Municipalities Financial Recovery Act
Amended Recovery Plan

City of Pittsburgh
Allegheny County, Pennsylvania

Prepared on behalf of the

Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

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Executive Summary

In November 2012, after eight years of oversight under the Municipalities Financial Recovery Act, the City of Pittsburgh's Recovery Coordinators submitted a written report to the Pennsylvania Department of Community and Economic Development (DCED), recommending that the City exit that form of oversight.

In March 2014, C. Alan Walker, the Commonwealth Secretary of Community and Economic Development, issued his decision that the City would remain in Act 47 oversight. He directed the Recovery Coordinators to work with the new Peduto Administration and the Intergovernmental Cooperation Authority for Cities of the Second Class (ICA) on an Amended Recovery Plan. Secretary Walker stated:

> *My assessment, along with Mayor Peduto's request to remain in Act 47 with the goal of pursuing a guided path out of Act 47, is why I've asked the Recovery Coordinator to work with City officials and the ICA to develop an amended recovery plan for the City to exit from Act 47 and address legacy costs of debt, pensions, post retirement benefits, workers compensation along with a financially viable long-term capital plan, while maintaining positive operating budgets well into the future.*

The Recovery Coordinators have prepared this Amended Recovery Plan to meet this charge and the call to put the City on a course to exit Commonwealth oversight.

As the Secretary did in his statement, the Recovery Coordinators have focused part of their attention on ensuring the City continues to balance available expenditures against available revenues. Because the path out of Act 47 oversight is not solely defined by the absence of operating deficits, the Recovery Coordinators have also written this Plan to directly address the legacy costs that have been the biggest obstacle to exiting oversight.

This Recovery Plan sets five objectives that must be achieved to exit Act 47 oversight:

- Eliminate the operating deficits in the baseline multi-year financial projection while preserving basic services.
- Gradually reduce the City's debt burden to provide more resources to support daily operations.
- Keep the City's fund balance at an appropriate level to avoid the need for cash flow borrowings and provide an adequate buffer against unanticipated revenue shortfalls or expenditure increases.
- Gradually increase the City's pension fund contributions to the levels recommended by its actuary.
- Direct more funding to the City's capital budget, with the priority to invest more in the City's roads, bridges, police and fire stations and other core infrastructure.

From projected deficits to surpluses and back again

By now the story of the City's turnaround from its extreme financial distress in 2004 is well documented.

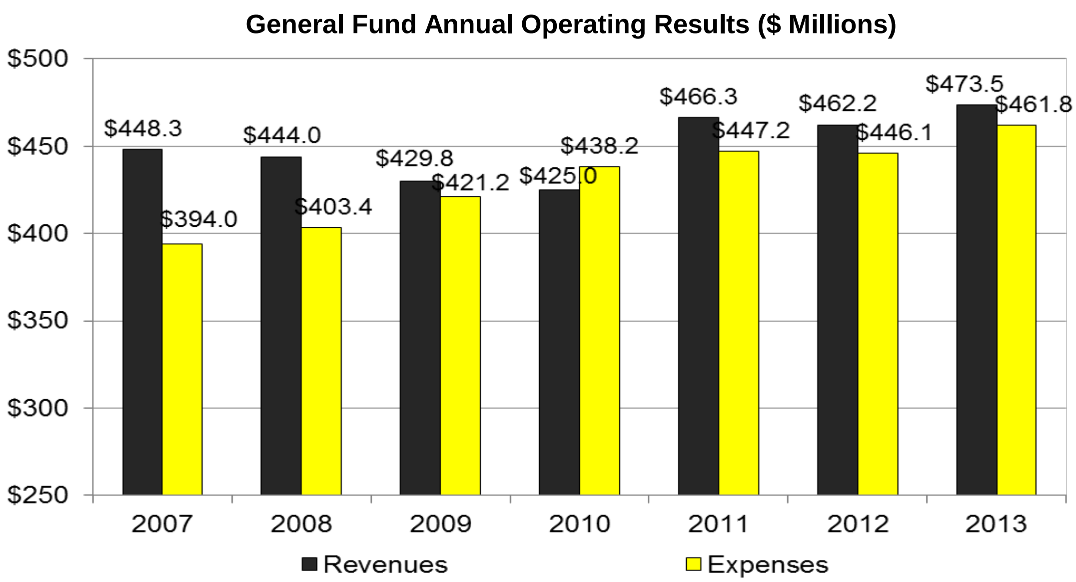
In the summer of 2003, the City laid off 446 full and part-time employees, including nearly 100 police officers and 24 EMS personnel. A few months later the City's credit rating was downgraded to below-investment-grade "junk bond" ratings. Absent corrective action, Pittsburgh would have strained to pay its bills through the end of 2004 as it exhausted its remaining cash reserves.

Mayor Tom Murphy petitioned the Commonwealth to designate the City as distressed according to the criteria in Act 47 and subject to Commonwealth oversight. The Commonwealth approved the petition and appointed law firm Eckert Seamans Cherin and Mellott, LLC and financial advisory firm Public Financial

Management as the City's Recovery Coordinators. The General Assembly adopted Act 11 of 2004, which created a second oversight body in the Intergovernmental Cooperation Authority for Cities of the Second Class (ICA).

After consultation with hundreds of stakeholders, the Recovery Coordinators drafted a broad-based, multi-year financial Recovery Plan that was adopted by City Council and signed by Mayor Murphy in June 2004. The 2004 Recovery Plan contained over 200 initiatives to reduce costs or control their growth and improve the fairness and revenue-generating capability of the City's tax structure. The City began implementing the original Recovery Plan through departmental restructuring, cost control and reduction measures and new collective bargaining agreements with its nine unions. The ICA successfully spearheaded General Assembly approval of a suite of tax revisions based in part on options in the 2004 Recovery Plan.

The combination of expenditure control and tax reform provided a strong platform for the City to reverse years of financial decline. Since 2004, the City has recorded recurring positive annual operating results in place of the large deficits originally projected. Results for the most recent seven years are shown below.



Source: City fourth quarter financial and performance reports

In 2007 Pittsburgh City Council petitioned the Commonwealth to rescind the City's distressed status and allow it to exit Act 47 oversight. In 2008 the Secretary of Community and Economic Development[1] acknowledged Pittsburgh's progress, but denied Council's petition because of the need for the City to address its legacy costs – millions of dollars in current year revenues that are consumed by obligations to retired employees or long since completed capital projects. In response, the Recovery Coordinators prepared the first Amended Recovery Plan, which was approved by City Council and signed by Mayor Ravenstahl in 2009.

Under the provisions of that Plan, the City continued to retire its substantial debt service burden as schedule while adopting a policy to manage future debt. It established a new mechanism for funding other post-employment benefits (OPEB), primarily retired employee health insurance. It made enough progress in managing its workers' compensation liability that the Pennsylvania Department of Labor and Industry removed its $10 million annual prefunding requirement. The City and its labor unions negotiated new collective bargaining agreements that complied with the Amended Recovery Plan's limits on employee compensation growth.

[1] Dennis Yablonsky was the Secretary of Community and Economic Development at this time.

The first Amended Recovery Plan also shined a spotlight on the City's poorly funded employee pension plans. According to the provisions of that Plan, the City was required to make additional annual pension contributions, above the statutorily required Minimum Municipal Obligation (MMO). The pension rescue effort was accelerated by Commonwealth legislation requiring the City to boost pension funding status to 50 percent by the end of 2010 to avoid Commonwealth takeover of the pension plans. The City responded to the deadline by transferring $45 million from its debt service reserves to the pension fund and committing future parking tax revenues to the pension fund through 2041. The ICA has since pushed the City to make more progress by requiring additional pension contributions, above the MMOs and the parking tax revenue commitment, in the City's annual budgets. That progress led the Recovery Coordinators to recommend that the City exit Act 47 in November 2012.

Since then the City has made two sets of decisions that have changed its financial trajectory.

- Last year the City used the new real estate values generated by Allegheny County's recent reassessment for the first time. Under the reassessment, the total value of taxable real estate in the City increased by 49 percent. The City then recalculated (or "equalized") its real estate tax millage so the combination of higher real estate values and a lower tax rate would yield the same revenue as in the prior year before reassessment. The City reduced its real estate tax rate from 10.8 to 7.56 mills with the intention of keeping tax revenues at the prior year's level.

