



City of Pittsburgh Response to the Intergovernmental Cooperation Authority: December 4, 2014

Update Responses to the 11/14/14 Summary of Reasons for Operating Budget Disapproval

The list of 25 issues cited by the ICA as “Summary of Reasons for Operating Budget Disapproval” in the November 14, 2014 letter from Chairman Varischetti represented the same list of 25 issues cited by the ICA in its October 21, 2014 communication to the City. Based on discussions between the ICA Executive Director and the City’s finance team on December 2, 2014, the City has provided an updated response where necessary. The response below includes the original response submitted to the ICA, along with the updated response where applicable.

Consistent with Section 209(e) and (f) of Act 11, the ICA review of the budget must be consistent with the City of Pittsburgh Home Rule Charter and City Code, which outline specific requirements related to the development and approval of the operating and capital budgets. This includes Chapter 218 of the City Code, which outlines the capital budget process and requirement to hold public hearings prior to submission of the capital budget. In addition, the Home Rule Charter outlines the timeframe for the Mayor to submit the budget to City Council, which has until December 31 of each year to pass the budget.

We believe the 2015 Budget and Five-Year Plan meets the criteria outlined in Section 209 of Act 11, which states the ICA may only evaluate budgets based on the following criteria:

- The financial plan projects balanced budgets, based upon prudent, reasonable and appropriate assumptions; and
- The proposed operating budget and capital budget are consistent with the proposed financial plan.

According to Section 209 of Act 11, these are the only two criteria by which the ICA is authorized to consider the City’s budgets. Some of the 25 reasons for disapproval were related to the assumptions used by the City in the development of the 2015 Budget, and we have provided additional information to support the ICA’s review. Even though some of the 25 reasons for disapproval have nothing to do with the criteria listed in Section 209 of Act 11, we have provided a response to each of the items based on our knowledge and understanding of the issue.

These responses were developed based on discussions with the ICA Executive Director. Individual members of the ICA did not attend the December 2, 2014 meeting with the City’s finance team even though their attendance was requested by Finance Director Paul Leger in his communication with Chairman Varischetti.

If individual board members have additional questions, they can always reach out and communicate directly with Finance Director Paul Leger and Budget Director Sam Ashbaugh, as some of the 25 disapproval reasons are not explained in reasonable detail, as required by Section 209(h)(1) of Act 11, and the City had to rely on the interpretation of the ICA Executive Director. We will be reaching out to



all board members personally within the next 48 hours to review this response with them and to allow them to clarify any questions that they may have.

1. Uncertain revenue forecast.

November 3, 2014 Response

The 2015-2019 revenue forecast was developed through the consensus revenue forecasting process, which included participation from OMB, Finance, the ICA, the Act 47 Recovery Coordinator, Pittsburgh City Council, and the Office of the City Controller. The overall projections and assumptions are consistent with the Act 47 Plan, and any variations from the original Act 47 Plan projections were discussed as part of the consensus revenue forecasting process as well as in the 2015 Budget presentation submitted to the ICA.

December 4, 2014 Update

The City's finance team met with the City Controller on December 1, 2014. The purpose of the meeting was to provide the City Controller with additional information to support the Controller's analysis and certification of the revenues. This information is being provided to the ICA as well:

- Department of Finance real estate millage calculation and analysis (Exhibit A)
- Memo from Office of the Mayor to City Controller regarding changes to the Meter Parking System (including associated analysis) (Exhibit B)
- Copies of relevant legislation submitted to City Council (Exhibit C)
- Information about proposed fee/permit changes for City Planning and BBI, which do not require City Council approval since the respective Directors can establish those fees administratively (Exhibit D)
- Information about the proposed Rental Registration fee, which has been submitted to City Council; the fee will generate \$1.6MM in 2015 based on 45,000 units @ \$65 per unit (lower revenue estimate projected for initial year due to time to implement and desire to be conservative based on compliance experience when implementing a new program) (Exhibit E)

Also, the budget submitted to the ICA in September incorporated revenue projections based on data available through the 2014 Q2 Financial Report. The budget submitted to City Council on November 10, 2014 incorporated the City's updated revenue projections from the 2014 Q3 Financial Report. Included in the attachments is a summary of the key changes (Exhibit F)

The Controller is reviewing the information and we anticipate he will provide his certification to the ICA.

2. Lack of 2014 actual expense and revenue data.

November 3, 2014 Response

Consistent with previous budgets submitted to the ICA each year, the 2015 Budget includes a "2014 Estimate" column for both revenues and expenditures based on data in the Q2 financial reports



submitted to Act 47 and ICA. Complete actual data for 2014 revenues and expenditures will be available after the end of the fiscal year.

December 4, 2014 Update

Per the City’s discussion with the ICA Executive Director, the City has provided a year-to-date report of revenues and expenditures (Exhibits G, H). These reports were run on December 2, 2014.

The City Controller has not certified/reconciled November revenues, so the figures are preliminary and subject to change. In addition, regarding the production of the quarterly financial reports, the City strives to meet the 45-day turnaround time to submit the report to the ICA. However, it is important to note that OMB cannot develop the report until the City Controller has closed the books for the final month of the quarter. The most recent report was delayed since the Controller did not close the 3rd Quarter books until October 24, 2014. Once that happens, OMB develops the report, submits it to the Act 47 Coordinator for review, OMB then responds to Act 47 questions, and then the report is finalized once the Act 47 Coordinator completes their analysis. Going forward, we will notify the ICA of any delays in the process.

