\$ 136,844,624	\$ 137,873,113
Other Revenues	1,431,211	1,299,278	1,296,598	1,315,159	1,344,672	1,374,930
Amusement Tax	14,551,366	14,843,157	15,065,760	15,291,701	15,521,032	15,753,802
Earned Income Tax	85,441,895	87,142,707	88,883,883	90,659,874	92,471,377	94,319,101
Deed Transfer Tax	19,936,735	18,099,199	18,370,687	18,646,247	18,925,941	19,209,830
Parking Tax	50,762,910	53,324,821	55,018,442	56,456,404	58,427,814	60,239,076
Facility Usage Fee	4,046,610	4,111,907	4,194,082	4,277,900	4,363,394	4,450,598
Payroll Preparation Tax	56,433,374	58,155,361	59,893,103	61,682,944	63,526,444	65,425,215
Local Service Tax	14,067,211	14,129,832	14,200,481	14,341,990	14,484,911	14,629,259
Act 77 - Tax Relief	12,619,515	20,128,750	20,531,325	20,941,952	21,360,791	21,788,007
License and Permit	9,286,458	11,270,084	11,320,184	11,620,535	11,921,138	12,221,993
Charges for Services	28,008,650	30,307,075	29,527,541	29,957,756	30,397,149	30,846,769
Fines and Forfeits	8,623,160	8,880,687	9,013,897	9,149,106	9,286,342	9,425,637
Intergovernmental	46,936,936	54,859,003	54,290,661	57,915,566	58,636,374	50,449,958
Non-Profit Payment for Services	2,302,723	400,000	402,000	404,010	406,030	408,060
Beginning Fund Balance	7,100,000	1,902,000	475,000	-	-	-
Total Revenues	\$ 486,194,360	\$ 512,659,440	\$ 517,294,555	\$ 528,485,048	\$ 537,918,033	\$ 538,415,348
EXPENDITURES						
Operating Departments	\$ 257,372,289	\$ 264,993,188	\$ 264,506,820	\$ 269,347,004	\$ 274,069,136	\$ 279,340,572
Pension & OPEB	54,841,955	66,771,353	68,975,700	72,639,121	88,330,895	89,027,890
Health Benefits	61,484,139	63,971,542	69,089,265	74,616,406	80,116,406	85,616,406
Workers Comp	19,228,343	20,877,457	21,283,006	21,696,666	22,118,600	22,518,600
Debt Service	87,286,746	89,300,304	88,604,080	87,646,846	72,161,484	42,835,900
Total Expenditures	\$ 480,213,472	\$ 505,913,844	\$ 512,458,871	\$ 525,946,044	\$ 536,796,521	\$ 519,339,368
OPERATING RESULT	\$ 5,980,888	\$ 6,745,596	\$ 4,835,684	\$ 2,539,004	\$ 1,121,512	\$ 19,075,980
BEGINNING RESERVE FUND BALANCE						
Transfer to Paygo	(25,000,000)	(5,000,000)	(5,000,000)	-	-	(25,000,000)
Reserve Fund Balance Transfer	(7,104,170)	(1,902,000)	(475,000)	-	-	-
ENDING RESERVE FUND BALANCE	\$ 55,906,804	\$ 55,750,400	\$ 55,111,084	\$ 57,650,088	\$ 58,771,600	\$ 52,847,580
FUND BALANCE AS A % OF EXPENDITURES	11.6%	11.0%	10.8%	11.0%	10.9%	10.2%