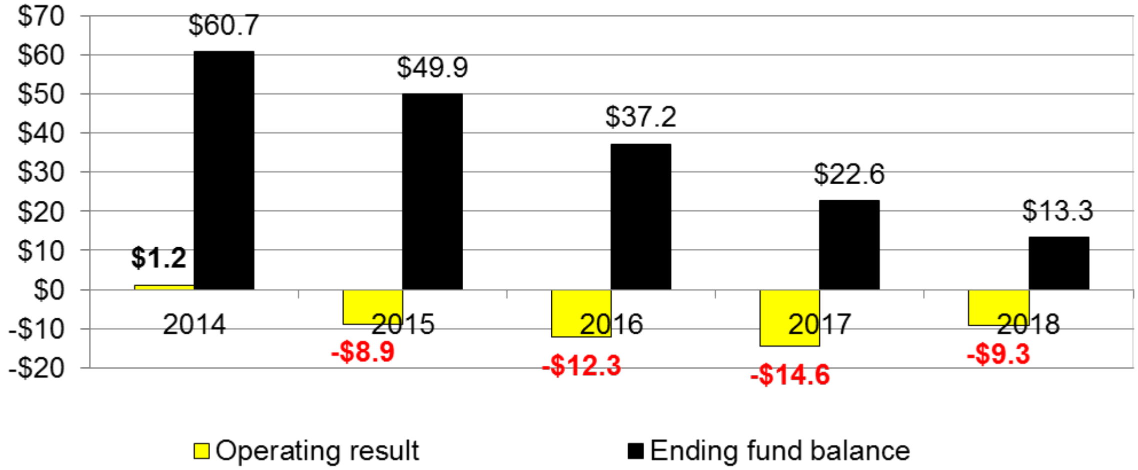
  Instead, real estate tax revenues fell from $126.6 million in 2012 to 119.3 million in 2013, a 5.7 percent drop. In comparison, this amount is almost equal to the entire budgets of the Department of Parks and Recreation and Planning Department combined. The intentions behind the actions were understandable. The Administration and Council were trying to "err on the side of taxpayers," to soften or eliminate any reassessment-related increase in real estate tax bills. But the unintended, actual impact was that receipts from the City's largest source of revenues were dialed back to what they were when the City first entered Commonwealth oversight.

- In late 2013, the City's pension boards approved several prudent changes to the assumptions that the independent actuary uses to calculate the amounts that the City must contribute to the employee pension fund each year. The pension board agreed to lower the assumed investment rate of return from 8 percent to 7.5 percent, a more conservative estimate in line with national trends. The pension plan's mortality assumptions were also adjusted to reflect the longer life expectancies of pension recipients.

  While these changes more accurately reflect the pension plans' experiences and expectations, they also result in a larger unfunded pension liability and higher minimum contributions. The actuary estimates that reducing the assumed investment rate of return from 8.0 percent to 7.5 percent costs approximately $8 million per year. In total the City's minimum contributions to the employee pension fund will jump from $31 million in 2014 to $43 million in 2015, even with the City committing a significant portion of its parking tax to the pension fund each year.

The combined impact of the early 2013 actions related to the real estate tax and the late 2013 actions related to the employee pension fund is a negative $14 million swing in 2015, increasing to a negative $21 million swing in 2018. Those swings are more than enough to flip the City's projected results from slightly positive, as shown in the City's 2014 budget, to decidedly negative.

Amended Recovery Plan Baseline Projection[2]



In this baseline projection, the City drops into deficit spending next year and depletes its fund balance by the end of 2018. The fund balance drops to an unacceptable level in 2017, if not earlier. The City needs a higher fund balance to pay its obligations early in the year before tax revenues arrive, so it does not have to issue Tax Revenue Anticipation Notes and pay interest on money borrowed for cash flow purposes. The fund balance shown above is also an insufficient buffer against unanticipated revenue shortfalls or spending increases.

Challenges beyond the baseline

Even if the City managed to keep its fund balance higher than shown in the baseline projection, there are two other problems that are not reflected in those figures.

Challenge #1: The City is contributing less than needed to fully address the unfunded pension liability.

The actuary's recently completed pension valuation reports sound an alarm that the City needs to increase its contributions to the employee pension fund or it will risk falling further behind. Commonwealth Act 82 of 1998, which applies only to Pittsburgh, allows the City to pay off its unfunded liability over a longer period of time and assume a higher investment rate of return than other Pennsylvania municipalities. In the short term, the Act reduces the City's statutorily required MMOs to the levels described earlier. But, as the City contributes less than is actuarially necessary to fund the pension plan, the portion of the unfunded liability governed by Act 82 will actually grow instead of being paid off.[3]

In light of this problem, the actuary includes a recommended City contribution level in the pension valuation reports in addition to the smaller, statutorily required MMO. That recommended contribution level is $19.2 million higher than the MMO in the 2014 budget and $11.5 million higher than the MMO is estimated to be in 2015.

Challenge #2: The City needs to invest more money in its infrastructure (e.g. roads, bridges, buildings)

Like most major cities, Pittsburgh has extensive and expensive infrastructure used to deliver core services to its citizens, businesses and visitors. Ranging from streets to bridges to fire stations, the City's capital

[2] Please see the appendices for a more detailed version of the baseline projection.

[3] Please see the Workforce and Collective Bargaining Chapter for much more on this subject.

assets are valued at $350 million in the most recent Comprehensive Annual Financial Report and the replacement value of those assets is almost certainly much higher than that.

For the last fifteen years, the City has underinvested in these assets, subsisting on available operating funds. This approach was necessary to help the City address the immediate problems in its operating budget, but it is not a viable long term strategy. The City issued bonds in 2012 to supplement its pay-as-you-go contributions and will need to do so again before 2018.

In addition to increasing its capital spending, the City needs to spend more money *on its infrastructure*. In recent years the City has spent a disproportionate amount of its limited capital budget on vehicles, equipment and other items that are not capital projects. In February 2012 the City passed an ordinance that defines the types of projects that should be in the City's capital budget and sets a process for prioritizing those projects. Now the City has to put money into that process so it can start to make progress against the backlog of repaving, repairs and replacement projects.

Pursuing the priorities

The Amended Recovery Plan's baseline projection shows deficits ranging from $8.9 million to $14.6 million per year and a shrinking fund balance. Beyond those operating deficits, the actuary recommends that the City contribute more to its employee pension plans. And data from multiple sources, as well as input from elected and appointed officials, highlights the need to spend more money on Pittsburgh's infrastructure.

The City cannot achieve all these objectives immediately and simultaneously. There is no practical combination of initiatives that will allow the City to erase the operating deficit, increase its pension contribution to $55 million a year *and* fund tens of millions of dollars in capital improvement projects, all in 2015. But, over the period covered by this Amended Recovery Plan, it is possible for the City to avoid projected operating deficits, maintain its fund balance and do more to address its legacy costs, all with a view to exiting Act 47 oversight. This Amended Recovery Plan sets the City on a path to:

- Eliminate the operating deficits in the baseline projection.
- Gradually reduce the City's debt burden to reach 12 percent of total expenditures so there is more money to support operations.
- Maintain a minimum unassigned General Fund balance of 10 percent of annual General Fund Revenues.
- Gradually increase the City's employee pension fund contribution to the actuary's recommended levels.
- Spend at least $25 million to $30 million a year on existing infrastructure needs through a mix of modest new borrowing and additional pay-as-you-go contributions, with more capital funding hopefully funded by higher contributions from the City's major tax exempt, non-governmental institutions.