The City has always complied with submission of quarterly information to the Act 47 team. If there were delays sending the report from Act 47 to the ICA, the City has no part in those delays and should not be held responsible for any such delays. In email to both the City and the ICA, the Act 47 team has acknowledged that the second quarter report was late from them to the ICA.

3. Failure to submit a capital budget.

November 3, 2014 Response

The final public hearing for the capital budget was held on October 29th. The Mayor’s 2015 capital budget will be released on November 10th in conjunction with the Mayor’s 2015 operating budget. This is consistent with past practice. Preliminary capital planning efforts indicate the following expenditures:

	2015 CDBG Proposed		2015 BOND Proposed		2015 PAYGO Proposed		2015 OTHER Proposed		Total	
Engineering and Construction	\$2,357,500	18%	\$13,097,500	52%	\$200,000	4%	\$24,832,543	84%	\$40,487,543	56%
Facility Improvements	\$961,500	7%	\$5,627,500	23%	\$900,000	18%	\$900,000	3%	\$8,389,000	12%
Public Safety	\$150,000	1%	\$500,000	2%	\$2,000,000	40%	\$0	-	\$2,650,000	4%
Vehicles and Equipment	\$0	-	\$5,340,000	21%	\$0	-	\$0	-	\$5,340,000	7%
Neighborhood Development	\$2,318,000	18%	\$335,000	1%	\$1,900,000	38%	\$1,890,000	6%	\$6,443,000	9%
Administration/ Pass-Through	\$7,213,000	55%	\$100,000	0%	\$0	-	\$1,806,000	6%	\$9,119,000	13%
Total	\$13,000,000	100%	\$25,000,000	100%	\$5,000,000	100%	\$29,428,543	100%	\$72,428,543	100%

December 4, 2014 Update

The ICA’s course of conduct in prior years includes approval of the operating budget prior to receiving the capital budget, as the City has never submitted the capital budget to the ICA prior to submission to City Council. In fact, according to the October 24, 2013 press release by the Office of the Mayor excerpted below, the ICA approved the 2014 Budget on October 24, 2013, several weeks before Mayor Ravenstahl submitted the 2014 Capital Budget to City Council.



MAYOR, ICA ANNOUNCE APPROVAL OF 2014 BUDGET AND FIVE-YEAR PLAN

(PITTSBURGH) October 24, 2013 Mayor Luke Ravenstahl today announced that the Intergovernmental Cooperation Authority (ICA) has approved the City's amended 2014 budget and five-year financial plan. ICA Board sent official communication to the Mayor this morning granting the approval.

Source: <http://pittsburghpa.gov/rss/print.htm?mode=print&id=2550>

The City provided the 2015 Capital Budget to the ICA on November 10th, the same day it was submitted to City Council. The proposed allocation of funds by funding source is provided in the table below.

As part of the City's plan to amend Chapter 218 of the City Code (which governs the capital budget process) to align with the recommendations of the Act 47 Plan and to incorporate other leading practices, the City will update the timeline to submit the capital budget to the ICA at the same time the operating budget is submitted (100 days before the end of the year).

	2015 CDBG Proposed		2015 BOND Proposed		2015 PAYGO Proposed		2015 OTHER Proposed		Total	
Engineering and Construction	\$2,357,500	18%	\$13,247,500	53%	\$2,400,000	24%	\$24,032,543	84%	\$42,037,543	55%
Facility Improvements	\$961,500	7%	\$5,527,500	22%	\$1,428,567	14%	\$900,000	3%	\$8,817,567	12%
Public Safety	\$150,000	1%	\$500,000	2%	\$2,000,000	20%	\$0	-	\$2,650,000	3%
Vehicles and Equipment	\$0	-	\$5,290,000	21%	\$0	-	\$0	-	\$5,290,000	7%
Neighborhood Development	\$2,318,000	18%	\$335,000	1%	\$4,171,433	42%	\$1,890,000	7%	\$8,714,433	11%
Administration/ Pass-Through	\$7,213,000	55%	\$100,000	0%	\$0	-	\$1,806,000	6%	\$9,119,000	12%
Total	\$13,000,000	100%	\$25,000,000	100%	\$10,000,000	100%	\$28,628,543	100%	\$76,628,543	100%

4. Lack of information regarding labor negotiations.

November 3, 2014 Response

The City is currently in the process of collective bargaining with multiple unions and has provided an update on the bi-weekly Act 47 conference calls that include participation from the ICA. While it is not the City's policy to negotiate in the media, it is the City's goal to reach agreements consistent with the Act 47 Plan. The 2015 Budget and Five-Year Plan forecast includes the wage caps and other collective bargaining provisions of the Amended Recovery Plan.

December 4, 2014 Update

Pursuant to Section 209 of Act 11, the City must execute contracts and collective bargaining agreements in compliance with its financial plan, in this case the Act 47 Recovery Plan approved by the Mayor and City Council in 2014. The 2015 Budget and Five-Year Plan incorporated the compensation and benefits provisions of the Act 47 Plan, which included wage increases of 0%, 1%, 2%, 2%, and 2% for the next five years of each collective bargaining agreement.



Per the December 2, 2014 call with the Act 47 Coordinators and ICA Executive Director, the Act 47 Coordinator was going to follow-up to see if there are any outstanding issues regarding requests for information related to labor negotiations, but the City has responded to all requests from the ICA regarding labor negotiations, and has provided an update on the bi-weekly calls with Act 47 and the ICA Executive Director. If the ICA has specific questions, please direct them to Finance Director Paul Leger and Budget Director Sam Ashbaugh.

