



**Intergovernmental Cooperation Authority (ICA)**  
**For Cities of the Second Class**



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June 2, 2014

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**Letter to the Mayor, Members of City Council, and City Controller**  
**ICA Comment on the Act 47 Draft Amended Recovery Plan**

Hon. Charles Zogby, Ex-Officio

June 2, 2014

*To Mayor Bill Peduto, Members of City Council (President Bruce Kraus, Darlene Harris, Theresa Kail-Smith, Natalia Rudiak, Corey O'Connor, Daniel Lavelle, Deborah Gross, Daniel Gilman, Ricky Burgess) and Controller Michael Lamb:*

On behalf of the ICA Board, I am writing to you today to reiterate ICA’s position on the need to fix the City’s structural weaknesses as you contemplate the ability to implement the Draft Amended Recovery Plan’s recommendations. The ICA Board received the draft recommendations from the Act 47 Coordinator on Friday and members of our Board are currently reviewing the document.

As you are aware, the statute governing the ICA focuses on implementing structural reforms designed, in part, by the Act 47 Coordinator and ultimately adopted by City Ordinance as a formal Recovery Plan. During the Act 47 Team’s recent review of the Amended Recovery Plan adopted in 2009, the ICA offered its recommendations for consideration. Those recommendations were built on the cornerstone of ICA’s long-held public position that the City must address the following: legacy costs associated with the grossly underfunded pension plans, fund retiree healthcare costs, (commonly referred to as Post- Retirement Benefit Obligations or ‘OPEB’), workers’ compensation reform, a plan to maximize current revenue, and development of a realistic partnership and understanding with the non-profit community.

These recommendations underscore the need for the City to first address the systemic weakness of its own financial management by completing a conversion to a comprehensive financial management system that more precisely tracks spending and analyzes data in order to effectively understand cash flow from operations.

Since 2004, the ICA has asserted that data – including daily headcount, the use and deployment of physical assets and real verification of payroll costs used by the City – is not credible or accurate. However, limited progress was made at the start of 2012 when the City and County entered into a shared services agreement, at the urging of the ICA, to consolidate financial management functions with the goal of being able to effectively manage revenue and expense trends while eliminating surprises and bringing its payroll processing under control.

Last year, the incoming administration asked for time to evaluate this process and committed – at that time – to install the payroll system by April 2014. Thus far, the payroll, human resource and Business Intelligence tools have not been installed. The City’s payroll represents the largest single operating expenditure, yet there is no current ability to verify the actual cost of payroll due to the lack of any centralized system, internal controls or pre-audit review.

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This persisting condition leaves the City vulnerable to potential fraud, waste and abuse in addition to not being able to effectively manage the cost of its workforce. In effect, the City's workforce is the single most expensive line item in the City's operating budget but has the least amount of internal or external oversight.

Overhaul of the City's payroll system is, in the ICA's view, the key to driving down overtime costs, implementing worker compensation reforms and managing the workforce.

Every well-managed organization, public or private, succeeds or fails based on the ability to collect and analyze data and trends. In stark contrast, the City has no ability to get an accurate and timely picture of its present and future expenses and operating needs. For example, during 2013 the City failed to properly respond to questions doubting the collection levels of real estate taxes. They did not recognize or react properly to the fact that real estate tax collections were materially lower from the levels continually asserted as accurate by City managers. Not until late in the first quarter of 2014 did the City recognize the problem which now has become an emergent recommendation by the Act 47 Coordinator to raise taxes.

City Council must now make the hard choices based on priorities – to manage the city's resources more effectively by using tools and technology or to deliberate on raising taxes while penalizing taxpayers for allowing ineffective operations to continue. If this structural weakness is not addressed first, increasing taxes will only be a temporary solution.

The Amended Recovery Plans confirms that the City's projected revenues are inadequate to meet the cost of City operations. That is not to say that the non-profit community should be exempt from contributing, but before raising new revenue, the City must cure the unnecessary drain on its resources. The most immediate problem facing the City is imminently curable but it will take decisive action.

You are now in a position to act on the reality of hard choices. Chasing new revenue should not be the first answer to the current problem. Everyone must recognize that current operating costs are 20% higher than necessary. The current excessive cost of managing the City's operations must be fixed in order to eliminate the structural weakness and compounding problem of spending more than the City can collect. This lop-sided equation will continue to grow and lead to even harder choices ahead that threaten the ability to deliver necessary public services.

We appreciate the efforts of the Act 47 Coordinator to update Pittsburgh's fiscal recovery plan, and the efforts of all those engaged in this process. We look forward to helping the City to implement the priorities of the approved Amended Recovery Plan that includes completing the critical steps in the process of fiscal recovery. As a proposed next step in this process, we are available to collaborate with you regarding the structural matters discussed herein and how it fits into a sustainable solution for improving Pittsburgh's financial condition.

Sincerely,



Nicholas D. Varischetti  
ICA Board Chair

cc: Act 47 Coordinators, ICA Board Members, City Controller