Major initiatives that support this effort include:

- Assessing the condition of the City's infrastructure and using those assessments to prioritize projects in the capital budget (initiative CP01 in the Capital Plan chapter)
- Seeking higher annual contributions from the tax exempt non-governmental institutions that rely on the same roads, bridges and other infrastructure that City residents and business owners do (initiative CP03 in the Capital Plan chapter)

- Moderating employee wage and benefit cost growth so the City can afford the higher contributions needed to more fully fund the employee pension plans (initiative WF01 in the Workforce chapter)

- Continuing to make $2.5 million annual contributions to the OPEB trust fund (initiative WF03 in the Workforce Chapter)

- Pursuing additional workers' compensation reforms (initiative WF06 in the Workforce chapter)

- Reducing non-personnel operating expenditures by 5 percent (initiative FM02 in the Financial Management chapter)

- Directing windfall proceeds to infrastructure improvements, further employee pension fund contributions or fund balance maintenance (initiative FM03 in the Financial Management chapter)

- Seeking further efficiencies through intergovernmental cooperation (initiatives IG01 and IG02 in the Intergovernmental Cooperation chapter)

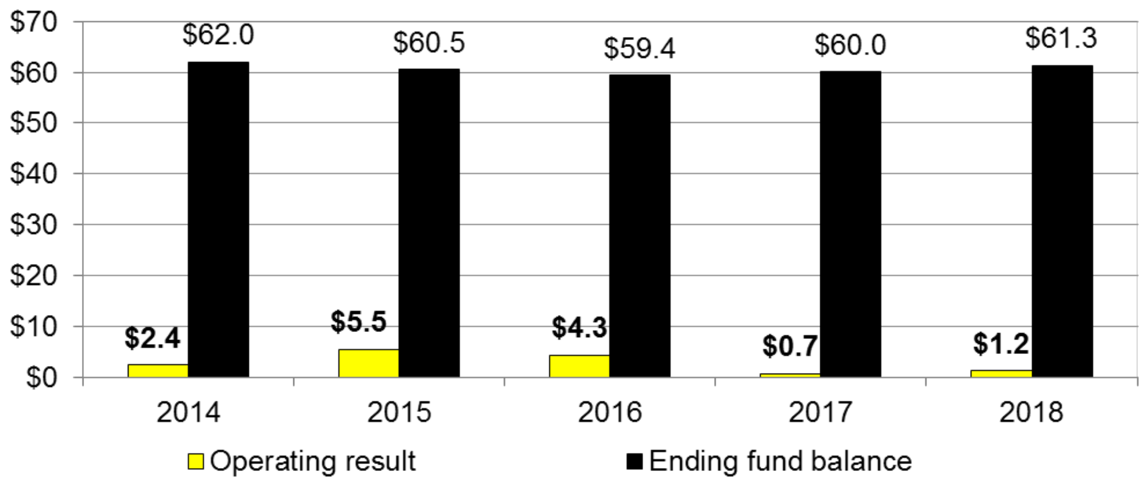
- Collaborating with the Urban Redevelopment Authority on efforts to build the City's tax base and strengthen neighborhoods (initiative ED02 in the Economic Development chapter)

- Restoring real estate tax revenues to the levels in place before the 2013 tax cut (initiative RV01 in the Revenue chapter)

- Increasing parking tax revenues and maintaining or improving cost recovery for those services that are expected to fully or partially "pay for themselves" (initiatives RV02 and RV03 in the Revenue chapter)

Implementing the initiatives will help the City achieve the five primary objectives of this Amended Recovery Plan and the ultimate objective of any Recovery Plan – to ensure the City's long term fiscal recovery and exit from Commonwealth oversight.

Amended Recovery Plan Projection with Initiatives



Introduction

"While Pittsburgh has experienced considerable progress in stabilizing the City's financial position and has achieved surpluses in the last several years, legacy costs remain a serious concern and jeopardize the City's ability to maintain a sustainable operating budget without further action."

- *Secretary of Community & Economic Development C. Alan Walker, March 2014*

In November 2012, after eight years of oversight under the Municipalities Financial Recovery Act (Act 47 of 1987), the City of Pittsburgh's Recovery Coordinators submitted a written report to the Pennsylvania Department of Community and Economic Development (DCED), recommending that the City exit that form of oversight. In a public hearing, the Coordinators' recommendation was supported by then Mayor Luke Ravenstahl, several members of City Council, public labor union leaders, private sector developers and external analysts.

William Peduto, who was a City Council member at that time and has subsequently been elected Mayor, advocated for the City to remain in Act 47 until it "finished the job" by creating a reliable, sustainable source for employee pension contributions, adhering to its new debt policy and completing other activities begun during oversight.

In March 2014, C. Alan Walker, the Commonwealth Secretary of Community and Economic Development, issued his decision that the City would remain in Act 47 oversight and directed the Recovery Coordinators to work with the new Peduto Administration and the Intergovernmental Cooperation Authority for Cities of the Second Class (ICA) on an Amended Recovery Plan. In his statement, Secretary Walker cited the legacy costs, meaning the high percentage of current year revenues the City commits each year to retiring debt, funding the employee pension plans, paying for retired employee health insurance and covering workers' compensation liabilities.

In May 2014, three months after the City passed a balanced budget for the year, newly-elected Mayor Peduto explained to Council that the City will struggle to pay for daily operations while funding employee pensions and investing in the City's infrastructure.

How has the City's financial picture changed from November 2012 to today?

And, more importantly, what can the City do in the immediate future to address the challenges that Secretary Walker and Mayor Peduto described?

This chapter answers the first question and gives the reader the necessary context for understanding how this Recovery Plan answers the second.

2004 – 2012: Progress under two Recovery Plans

Even with the challenges facing the City of Pittsburgh, there is no question it has made significant progress since entering Commonwealth oversight in 2004.

In the summer of 2003, the City laid off 446 full and part-time employees, including nearly 100 police officers and 24 EMS personnel. City recreation centers were shuttered, public swimming pools closed, and services from police mounted patrol to salt boxes were eliminated. In October and November 2003, the City's credit rating was downgraded repeatedly, leaving Pittsburgh as the nation's only major city to hold below-investment-grade "junk bond" ratings. Absent corrective action, Pittsburgh would have strained to pay its bills through the end of 2004 as it exhausted its remaining cash reserves.

Mayor Tom Murphy petitioned the Commonwealth to designate the City as distressed according to the criteria in Act 47 and subject to Commonwealth oversight. The Commonwealth approved the petition and appointed law firm Eckert Seamans Cherin and Mellott, LLC and financial advisory firm Public Financial Management as the City's Recovery Coordinators.

After consultation with hundreds of stakeholders, the Recovery Coordinators drafted a broad-based, multi-year Recovery Plan that was adopted by City Council and signed by Mayor Murphy in June 2004. The 2004 Recovery Plan contained over 200 initiatives to reduce costs or control their growth and improve the fairness and revenue-generating capability of the City's tax structure.

Prior to the adoption of the Recovery Plan by City Council, the Commonwealth General Assembly adopted Act 11 of 2004, which created the Intergovernmental Cooperation Authority for Cities of the Second Class (ICA). The General Assembly declared that the ICA and the Act 47 Coordinator were to "operate concurrently and equally." The ICA was charged with fostering the fiscal integrity of the City by ensuring that the City pays the principal and interest owed on its debts, meets financial obligations to its employees, and executes proper financial planning procedures and budgeting practices. Later that year, the ICA successfully spearheaded state legislative approval of a suite of tax revisions based in part on options from the 2004 Recovery Plan.

The combination of expenditure control and tax reform provided a strong platform for the City to reverse years of financial decline. Since 2004, the City has recorded recurring positive annual operating results in place of the large deficits originally projected. The City successfully balanced its annual budgets and achieved short-term financial recovery with revenues consistently outpacing expenditures. The combination of external restrictions reversing poor financial practices and strong fiscal stewardship from a series of Mayors, City Councils and the Controller made Pittsburgh one of the few large American cities to make it through the recent recession with its finances largely intact.

In 2007 Pittsburgh City Council petitioned the Commonwealth to rescind the City's distressed status and allow it to exit Act 47 oversight. In 2008 the Secretary of Community and Economic Development[1] acknowledged Pittsburgh's considerable progress in turning projected multi-million dollar deficits into positive annual operating balances, but also acknowledged that the City had more than $1.2 billion in legacy cost issues related to pensions, debt, OPEB and workers compensation liabilities. The Secretary denied the petition and directed the Recovery Coordinators to prepare an Amended Recovery Plan that would "provide a blueprint for [Pittsburgh] to exit Act 47 and address pending legacy costs…while maintaining positive operating budgets well into the future."