5. Insufficient information regarding the recent agreement with the Parking Authority concerning revenue increases.

November 3, 2014 Response

The Parking Authority and the City are in the process of finalizing a new intergovernmental cooperation agreement. The new agreement will restructure the financial relationship between the Authority and the City to provide \$6-\$7million more to the City annually over the Authority's 2013 contribution to the City. The entire payment to the City, excluding parking taxes, will be capped at \$18.5 million, after which revenue from these sources will be split 50/50. Finally, to make up the remaining \$3-\$4 million the City is seeking from the parking system, the Peduto administration will be working with City Council to make changes to the meter system during the budget process.

December 4, 2014 Update

The City has provided the following information to the ICA:

- Copies of the agreement approved by the Parking Authority Board and submitted to City Council (Exhibit I)
- Copies of relevant legislation submitted to City Council (Exhibit J)
- Memo to the City Controller outlining the proposed changes to the meter system, along with the associated financial analysis (Exhibit B)

6. Insufficient information necessary to examine recent labor agreement with EMS.

November 3, 2014 Response

A copy of the agreement was provided to the Act 47 Recovery Coordinator and ICA as part of the City's response to the Act 47 request for information (see October 14 memo from The PFM Group). The agreement was consistent with the existing Act 47 Plan provisions for economic matters.

December 4, 2014 Update

The May 2014 agreement with EMS was due to the fact that the FAPP went without a contract for four years. The sidebar agreement that updated the existing contract to include the wage increases provided to all bargaining units under the previous Act 47 Plan was provided to the ICA, and the Act 47 Coordinator has stated that the agreement was consistent with the previous plan. The City is currently in negotiations with all bargaining units, including the FAPP, whose contracts expire as of December 31, 2014.

The Act 47 Coordinator addressed the costs related to the contract settlement on page 23 of the 2014Q3 Financial Report which was provided to the ICA.



7. Inappropriate inclusion of gaming revenue in general fund category and lack of notation of provisions of Act 71.

November 3, 2014 Response

Each year the ICA-approved budgets for the City of Pittsburgh have listed the revenue line titled “2% Local Share of Slots Revenue” under the Intergovernmental revenue category. Consistent with previous budgets approved by the ICA, this revenue distribution is described on page 23 of the 2015 Budget, with the specific line item listed on page 24.

December 4, 2014 Update

The City understands that Act 71 identifies the permitted uses of funds described in the Act and sets forth the process by which those funds shall be distributed. The City continues to budget those funds in accordance with the 2012 allocation prescribed by the ICA. If this is not correct, the City has no knowledge of any other allocation plan. The 2015 Budget proposed that the revenue would be distributed in accordance with previous budgets (2012, 2013, and 2014) approved by the ICA, with the following proposed distribution: Pension Fund (\$5MM), OPEB (\$2.5MM), Worker’s Compensation Settlements (\$1MM), Worker’s Compensation Indemnity (\$500k), and \$1MM for enterprise financial projects.

8. Insufficient data regarding future borrowing plans and expected increases in debt service, including but not limited to, details of any borrowing plans as portrayed in the presentation to the ICA (to meet the estimated \$25 million per year borrowing projection).

November 3, 2014 Response

In addition to the \$50MM borrowed in 2014 to fund capital projects for 2015-2016, the Act 47 Plan included a recommendation to borrow an additional \$50MM in 2017 to fund capital projects for 2017-2018. These initiatives were incorporated into the Act 47 Plan and the City’s 2015 Budget and Five-Year Plan.

December 4, 2014 Update

The City does not intend to borrow \$25MM each year. The City expects to spend \$25 MM each year of new money borrowed through bonds in 2014 (\$50MM) and in 2017 (\$50MM). No further borrowing will occur during the five year plan, although the City has just refunded \$63,350,000 in old bonds to create a savings of \$3.5 Million which is shown in the 2017 and 2018 budget years. Included are two graphs – one showing debt service before and after the \$50MM bond issue and the other showing debt service after the refunding of 2014. In addition, the refinancing of the 2006B Series in 2016 will provide a minimum savings of \$675k, which has been applied to the 2016 debt service projections (Exhibits K, L).

9. No details were included in the proposed financial plan that specifically stated the Mayor would seek a millage rate increase for real estate taxes.



November 3, 2014 Response

The 2015 Budget proposed by the Mayor is consistent with RV01 of the Act 47 Amended Recovery Plan approved by City Council and the Mayor, which is designed to restore real estate tax revenue lost in 2013. The City will adjust its millage rate so that the current year real estate taxes generate \$128.1 million in 2015 (the amount projected before the previous millage reduction). The actual millage rate cannot be established until the preliminary assessment numbers are released to the City by the County; this usually occurs in mid-late November. OMB and Finance will work with City Council to develop the required resolution during the budget process.

December 4, 2014 Update

Based on the County's assessment of taxable property on November 23, 2014, the yield from real estate tax will require a .5 Mill upward adjustment in the property tax rate. This will move the millage from 7.56 Mills to 8.06 Mills. This will yield \$128,100,000 in property tax revenue at the historic 96% collection rate, which is the number in the Mayor's budget and the number in the Act 47 plan. A PowerPoint presentation of how the millage was calculated is included with this communication (Exhibit A). The additional .5 Mill is implicit in the budgeted amount of real estate tax of \$128,100,000. The amount of the millage increase could not be calculated until the most recent assessed value of property was known.

10. The City must address the matters contained in the letter from the City Controller dated October 17, 2014.

November 3, 2014 Response

In regard to the specific concerns raised by the City Controller, the following information is being provided:

- Real Estate Tax Revenue: This issue is addressed by Item #9 above.
- Intergovernmental Revenues: This issue is addressed by Item #5 above.
- Permit Revenues: The Amended Recovery Plan included a recommendation to adjust fees and service charge revenues to improve cost recovery efforts. OMB is currently working with two primary departments (City Planning and the Bureau of Building Inspection) in the first wave of this effort to achieve the revenue targets included in the 2015 Budget. Some fees have not been adjusted in several years, whereas other fees do not cover the cost of providing services, so the updated fee schedule will reflect these changes.

These items are included in Exhibits A-E previously referenced.

December 4, 2014 Update

The City's finance team met with the City Controller on December 1, 2014. The purpose of the meeting was to provide the City Controller with additional information to support the Controller's analysis and certification of the revenues. This information is being provided to the ICA as well:

- Department of Finance real estate millage calculation and analysis
- Memo from Office of the Mayor to City Controller regarding changes to the Meter Parking System (including associated analysis)



- Copies of relevant legislation submitted to City Council
- Information about proposed fee/permit changes for City Planning and BBI, which do not require City Council approval since the respective Directors can establish those fees administratively
- Information about the proposed Rental Registration fee, which has been submitted to City Council; the fee will generate \$1.6MM in 2015 based on 45,000 units @ \$65 per unit (lower revenue estimate projected for initial year due to time to implement and desire to be conservative based on compliance experience)

These exhibits were previously referenced and are included in the attachments.

The Controller is reviewing the information and we anticipate he will provide his certification to the ICA.

11. Adjustments necessary to conform to recently adopted Act 47 Amended Recovery Plan.

November 3, 2014 Response

The proposed budget conforms to the Act 47 Amended Recovery Plan. The Act 47 Recovery Coordinator has performed an analysis of the City's 2015 Budget and has not indicated that the budget is inconsistent with the Act 47 Amended Recovery Plan.

December 4, 2014 Update

We have attempted to answer this question to the best of our ability, but the meaning of the question is not clear. Even the ICA staff could not explain exactly what this question means, so we have done our best to answer it. The Agreement with the ICA requires that objections to the budget be stated clearly and specifically. Since this question is not specific, it is impossible to provide an answer.

Neither the Act 47 Coordinator, the ICA Executive Director, nor individual ICA board members have communicated specific reasons or examples whereby the City's proposed 2015 Budget does not conform to the recently adopted Act 47 Plan.

12. Need to provide evidence of legislative intent to increase revenue from local sources such as taxes, permit fees, or other revenue sources.

November 3, 2014 Response

The Mayor will present the 2015 Budget to City Council on November 10th, and City Council must approve a budget by December 31st of each year. The Act 47 Plan has previously been approved by the Mayor and City Council, and any changes proposed by Council must be consistent with the Act 47 Plan. City Council has to enact the budget via resolution after holding public hearings, so pre-approval of the budget would be a violation of the Sunshine Act.



December 4, 2014 Update

It is impossible to provide completed "legislative intent" to pass a budget. To ask City Council for such agreement would violate the Sunshine Act and would not be binding. The Mayor presents a budget on the date required and Council has, by law, until December 31 to pass or modify the budget. The ICA is required to accept provisions of the Charter and Code and this timetable is laid out in each. To reject a proposed budget because Council has not yet passed it shows a lack of awareness of the requirements of the Code in regard to how budgets are considered, debated and passed by Council. It has no resemblance to a private business budget which can be created and amended at will. There is no reason why the ICA cannot give at least conditional approval to the budget as submitted if it meets the "reasonable person" test and appears to be based on sound assumptions. Asking for approvals that cannot yet be offered is not reasonable. In fact it is impossible.

Consistent with Section 209(e) and (f) of Act 11, the ICA review of the budget must be consistent with the City of Pittsburgh Home Rule Charter and City Code, which outline specific requirements related to the development and approval of the operating and capital budgets. This includes Chapter 218 of the City Code, which outlines the capital budget process and requirement to hold public hearings prior to submission of the capital budget. In addition, the Home Rule Charter outlines the timeframe for the Mayor to submit the budget to City Council, which must pass the budget by December 31 of each year.

In addition, per Act 11, the only thing specifically excluded from prudent, reasonable, and appropriate assumptions and methods of estimation are that the Plan cannot include projected revenues that, in order to be collected, require the enactment by the General Assembly of new taxing powers (Section 209(c)(1)).

The ICA cannot disapprove of the City's budget just because City Council has not approved the budget, as the ICA cannot supersede the City of Pittsburgh Home Rule Charter, which outlines the timeframe and manner by which City Council receives, reviews, and approves the annual budget.

Section 3.09 of the ICA intergovernmental cooperation agreement states that if Council adopts a budget inconsistent with an approved plan, the City shall submit the enacted budget to the Authority as a proposed revision to the plan within 20 days after it is enacted. City Council has until December 31 of each year to approve the budget.

Since the original submission of a budget to the ICA in September, legislation has been submitted to Council by the Mayor to: 1) Adjust the real estate tax millage upward by .5 Mill, and legislation will be sent to Council to conform with the increased \$10MM revenue from parking (a detailed explanation of new parking revenue is also included and has been previously referenced).

The City has provided copies of the legislation that has been submitted to City Council regarding the real estate millage adjustment, the rental registration program, and the updated agreement with the Parking Authority that makes changes to the metered parking system. The proposed adjustments for miscellaneous fees and permits in BBI and City Planning do not require Council approval, as they can be adjusted administratively by the respective Chief or Director.



13. List of specific capital projects funded by “pay-go” in 2014, and supporting detail to demonstrate the legal authority to transfer funds that were used from fund balance or other areas of the 2014 budget.