The Recovery Coordinators prepared the first Amended Recovery Plan, which was approved by City Council and signed by Mayor Ravenstahl in June 2009. Under the provisions of that Plan, the City continued to retire its substantial debt burden on schedule while adopting a policy to manage future debt. It established a new mechanism for funding retired employee health insurance. It made enough progress in managing its workers' compensation liability that the Pennsylvania Department of Labor and Industry removed its $10 million annual prefunding requirement. The City and its labor unions negotiated new collective bargaining agreements that complied with the Amended Recovery Plan's limits on employee compensation growth.

The first Amended Recovery Plan also shined a spotlight on the City's poorly funded employee pension plans. As required in the Amended Recovery Plan, the City started to make additional pension contributions, above the statutorily required Minimum Municipal Obligation (MMO). The pension rescue effort was accelerated by Commonwealth legislation requiring the City to boost pension funding status to 50 percent by the end of 2010 to avoid Commonwealth takeover of the pension plans. In December 2010 the City transferred $45 million from a debt service reserve fund and committed a portion of its future parking tax revenues to the employee pension plans. Those efforts boosted the pension funding status above 50 percent, helping the City avoid Commonwealth takeover of the pension funds and the projected dramatic increase in pension contributions associated with it. The ICA has since pushed the City to make

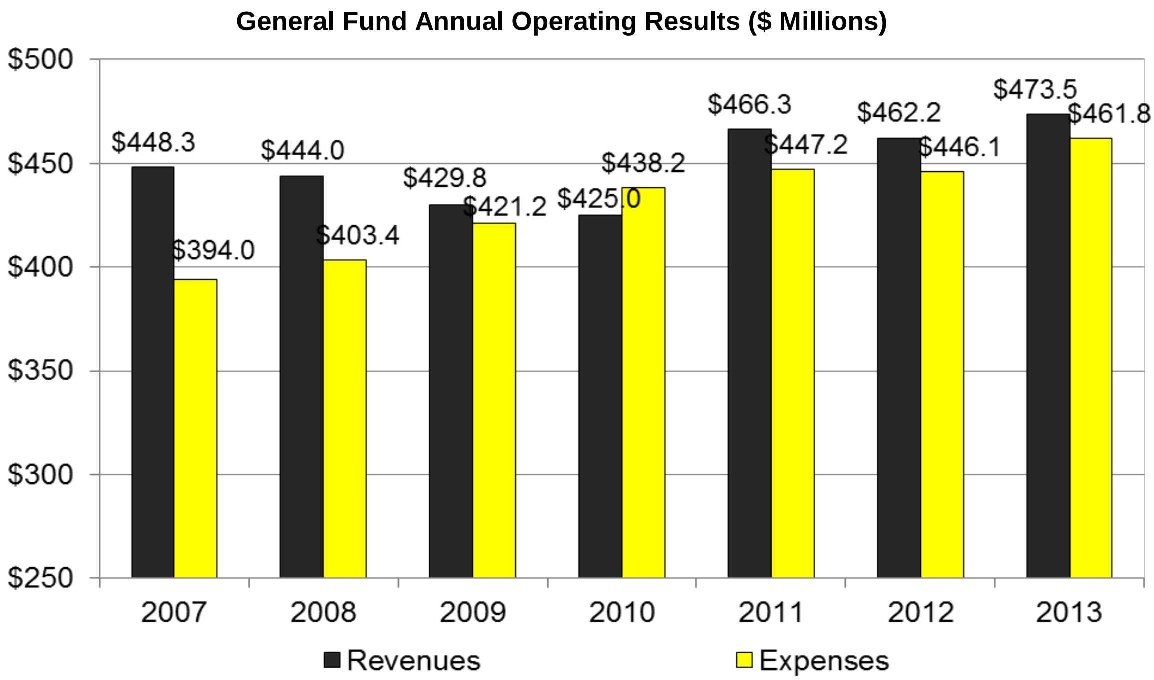
[1] Dennis Yablonsky was the Secretary of Community and Economic Development at this time.

more progress by requiring additional pension contributions, above the MMOs, in the City's annual budgets.

Recent reports on the City's financial performance in 2013 provide further confirmation of the City's progress.

The City Controller's Office recently released the Comprehensive Annual Financial Report for 2013 and it shows the City's unreserved General Fund balance – a measure of its financial reserves – at $85.7 million at the end of 2013, which is 17.7 percent of 2013 General Fund revenues. The "best practice" threshold for fund balance is "no less than two months of regular general fund operating revenues or regular general fund operating expenditures," or 16.7 percent.[2]

The City's own fourth quarter financial report corroborates this progress. In 2013 the City collected $473.5 million and spent $461.8 million for a positive operating result of $11.7 million. The City has spent less than it has collected in its General Fund almost every year.[3] While the operating margins have been smaller in recent years, they are still positive.



Based on the City's progress through November 2012, the Recovery Coordinators recommended that the Commonwealth rescind the City's distressed status and allow it to exit Act 47 oversight. In March 2014 Secretary Walker acknowledged the City's progress but required more results in addressing the legacy costs:

> My assessment, along with Mayor Peduto's request to remain in Act 47 with the goal of pursuing a guided path out of Act 47, is why I've asked the Recovery Coordinator to work with City officials and the ICA to develop an amended recovery plan for the City to exit from Act 47 and address legacy costs of debt, pensions, post retirement benefits, workers compensation along with a

[2] Please see the Financial Management section for more discussion of this threshold.

[3] The Financial Management section explains the aberration in 2010, which was largely the result of unique events, including the December 2010 transfer to boost pension funding levels.

financially viable long-term capital plan, while maintaining positive operating budgets well into the future.

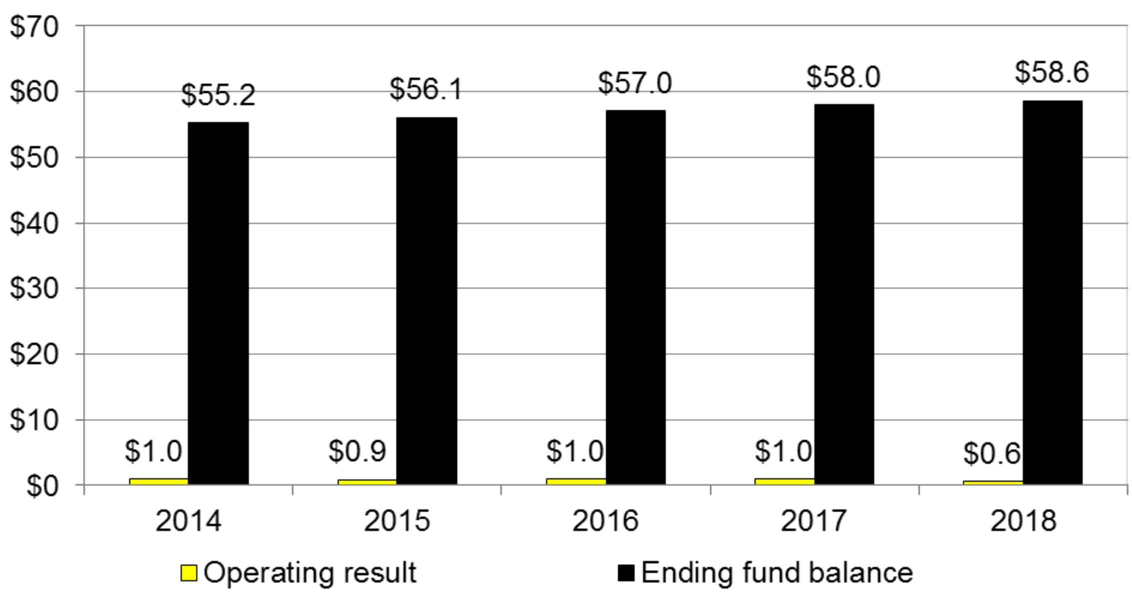
After meeting with several stakeholders, including the Administration, City Council, the City Controller, representatives from the City labor unions and the ICA, the Recovery Coordinator has prepared this second Amended Recovery Plan at the Secretary's direction.