November 3, 2014 Response

A copy of the 2014 capital budget is available here:

http://apps.pittsburghpa.gov/cbo/2014_Capital_Budget.pdf

A summary of all 2014 PAYGO funded projects can be found on pages 8-13. The authorizing resolution (796 of 2013) can be found on page 1.

December 4, 2014 Update

No update required based on the information previously provided to the ICA.

14. Completion of ICA conditional approval requirements for the 2014 Budget.

November 3, 2014 Response

As the ICA is aware, the Peduto Administration launched an investigation into the previous payroll project. The administration was concerned by the fact that a contract had been increased multiple times through change orders that did not have spending authorization from City Council. The implementation of the payroll project was halted while this investigation has been undertaken. The City is committed to implementing a workforce management system related to payroll, human resources and benefits, with the goal of getting it done right, not rushed. As a result of a recent RFP, the City is in the process of contracting with a vendor to complete the assessment and requirements documentation activities as the next step of the process.

December 4, 2014 Update

The City is awaiting further clarification from the ICA regarding requirements for the 2014 Budget, but an update on the payroll project is provided below.

City Council approved the contract with Independent Catalyst, and the project kick-off meeting was held on November 24, 2014. The project scope has three key components:

- Document the City’s business requirements for a workforce management system
- Assess the existing JD Edwards payroll implementation effort
- Identify if JD Edwards is a fit for the City’s business requirements
- Provide recommendations to the City

The project activities related to the above-referenced components are scheduled to be completed by the end of January, at which point the City will be in a position to determine the most appropriate path forward for the future of its workforce management system.

Previously, the City employed a consultant for \$250,000 to evaluate and implement the JD Edwards payroll system. Change orders resulted in spending of over a million dollars on this project. When the current administration stopped the consultant’s work, the consultant had told the City it would require at least \$250,000 more money and another year to complete the work. This endless



spending and delay by the contractor was an irresponsible use of taxpayers' money and seemed to guarantee no end of the project.

Exhibit M is a letter from the City's Chief Legal Officer and City Solicitor regarding the fact-finding inquiry for the JD Edwards payroll implementation project. Included as part of Exhibit M is the previous report from Denovo in which they outline the cost and time required to implement a payroll system.

15. Evidence that the City has fully funded, or has the capacity to fully fund, the 2014 actual pension expenditures.

November 3, 2014 Response

The pension portfolio account with the trustee (PNC) currently contains \$281,878,593.81 in liquid assets as of September, 2014. The average monthly disbursement is approximately \$7.2 MM or \$86.4MM per year, consequently there is more than enough money to pay current pension obligations to pensioners. In addition, there are non-liquid assets and the parking asset that are not included in the PNC amount. All assets together bring the total pension fund to a total exceeding \$600 Million.

If the question refers to pension obligations from the City to the pension fund in 2014, then money has been budgeted to meet those expenditures through required MMO payments and Parking payments, plus any other fees and payments required. The \$10MM dollars of the budgeted amount is to be offset by payment of the 2% Local Share Revenue. However, the ICA has withheld the first three quarters of the tax receipts which the ICA has previously designated partially for pension and OPEB contributions. Without those payments of taxes due the City, there would be a shortfall in revenue that would have to be made up from the General Fund.

December 4, 2014 Update

Pension Funding Projections for 2014 were as follows:

MMO - \$31,438,297 (36.6%)
Gaming Funds - \$7,100,000 (8.3%)
Parking Asset - \$13,376,000 (15.6)
Employee Contributions - \$10,900,000 (12.7%)
OPEB Retiree Benefits - \$2,250,000 (2.6%)
Class Action Settlements - 17,351 (0%)
Investment Income - \$20,744,009 (24.2%)

TOTAL FUNDING - \$85,825,657 (100%)

Any shortfall in the budgeted amounts above will be made up from the General Fund as they must be and as was stated in correspondence with the administration. Any unplanned ***payments would have to be made from savings or from fund balance.***



While the ICA Executive Director expressed concern about the use of investment income (without providing documentation of any prohibition of the practice), it is important to note that the use of investment income to fund pension obligations is a prudent, reasonable, and appropriate assumption, consistent with the following:

- The Act 47 Amended Recovery Plan (and the two previous plans)
- The current and prior City of Pittsburgh budgets approved by the ICA
- GFOA Recommended Practices (see Recommendation #6 below); additional information about GFOA recommended practices is available at www.gfoa.org

Responsible Management and Design Practices for Defined Benefit Pension Plans

Type:

Advisory

Approved by GFOA's Executive Board:

October 2010

Background:

State and local governmental defined benefit pension plans are the cornerstone of public employee retirement and require systematic, sound management of their benefits structure, their funding, and their investments. However, certain inappropriate practices can jeopardize the sound management of these plans, undermine their funded positions and ultimately impose burdens on future taxpayers and stakeholders. (For more information, see the GFOA's Best Practice on Developing a Policy for Retirement Plan Design Options.)

Recommendation:

GFOA recommends that under no circumstance should state and local government plan sponsors engage in pension contribution holidays or make insufficient contributions. When employers skip an actuarially required contribution or make a smaller payment than required, they defer that cost to the future and jeopardize the long-term funding of the plan. When governing bodies arbitrarily reduce contributions to a plan, the resulting systemic underfunding ensures future financial shortfalls and places the burden for that shortfall on future taxpayers. These types of funding decisions compound future funding problems and are, in many instances, a leading cause of funding shortfalls.¹

GFOA further recommends that state and local government plan sponsors use great caution if engaging in the following practices:

1. **Spiking of final pensionable compensation.** A pension formula that allows extraordinary income to be included in the base salary on which pensions are based may result in



inequitable distribution of benefits and hidden costs, and potentially cause a public perception of impropriety.²

2. **Sustainable full-retirement ages.** With increased life expectancy, plan sponsors must reevaluate their normal retirement ages and the availability of early, unreduced retirement options, and make appropriate adjustments to ensure the sustainability of the plan. For example, the normal eligibility age for federal Social Security benefits has already been increased from 65 to 67 and may increase even more to reflect increased longevity. Public employers have begun to adjust their plans' retirement ages upward to reflect known demographic changes. More plan sponsors need to assess the public policy and cost management reasons for making retirement age changes.
3. **Retroactive benefits increases.** When pension plan sponsors provide retroactive benefits to active employees, the result is an immediate increase in the existing liabilities of the plan. These benefits, related to past service, have not been funded by prior employer or employee contributions. The presumption that a short-term, marketdriven asset surplus makes such benefit enhancements affordable is almost always a critical error that can result in significant underfunding.
4. **Deferred Retirement Option Plans (DROPs).** Many retirement plans implemented DROPs under the assumption that they were cost-neutral. However, experience has shown that costs associated with DROP plans have been consistently higher than anticipated in many jurisdictions. These unexpected costs can be attributed to factors such as poor plan design and unrealistic investment return crediting rates. (See Deferred Retirement Option Plans, a GFOA Advisory recommending extreme caution in considering DROP plans.)
5. **Ad hoc cost-of-living allowances (COLA) for existing retirees.** An ad hoc COLA creates an immediate unfunded liability. COLA increases, like retroactive increases for active employees, should not be paid for with temporary surpluses or extraordinary earnings. Additionally, gainsharing and similar arrangements that allocate short-term returns above the assumed rate to retiree benefits will ultimately impair the plans funding.
6. **Realistic investment assumptions.** The assumed investment rate of return should be the rate that is realistically expected to be achieved over the long term. This rate should be evaluated regularly to ensure it remains realistic. Unrealistically high investment return assumptions are likely to result in a chronically declining funded ratio and higher contributions in the future. Caution should be exercised to ensure the investment return assumption reflects the reasonably expected returns of the plans asset allocation over a reasonable period of time. (For additional information, see the GFOAs Public Employee Retirement System Investments Best Practice.)
7. **Non-contributory plans.** Plan designs that include employee contributions ensure that participants appreciate the value of their benefit and bear a proportionate share of the cost of any benefit enhancements.
8. **Prior service credits.** Some pension plans allow employees to purchase service credits. When such credits are calculated at full actuarial cost and reviewed regularly, this practice may be viable, but caution is necessary in the pricing of such options.



Committee:

Retirement and Benefits Administration

Notes:

¹ Pension funding is premised on “time value of money” concepts, including the compounding of investment earnings over defined periods of time that begin on the date of the actuarial valuation. Actuarially required contributions are calculated with the expectation that they will be made in the same year that benefits are earned (i.e., in the current year of service). For the plan to meet its obligations without increasing employer contributions, it has to earn compound investment returns over the remaining working lives of employees. For example, if a contribution of \$1 million is not made in a plan with remaining average service lives of 20 years and an assumed earnings rate of 8 percent, then \$4.66 million will not be available to pay benefits in 20 years. Future taxpayers will be burdened by this extraordinary and avoidable cost.

² Spiking is defined as an unusual increase in income during the employees final years of service that increases the employees pension benefits. Examples include increases in income through unused vacation, sick leave, and overtime.

16. Evidence to support adherence to the Ordinance requiring deposit of quarterly payments to the pension fund by the end of each quarter.

November 3, 2014 Response

Payment of \$12,644,142.36 was made to pension fund in February, \$10,974,229.50 was paid in May, \$7,284,977.32 was paid in August and \$10,970,892.12 was paid in September. \$10,971,907.58 is due to be paid in December for a total of \$54,156,907.30. The City budget for 2014 contains \$5MM for Pensions and \$2.5MM for OPEB. If these funds are withheld by the ICA, as they have been so far in 2014, there would have to be transfers from other City funds to make all of the required payments. There was a \$7.1M deposit of Gaming Receipts into the pension fund in August as required by agreement with the ICA on the use of those funds.

December 4, 2014 Update

Evidence of these transfers is included as an exhibit (Exhibit N). They are bank statements showing the deposits.

17. Pension funding sufficient to meet the 2015 funding requirements.

November 3, 2014 Response

The amounts budgeted for 2015 are consistent with the requirements of the Act 47 Amended Recovery Plan, which require the City to budget for the baseline MMO contribution (\$43,112,022), supplemental contribution of about \$5MM, parking tax commitment (\$13,376,000), and employee contribution (\$10,628,597), which is outside of the general fund.

December 4, 2014 Update

Actual budgeted funds for 2015 are as follows. The 2015 total pension and OPEB contributions will increase significantly over 2014. If there are concerns that the levels of funding are not sufficient to



meet pension needs, please note that the City's contribution is increasing by approximately \$30 Million. This is in accord with the fully approved Act 47 Plan.

MMO - \$43,112,022 (37%)
Additional City Contribution - \$11,555,452 (10%)
Parking Tax Asset - \$13,376,000 (11.6%)
Gaming Funds as per ICA - \$5,000,000 (4.3%)
Employee Contributions - \$10,900,000 (9.4%)
OPEB Retiree Additional Benefits - \$2,250,000 (1.9%)
From Class Action settlements - \$17,351 (0%)
Investment Income - \$29,354,730 (25.4%)

TOTAL - \$115,565,555

This is the full budget for addition to the Pension Fund in 2015. These amounts are budgeted and the responsibility of the City to pay regardless of whether all revenue lines are secured at budgeted levels.