Starting with the baseline projection

Act 47 requires the Recovery Coordinators to provide "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations and as impacted by the measures in the [Recovery Plan]." This Plan has a five year baseline projection of revenue and expenditures, just as was done in the 2004 Recovery Plan and the 2009 Amended Recovery Plan, and which matches the five-year planning horizon used by the ICA.

The Recovery Coordinators started the projection process with the City's 2014 budget as approved by City Council on February 17, 2014.[4] Under the requirements of Act 11 of 2004, the City must include a five-year projection with its budget submission to the ICA. The City's projections for 2014 through 2018 are the starting point for this Plan's baseline projection. Those projections show the City narrowly balancing its budget each year with a positive difference of approximately $1.0 million between revenues and expenditures (i.e. operating result). The City estimated that its General Fund reserve balance – the resources from prior years that are available for future use -- would be $86.3 million at the end of 2013. The City will use $25 million to fund capital projects and initially planned to use another $7.1 million to fund the Severance Incentive program described later in this chapter, leaving $55.2 million at the end of this year.[5]

2014 City Budget: Operating results and Ending Fund Balance



[4] City Council approved the budget submitted by Mayor Ravenstahl in December 2013. Because the City has a new mayor, it reopened the budget to make changes at the Mayor Peduto's initiation. The February 2014 version of the budget includes those changes as does this Recovery Plan.

[5] The 2014 fund balance projection assumes the City finishes this year with a positive $961,000 operating result, which is included in the $552. Million.

While the City reopened the budget early this year, much of the work on the 2014 budget was completed in the summer of 2013. The City compiles the budget in the late summer and then submits it to the ICA in September each year. So the 2014 budget was mostly based on the best results available midway through 2013. In putting together the Amended Recovery Plan's baseline projection, the Coordinators have the benefit of knowing the preliminary 2013 year-end results shown in the City's fourth quarter financial performance report. Based on those results and prior year analysis, the Coordinator made the following adjustments to the multi-year projection starting with 2015:

Revenues

- Payroll preparation tax revenue grows by 4.0 percent annually to reflect recent performance, instead of 1.5 to 1.9 percent assumed in the City's budget (+$3.5 million per year; +$13.9 million from 2015 – 2018). [6]

- Commonwealth pension aid increased from $15.7 million budgeted to $18 million to reflect 2013 results (+$2.4 million per year; +$9.8 million from 2015 – 2018).

- Parking tax revenue grows by 2.5 percent annually to reflect recent performance, instead 1.5 percent in the City's budget (+$1.2 million per year; +$4.9 million from 2015 – 2018).

- Market-based revenue opportunity (MBRO) proceeds reduced to $50,000 to reflect the actual progress on this initiative from the 2004 and 2009 Recovery Plans (-$450,000 per year; -$1.8 million from 2015 – 2018).

- Commonwealth grant revenues reduced by $1.0 million to reflect the end of Commonwealth support for regional events, like the 2009 G-20 Conference held in Pittsburgh. The City has budgeted, but not received, these revenues in most years since 2009 (-$1.0 million per year; -$4.0 million from 2015- 2018).

- Interest earnings reduced by $1.3 million in 2017 and $2.3 million 2018 to reflect more realistic financial market assumptions (-$1.0 million per year; -$4.1 million from 2015 – 2018).

Expenditures

- Social Security spending reduced to reflect recent performance (+$557,000 per year; +$2.2 million from 2015 – 2018).

- Salary spending in the Bureau of Neighborhood Empowerment increased by $233,000 per year starting in 2016 when the two-year commitment from external organizations to partially fund the associated positions ends (-$230,000 per year; -$699,000 from 2016 – 2018).

- Salary and premium pay expenditures in the Bureau of Fire refined to more accurately reflect step increases, attrition and other factors (-$1.7 million per year; -$7.0 million from 2015 – 2018).

The net effect of these changes is that the City's annual results would be a little better than the City's budget showed and the fund balance would be closer to $70 million at the end of 2018. But the City has also made a series of important policy decisions since the Coordinator submitted its recommendation that the City exit Act 47 oversight in November 2012. Those policy decisions significantly change the City's financial projections.

[6] The financial impact shown in parentheses is relative to the City's projections. Changes that increase revenues or decrease expenditures improve the results, so they are positive numbers. Changes that decrease revenues or increase expenditures erode the results, so they are negative numbers.

Recent City actions make major impact

In 2013 the City used the new real estate values generated by Allegheny County's recent reassessment for the first time. After the reassessment, the total value of taxable real estate in the City increased by 49 percent. If real estate values increase and tax rates do not change, then property owners will pay more in real estate taxes. Under Pennsylvania law, communities in Allegheny County must recalculate (or "equalize") their real estate tax millage so that the combination of the higher real estate values and a lower tax rate yields the same revenue as in the prior year. The calculation should take into account increases in real estate values related to new construction or building improvements and changes in values related to assessment appeals. The equalized tax rate should not increase real estate tax revenues or decrease them above prior levels. Tax revenues should remain the same after reassessment.[7]

In January 2013, City Council unanimously passed an ordinance introduced by Mayor Ravenstahl reducing the tax rate from 10.8 to 7.56 mills.[8] The ordinance also increased the Homestead exemption by 50 percent and increased the Senior Tax Relief Credit by 30 percent. Meanwhile City government actively helped property owners appeal their new, higher assessments. The combination of these efforts was intended to keep current year real estate tax revenues at the prior year's level.

Instead, real estate tax revenues fell from $126.6 million in 2012 to 119.3 million in 2013, a 5.7 percent drop. In comparison, this amount is almost equal to the entire budgets of the Department of Parks and Recreation and Planning Department combined. The intentions behind the actions were understandable. The Administration and Council were trying to "err on the side of taxpayers" to soften or eliminate any reassessment-related increase in real estate tax bills. But the unintended, actual impact was that receipts from the City's largest source of revenues were dialed back to what they were when the City first entered Commonwealth oversight.

The City is still evaluating the impact of these actions. Comparing the City's projected real estate tax revenues in the 2013 budget, before the tax millage reduction and related actions, to City Finance's projections provided in April 2014 shows the City losing $6.7 million per year.

Current Year Real Estate Tax Projections – Before and After Rate Reduction ($ Million)

	2013	2014	2015	2016	2017
Before: 2013 Budget	$126.2	$127.1	$128.1	$129.0	$130.0
After: April 16, 2014	$119.3	$120.5	$121.4	$122.3	$123.3
Difference	***($6.8)***	***($6.6)***	***($6.6)***	***($6.7)***	***($6.7)***

Pension changes

The City makes annual contributions to its three employee pension funds based on a report that is prepared by an independent actuary, called a "pension valuation report." In that report the actuary calculates the value of the pension funds' assets, the funds' liabilities and projected City payments for benefits earned by past employees or expected to be earned by current employees. By Commonwealth law, the City is required each year to contribute a minimum amount calculated by the actuary, called the Minimum Municipal Obligation (MMO). The MMO incorporated in the 2014 budget was based on the 2011 valuation report. The MMO incorporated in the 2015 budget will be based on the 2013 valuation report completed in early 2014.

[7] Public agencies can increase their equalized tax rate up to 5 percent in the first year after reassessment without court approval, but Pittsburgh did not use this provision.

[8] The Ordinance amended the Pittsburgh Code, Title Two, Fiscal; Article IX, Property Taxes; Chapter 263, Real Property Tax and Exemption; Section 263.01, Levy and Rate on Lands and Buildings. The Ordinance was passed on January 29, 2013 with an effective date of January 1, 2013.