While the ICA Executive Director expressed concern about the use of investment income (without providing documentation of any prohibition of the practice), it is important to note that the use of investment income to fund pension obligations is a prudent, reasonable, and appropriate assumption, consistent with the following:

- The Act 47 Amended Recovery Plan (and the two previous plans)
- The current and prior City of Pittsburgh budgets approved by the ICA
- GFOA Recommended Practices (see Recommendation #6 below); additional information about GFOA recommended practices is available at www.gfoa.org

18. Need to provide specific details regarding the use of proceeds of 2014 new money borrowing proceeds.

November 3, 2014 Response

\$25MM of the \$50MM borrowing proceeds will be used to fund part of the 2015 capital budget which will be released in detail by the Mayor on November 10th. The remaining \$25MM will be used to fund part of the 2016 capital budget of which details will be made available next year.

December 4, 2014 Update

The proposed use of the bond funds is outlined in the 2015 Capital Budget, which was provided to the ICA on November 10, 2014.

19. Resolution of alleged payroll error matter as previously defined by correspondence and activity by the City and the Authority.

November 3, 2014 Response



As discussed by Director Leger at the October 20th ICA meeting, the City continues to work with the ICA's consultant (Gleason & Associates) to address this issue. The City Solicitor is also conducting an investigation into the matter.

December 4, 2014 Update

The Personnel Department is now in direct contact with William Kreiger of Gleason and Associates to provide documents that are requested or that exist. The size of the documentation has been a problem in providing the documents to Mr. Kreiger and the Personnel Department is doing everything possible to provide them. Payroll registers have already been provided. Part of the difficulty is that the Gleason staff wants the documents to be worked on in their offices and the City is unsure what documents to provide. We need for Gleason staff to spend some time with the Personnel Department staff to look at documents and determine if they are what Gleason needs. Also there is the matter of confidentiality of the documents. They contain personal and financial information about employees. If they did not contain such information, we would be attaching the hundreds of pages of files as an exhibit.

20. Provide a more detailed analysis of employee headcount and explanation of increased costs of public safety administration.

November 3, 2014 Response

The Bureau of Administration in the Department of Public Safety is responsible for providing leadership of all Public Safety Bureaus. In addition to housing departmental leadership, the Bureau of Administration is also responsible for the planning, management, and coordination of citywide and cross-bureau functions such as emergency management, community outreach, and responsible hospitality programs. The overall budget decreased from \$2.89MM in 2014 to \$2.76MM in 2015, with the number of positions decreasing from 23 in 2014 to 21 in 2015.

December 4, 2014 Update

As part of the proposed restructuring of the Bureau of Building Inspection, one Administrative Aide position was transferred from BBI to Public Safety Administration in the November 10 budget submission to City Council. This position works on issues related to the City's disruptive properties ordinance, so this is an overall budget neutral change that aligns the position functionally with the Public Safety Department. As a result, the number of positions in Public Safety Administration for 2015 will be 22, down 1 from the 2014 Budget of 23, and the overall departmental budget is \$78,480 less in 2015 compared to 2014 (see page 220 of the 2015 Operating Budget).

21. Explanation of premium pay increases given the number of projected employees in the Bureaus of Police, Fire and EMS.

November 3, 2014 Response

- The 2015 Budget includes funding for 892 Police Officers, 657 Firefighters, and 175 Paramedics.
- Public Safety premium pay historically has not been budgeted based on actual costs, thereby requiring significant year-end transfers to cover actual costs.



- The budgeted amounts for Police premium pay remained stagnant since 2009; EMS since 2008. Budget overages were covered through a combination of strategies that had an adverse impact on the delivery of municipal services:
 - 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.
- The table below highlights the budgeted vs. actual amounts for total Public Safety premium pay from 2011-2014. The 2015 Budget includes realistic projections based on staffing and operational needs.

Year	Budgeted Amount (millions)	Actual Amount (millions)
2011	\$20.2	\$23.7
2012	\$21.4	\$24.9
2013	\$21.4	\$30.0
2014	\$22.7	\$28.5

December 4, 2014 Update

No update required based on the information previously provided to the ICA.

22. Provide detail concerning transfer of funds in 2015 for projects from capital budget to operating budget in a “to-from” format.

November 3, 2014 Response

Please see page 6 of the 2015 Budget Review provided by The PFM Group to the DCED and the ICA, dated October 9, 2014.

December 4, 2014 Update

Please see page 6 of the 2015 Budget Review provided by The PFM Group to the DCED and the ICA, dated October 9, 2014. The table is provided below.



Dept	Project	Revised Operating Amounts	Account Location
EMS	Personal Protective Clothing	\$ 50,000	220000.56151 Operational Supplies
EMS	Personal Protective Tactical Equipment	\$ 25,000	220000.56151 Operational Supplies
EMS	Ballistic Vests	\$ 45,000	220000.56151 Operational Supplies
		\$ 120,000	
FIRE	Turnout Gear Replacement and Repair	\$ 500,000	250000.56151 Operational Supplies
FIRE	Equipment Replacement and Repair	\$ 250,000	250000.56151 Operational Supplies
FIRE	EMS Equipment	\$ 50,000	250000.56151 Operational Supplies
FIRE	Turnout Gear Replacement (beyond 10 year lifespan)	\$ 500,000	250000.56151 Operational Supplies
		\$ 1,300,000	
I&P	Resilient Networks	\$ 250,000	103000.53501 Computer Maintenance
I&P	Information Infrastructure Revitalization	\$ 150,000	103000.53501 Computer Maintenance
I&P	Communication Technologies	\$ 100,000	103000.54513 Machinery & Equipment
		\$ 500,000	
PW	Bob O'Connor Golf Course	\$ 160,000	420000.54201 Maintenance
CP	Artwork and Monument Conservation	\$ 50,000	110000.53901 Professional Services
CP	Artist in Residence	\$ 50,000	110000.53901 Professional Services
CP	Market Square- Temp art program	\$ 50,000	110000.53901 Professional Services
		\$ 150,000	
	TOTAL	\$ 2,230,000	

23. The budget must address the use of \$7.5 million of funds from Act 77 previously earmarked for repayment of PDF/Lazarus bonds to the URA that have been previously pledged to the pension system.