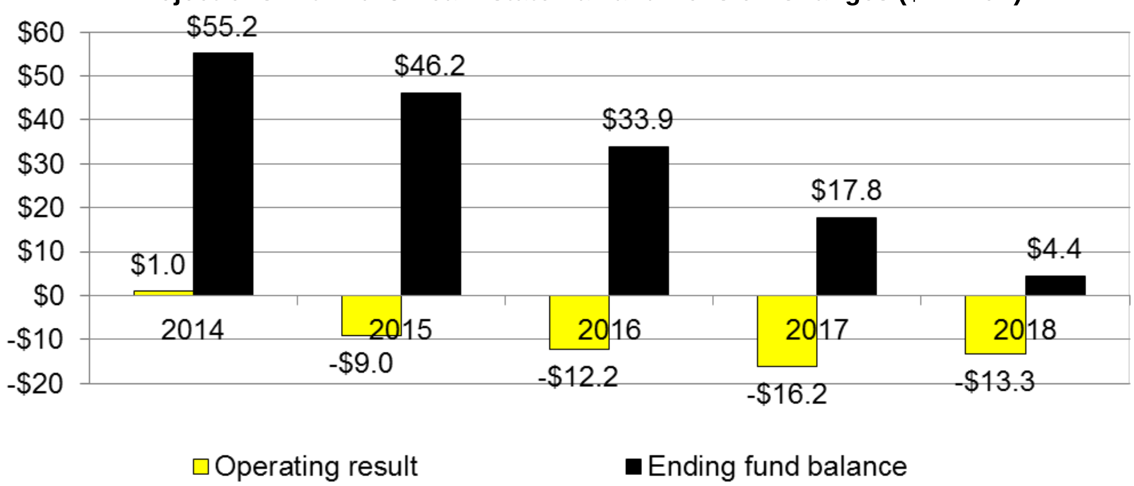
In late 2013, the City's pension boards approved several prudent changes to the assumptions that the actuary uses to calculate the MMO. The assumed investment rate of return was reduced from 8 percent to 7.5 percent, a more conservative estimate in line with national trends. The pension plan's mortality assumptions were also adjusted to reflect the longer life expectancies of pension recipients.

While these changes more accurately reflect the pension plans' experiences and expectations, they also result in a larger unfunded liability and higher MMOs. The actuary estimates that reducing the assumed investment rate of return from 8.0 percent to 7.5 percent alone costs approximately $8 million per year. With the impact of the other assumption changes and changes in pension plan funding levels since the last valuation was completed, the new MMOs are $7.7 million to $16.3 million higher than they are in the City's multi-year projections

	2014	2015	2016	2017	2018
Est. MMO in 2014 budget (2011 valuation)	31,438,298	35,420,000	31,963,000	31,564,000	34,201,000
Est. MMO in 2015 budget (2013 valuation)	31,438,298	43,112,000	43,742,000	47,856,000	48,551,000
Difference	0	(7,692,000)	(11,779,000)	(16,292,000)	(14,350,000)

The combined impact of the early 2013 actions related to the real estate tax and the late 2013 actions related to the employee pension plans is a negative $14 million swing in 2015, increasing to a negative $21 million swing in 2018 – far more than enough to flip the City's projected results from slightly positive to decidedly negative and nearly exhaust the fund balance by the end of 2018.

Projections with 2013 Real Estate Tax and Pension Changes ($ Million)



Amended Recovery Plan baseline

In addition to the adjustments discussed to this point, the Amended Recovery Plan baseline incorporates the financial impact of three other developments:

- In December 2013 City Council passed a resolution "authorizing the Chief of the Bureau of Police to adopt a minimum staffing policy, and further mandating an automatic promotional timeline."[9] The resolution calls for the Department of Personnel and Civil Service to initiate the hiring process with a police hiring class that represents five percent of the number of budgeted police officer positions whenever the Bureau of Police loses two percent of its budgeted police officers. City

[9] Resolution No. 761 approved by Mayor Ravenstahl on December 5, 2013.

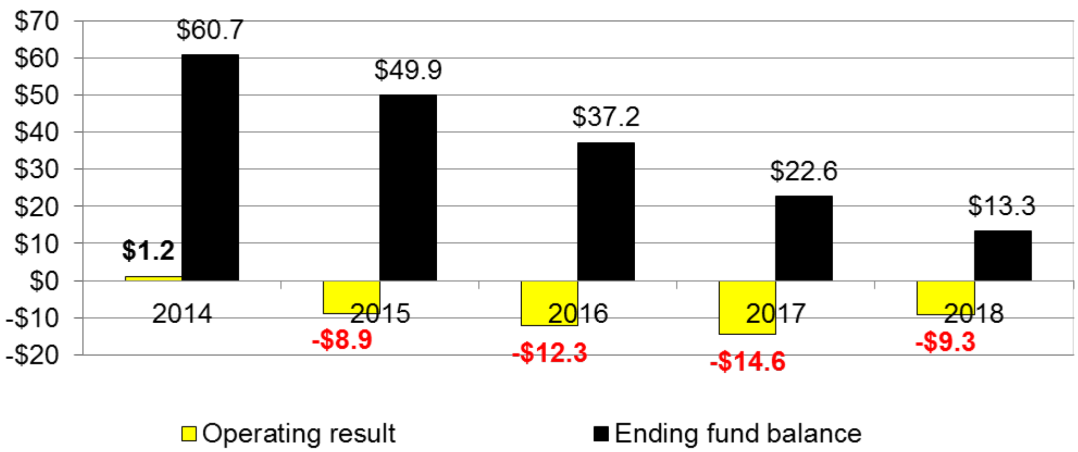
Finance estimates that policy will increase base salary costs by $733,000 in 2015 and $3.0 million through 2018 over the levels in the 2014 budget.[10]

- In January 2014 the Peduto Administration proposed and City Council approved a Severance Incentive Program for non-uniformed, non-represented employees whose age plus years of City employment total 70. Those employees were given the opportunity to leave City employment in return for 2.5 weeks of pay for each year of service.[11] Sixty-five employees participated in the Incentive Program at a cost of $3.9 million through 2016 and the Administration tabbed 13 of the resultant vacancies for permanent elimination. The Administration estimates that eliminating these positions will save $5.2 million through 2018.

- In May 2014 the City completed negotiations with the Fraternal Association of Professional Paramedics (FAPP) on a new collective bargaining agreement that extends through 2014. The 2009 Amended Recovery Plan set the maximum annual allocations for FAPP cash compensation, just as it did for the other eight bargaining units. The City and paramedics negotiated a $2,000 one-time bonus for 2011, 2.0 percent base wage increase in 2012, 2.0 percent base wage increase in 2013 and 2.5 percent base wage increase in 2014 – the same pattern as recommended in the 2009 Amended Recovery Plan.[12] The City's 2014 budget allocates money for the one-time bonus but not the base salary increases in 2012, 2013 and 2014. The Coordinator estimates that the compounded effect of these salary increases is an additional $2.6 million in base wages for 2015 through 2018.

The Amended Recovery Plan applies all of these changes to the City's multi-year projections in the 2014 budget to get the baseline projection shown below. With the changes, the City drops into deficit spending next year and depletes its fund balance by the end of 2018. The fund balance drops to an unacceptable level in 2017, if not earlier. The City needs a higher fund balance to pay its obligations early in the year before tax revenues arrive, so it does not have to issue Tax Revenue Anticipation Notes and pay interest for cash flow purposes. The fund balance shown below is also an insufficient buffer against unanticipated revenue shortfalls or spending increases.

Amended Recovery Plan Baseline Projection[13]



[10] City Finance also refined its projections for police salary and premium pay expenditures to more accurately reflect step increases, attrition and other factors, similar to the aforementioned adjustments in the Bureau of Fire. The net impact of these adjustments, including the new hiring policy, is $1.0 million per year and $4.1 million for 2015 through 2018.

[11] The payouts were calculated using 2013 base salaries. Payouts were capped at the employee's 2013 base salary.

[12] Please see initiative WF02 in the 2009 Amended Recovery Plan on pages 64-68.

[13] The projected fund balance at the end of 2014 is higher than shown in earlier scenarios because the City did not use the full $7.1 million allocated for the Severance Incentive Program.