November 3, 2014 Response

The 2015 Budget and Five-Year Plan is consistent with the Amended Recovery Plan objective to increase the City’s employee pension fund contribution to align with actuarial recommended levels. As outlined in the Five-Year Financial Forecast, the additional revenue will help the City to increase funding for Pensions and OPEB will increase from a projected \$54.9MM in 2014 to \$89.0MM in 2019 while preserving core municipal services and implementing other components of the Amended Recovery Plan.

December 4, 2014 Update

The City has no documentation that the \$7.5MM of sales tax revenue previously used for the development fund was to be used exclusively for pension costs. It has simply been budgeted into general fund expenditures, consistent with the current and previous Act 47 Plans. In addition, the ICA has approved the 2012, 2013, and 2014 Budgets, all of which included the \$7.5MM in the general fund revenue projections, consistent with the previous Act 47 Plans. If documentation of the use of this money for pensions is available, please provide it.

24. Demonstration that the City understands that the agreement with PERC to use future debt service savings as additional deposits to the pension system.



November 3, 2014 Response

The Five-Year Plan proposed as part of the 2015 Budget assumes increased pension contributions each year, consistent with the Act 47 Plan and previous City commitments to dedicate additional parking tax revenue to the pension fund.

December 4, 2014 Update

There is no agreement with PERC saying that future debt service savings will be used to fund pensions. If there were any informal agreements with past administration, they ended with those administrations.

In addition, no pension office staff, no Finance Department or OMB staff and no other City staff are aware of any requirement or plan to use debt service savings after 2019 (the "debt cliff") to cover pension costs. If there is a record of such an agreement or directive please make it available to the City. The City requests that the ICA allow 2015 as time for the City, PERC, Act 47 and the ICA to better understand this matter and to come to some workable conclusion.

25. Provide an analysis of additional pension obligations, and how the City would cover current obligations if net earnings are at or below zero in any period during the financial plan.

November 3, 2014 Response

The amount budgeted for each year in the 2015-2019 Plan is consistent with the Act 47 Amended Recovery Plan. If earnings in any given year are not sufficient to meet obligations, the City's actuary would notify the City of increased contributions required to address the gap and the City would be required to budget accordingly.

December 4, 2014 Update

The question does not fit with previous discussions about the use of interest earnings on investments to fund pensions. If we should not be using earnings to fund pension costs, there would be no question about what would happen if those revenues did not materialize. We would not be required to provide the monies. But the question treats the investment earnings budget as though they are an integral funding element of pensions for 2015. The use of interest earnings to fund pension costs is a universal practice and there is no documentation that such usage is forbidden, or even unusual.

In discussions with the ICA Executive Director, he raised a question regarding the use of investment earnings to fund current pension expenses. This question seems to permit their use for funding current pension costs by asking what we would do if earnings were not available. The City respectfully requests any documentation or an opportunity to use 2015 to resolve this matter while we use investment earnings as we always have.

In the event that any expected funding source for pension costs does not materialize, the City is well aware of its responsibility to ensure that pension costs are funded and paid and that we maintain a fund in excess of 50% of the long-term fund projection. The City would meet its obligations from departmental savings or from the fund balance.



CONCLUSION

The City of Pittsburgh has worked cooperatively with the ICA and the Act 47 Recovery Coordinator throughout 2014, and we look forward to continuing this relationship, including opportunities for the ICA to assist the City with its legislative agenda in Harrisburg.

We believe the 2015 Budget and Five-Year Plan meets the criteria outlined in Section 209 of Act 11, and respectfully request that the ICA approve the City of Pittsburgh 2015 Budget:

- The financial plan projects balanced budgets, based upon prudent, reasonable and appropriate assumptions; and
- The proposed operating budget and capital budget are consistent with the proposed financial plan.

These responses were developed based on discussions with the ICA Executive Director. If individual board members have additional questions, we ask that they communicate directly with Finance Director Paul Leger and Budget Director Sam Ashbaugh.

List of Exhibits

- Exhibit A: Finance Department Real Estate Millage Analysis
- Exhibit B: Memo from Office of the Mayor to City Controller
- Exhibit C: Copy of millage legislation submitted to City Council
- Exhibit D: BBI/Planning Permit and Fee Analysis
- Exhibit E: Rental Registration Program Fee
- Exhibit F: Summary of 2015 Budget Adjustments
- Exhibit G: 2014 YTD Revenues
- Exhibit H: 2014 YTD Expenditures
- Exhibit I: Parking Authority Agreement
- Exhibit J: Copy of Parking Authority legislation submitted to City Council
- Exhibit K: PNC Refunding Summary
- Exhibit L: Debt Cliff Chart
- Exhibit M: Letter from City Solicitor to Chairman Varischetti
- Exhibit N: Pension MMO and Parking Deposits – 2014
- Exhibit O: 2015 Operating Budget
- Exhibit P: 2015 Capital Budget