Challenges beyond the baseline

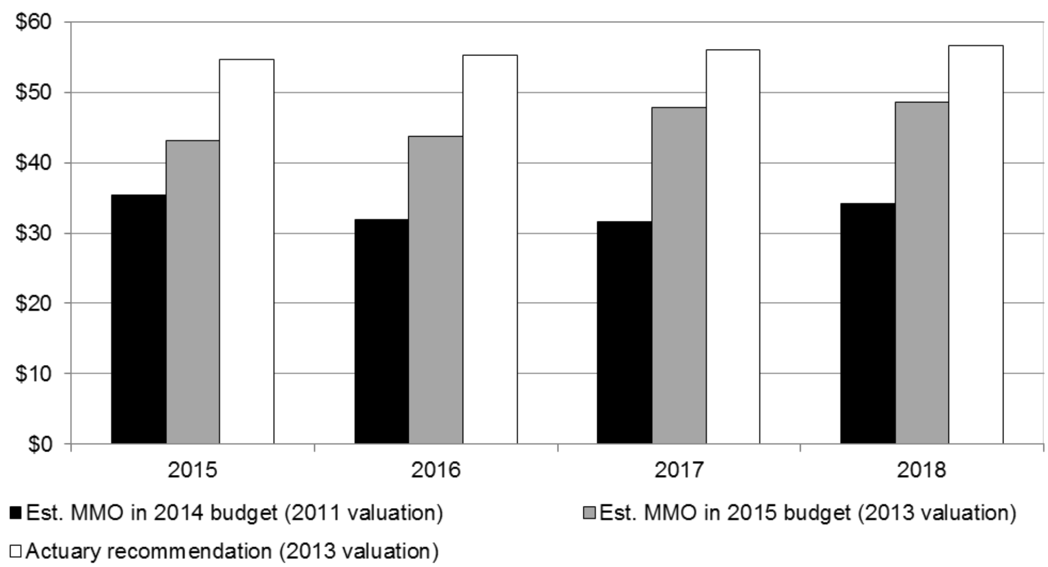
Even if the City managed to keep its fund balance higher than shown in the baseline projection, there are two other problems that are not reflected in that baseline. First, the Commonwealth's charge to the Recovery Coordinator – and by extension to the City's elected and appointed leaders – is to address "legacy costs…along with [having] a financially viable long-term capital plan." Second, the baseline does not have a significant allocation for capital improvement projects beyond a $25 million contribution from the operating budget in 2014.

On the first point, the 2009 Amended Recovery Plan focused on the City's underfunded employee pension plans and required additional contributions above the annual MMOs. The City complied with the 2009 Amended Recovery Plan and took steps to increase pension funding levels, particularly in December 2010 when the City made an additional $45 million one-time contribution and committed future parking tax revenues to the pension funds. However, in the recently completed pension valuation reports, the City's actuary sounds an alarm that the City still needs to do more or risk falling further behind.

Under Commonwealth Act 82 of 1998, the City is authorized to pay off a significant portion of its unfunded liability over 40 years, instead of the usual 30-year period. Act 82 also permits the City to use a 10 percent assumed investment rate of return on that portion of the unfunded liability, instead of the 7.5 percent that is now applied to the rest of the liability. In the short term, these assumptions reduce the City's statutorily required MMOs to the levels described earlier. But, as the City contributes less than is actuarially necessary to fund the pension plan, the portion of the unfunded liability governed by Act 82 will actually grow instead of being paid off.[14]

This is similar to a person who extends their mortgage from a 30-year repayment period to 40 years, and then makes monthly payments that are too small to even retire the interest that accrues each month. Over time the interest is compounded into the principal, future interest costs grow and the person falls further and further behind. In light of this problem, the actuary includes a recommended City contribution level in the pension valuation reports in addition to the smaller, statutorily required MMO. That recommended contribution level is $19.2 million higher than the MMO in the 2014 budget and $11.5 million higher than the MMO is estimated to be in 2015.

Minimum Municipal Obligations vs. Actuary Recommended Pension Contribution ($ Million)



[14] Please see the Workforce and Collective Bargaining Chapter for much more on this subject.

Given the deficits in the Amended Recovery Plan baseline projection, the City cannot afford to increase its pension contribution to the actuary's recommended level. But, to attain long term fiscal stability, the City has to gradually increase its contributions to that level.

Please see the Workforce and Collective Bargaining chapter for more information on this issue.

The second issue is related to capital spending. Like most major cities, Pittsburgh has extensive and expensive infrastructure used to deliver core services to its citizens, businesses and visitors. Ranging from streets to bridges to fire stations, the City's capital assets are valued at $350 million in the most recent Comprehensive Annual Financial Report and the replacement value of those assets is almost certainly much higher than that.

For the last fifteen years, the City has underinvested in these assets, subsisting on a level of capital spending based on available operating funds. This approach was necessary to help the City address the immediate problems in its operating budget, but it is not a viable long term strategy. The City issued bonds in 2012 to supplement its pay-as-you-go contributions and will need to do so again before 2018. The difference between annual revenues and annual expenditures will not be large enough to fund capital projects solely from the operating budget.

In addition to increasing its capital spending, the City needs to spend more money *on its infrastructure*. In recent years the City has spent a disproportionate amount of its limited capital budget on vehicles, equipment and items that are not capital projects. In February 2012 the City passed an ordinance that defines the types of projects that should be in the City's capital budget and sets a process for prioritizing those projects. Now the City has to put money into that process so it can start to make progress against the backlog of repaving, repairs and replacement projects.

As with the employee pension situation, the City cannot afford to increase its capital budget immediately to the level necessary to address all its capital needs. But it has to make progress during the period covered by this Recovery Plan.

Please see the Capital Program and Debt chapters for more information on this issue.

Recovery Plan priorities

Based on the Commonwealth's direction and the Coordinator's analysis of changes that have occurred since November 2012, this second Amended Recovery Plan has five basic objectives:

- Eliminate the operating deficits in the baseline multi-year financial projection while preserving basic services.
- Gradually reduce the City's debt burden to provide more resources to support daily operations
- Keep the City's fund balance at an appropriate level to avoid the need for cash flow borrowings and provide an adequate buffer against unanticipated revenue shortfalls or expenditure increases.
- Gradually increase the City's pension fund contributions to the levels recommended by its actuary.
- Direct more funding to the City's capital budget, with the priority to invest more in the City's roads, bridges, police and fire stations and other core infrastructure.

The City also has to sustain the progress it has made in managing its workers' compensation liabilities and continue scheduled contributions to the Other Post Employment Benefit (OPEB) trust fund.

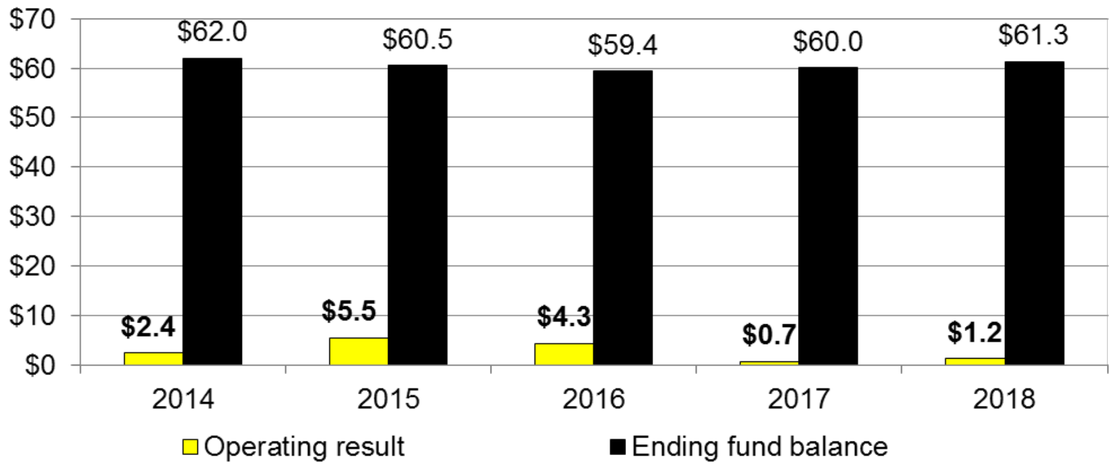
The Amended Recovery Plan achieves these objectives through the following initiatives:

- Assessing the condition of the City's infrastructure and using those condition assessments to prioritize projects in the capital budget (initiative CP01 in the Capital Plan chapter)
- Spending $25 million a year on existing infrastructure needs, supported by two $50 million bond issuances that keep the City in compliance with its new debt policy (initiatives CP02 in the Capital Plan chapter and DS01 in the Debt chapter)
- Allocating $5 million in 2015 and $5 million in 2016 from the City's fund balance for pay-as-you-go capital projects (initiative CP02 in the Capital Plan chapter)
- Seeking higher annual contributions from the tax exempt non-governmental institutions that rely on the same roads, bridges and other infrastructure that City residents and business owners do (initiative CP03 in the Capital Plan chapter)
- Moderating employee wage and benefit cost growth so the City can afford the higher contributions needed to more fully fund the employee pension plans (initiative WF01 in the Workforce chapter)
- Gradually increasing the City's employee pension fund contribution to the actuary's recommended levels by 2018 (initiative WF02 in the Workforce chapter)
- Continuing to make a $2.5 million annual contribution to the other post-employment benefit (OPEB) trust fund (initiative WF03 in the Workforce Chapter)
- Pursuing additional workers' compensation reforms (initiative WF06 in the Workforce chapter)
- Maintaining a minimum unassigned General Fund balance of 10 percent of annual General Fund Revenues – a target that is higher than the 5 percent threshold in the 2009 Recovery Plan but lower than the 16.7 percent threshold recommended by the Government Finance Officers Association (initiative FM01 in the Financial Management chapter)
- Reducing non-personnel operating expenditures by 5 percent (initiative FM02 in the Financial Management chapter)
- Directing windfall proceeds to infrastructure improvements, further employee pension fund contributions or fund balance maintenance (initiative FM03 in the Financial Management chapter)
- Seeking further efficiencies through intergovernmental cooperation and participation in the Congress of Neighboring Communities (initiatives IG01 and IG02 in the Intergovernmental Cooperation chapter)
- Continued collaboration with the Urban Redevelopment Authority on projects that will build the City's tax base and strengthen neighborhoods (initiative ED02 in the Economic Development chapter)
- Restoring real estate tax revenues to the levels in place before the 2013 tax cut and related actions (initiative RV01 in the Revenue chapter)
- Increasing parking tax revenues and maintaining or improving cost recovery for those services that are expected to fully or partially "pay for themselves" (initiatives RV02 and RV03 in the Revenue chapter)

Other initiatives build on the City's progress or recent recommendations for improving its budgeting, capital improvement planning and cash management processes.

Implementing the initiatives will help the City achieve the five primary objectives of this Amended Recovery Plan and the ultimate objective of any Recovery Plan – to ensure the City's long term fiscal recovery and exit from Commonwealth oversight.

Amended Recovery Plan Projection with Initiatives ($ Millions)[15]



[15] The annual operating results do not include the pay-as-you-go capital contributions in 2014, 2015 and 2016. Those transfers are incorporated in the ending fund balance calculations.

Capital Program

Like most major cities, Pittsburgh has extensive and expensive infrastructure used to deliver core services to its citizens, businesses and visitors. Ranging from streets to bridges to fire stations, the City's most recent annual financial statements estimated their value at almost $350 million, a figure that is almost certainly several times lower than the replacement value of those assets due to depreciation, valuation rules, and recent changes in public sector asset valuation.

Over at least the past fifteen years, the City has underinvested in infrastructure, subsisting on a level of spending based on available operating funds. While this approach was critical in beginning to recover from the financial crisis, the City must now begin more aggressively working to maintain its assets. In particular, in recent years the City has had few major rehabilitation projects focused on unglamorous but critical items like bridge and roof replacements or heating, ventilation and air conditioning systems (HVAC). Funding in other key areas, like street resurfacing, has been uneven and insufficient. At the same time, due to its reliance on non-debt sources of funding, the City has focused its limited capital budget resources to buy vehicles and other equipment that are important but generally not eligible for long-term capital funding. Finally, because of the combination of generating most of its capital funding from its annual operating budgets and an extraordinarily heavy burden of prior debt that will be fully paid off in just twelve years, the City has required recent and current taxpayers to bear a disproportionate burden of long-term infrastructure costs that should be spread over a generation or more.

The good news is that the City has approved new legislation better structuring the capital investment and planning process. Chapter 218 of the Pittsburgh City Code, signed into law in February 2012, defines capital-eligible projects and creates requirements for and priorities among capital project proposals. It also establishes a Capital Program Facilitation Committee to review and prioritize capital project proposals and to oversee the implementation of the City's capital improvement program (CIP), led by a CIP Manager. Finally, Chapter 218 creates accounting processes and financial reports to facilitate effective oversight of the CIP.

Another positive impending change is the reduction of the current debt service burden of approximately $85 million per year to about $38 million in 2019, providing room to establish a modest recurring borrowing program to address chronic capital underinvestment. Current debt service will be completely paid off in 2026, while most governments issue new general obligation debt with maturity of at least 20 years to recognize the lifespan of the assets funded by borrowing.

This chapter describes what the City has been spending on capital, provides some measures of the level of underinvestment, and proposes a method for addressing the City's infrastructure needs during the term of this Recovery Plan and into the future.

Recent City Capital Spending: Capital Budgets by Category

Chapter 218 of the City Code defines capital projects as:

- Publicly funded projects "to build, restore, retain or purchase any equipment, property, facilities, programs, or other items, including buildings, park facilities, infrastructure, [and] information technology systems…."
- Investments "funded on a necessarily non-repeating, or non-indefinite, basis…."
- Items "to be used as a public asset or for the public benefit."
- "hav[ing] a minimum value of fifty thousand dollars ($50,000)."

Unlike many other governmental definitions of capital eligibility, and the definition used in the policy of the Governmental Accounting Standards Board's (GASB) capital policy (GASB Statement 34), the City's ordinance does not include any minimum useful life of the asset that is to result from a capital project.

In order to establish the types of projects financed by capital in recent years, the Coordinator categorized each project in Pittsburgh's capital budgets from 2007 to 2014. The categories, and examples of projects, are as follows:

- **Buildings and Systems** are projects to build or improve physical structures owned by the City, or their component elements (e.g., elevators, HVAC). The projects can be found in the City's capital budget in line items titled *Elevator Repair and Maintenance*, *Recreation and Senior Center Rehabilitation*, *City-County Building*, and the catch-all *Building Improvements Program*.

- **Furniture and Fixtures** specifically refers to *Decentralization of BBI Employees*, which was funded over two years to purchase workstations for BBI employees who would be located in police zone stations.

- **Infrastructure** includes *Street Resurfacing*, bridge improvement projects, traffic engineering projects (e.g., *Signal Upgrades*), the *Ramp and Public Sidewalk Program*, and *Street Lighting*.

- **Machinery and Equipment** includes IT projects such as the *Enterprise Resource Planning System*, as well as *Radio Replacement*, *Automated Fuel Dispensing System*, *Firefighting Protective Equipment*, *EMS Equipment*, and *Police Equipment*. This category also includes the annual appropriation for *Capital Equipment Acquisition* for the City's Equipment Leasing Authority, the "programmed replacement of vehicles and equipment for the City."

- **Recreation Assets** are outdoor facilities used for recreational purposes, as distinct from Infrastructure assets. They include projects for ball fields, golf courses, play area improvements, splash parks, swimming pool improvements, and dog parks.

- **Operating Costs** are projects that seem to be operating in nature rather than capital, according to the definitions in Pittsburgh City Code. Many are grant funded (Community Development Block Grant or "Other"), and capital eligibility is not considered to be relevant as long as the project complies with grant requirements.

    - CDBG-funded projects include personnel costs for the Urban Redevelopment Authority (URA); the *Neighborhood Housing Initiative*; and "Unspecified Local Option" projects such as grants to the Greater Pittsburgh Community Food Bank.

    - Other projects include *Neighborhood Business and Economic Development*; *HOME Funding*; and *Emergency Solutions Grant*.

Projects funded from pay-as-you-go (PAYGO) monies from the operating budget and bond proceeds include *Demolition of Condemned Buildings*, which is a recurring expenditure and does not increase the value of a City asset; *War Memorials*, which is a recurring maintenance expense; and transfers to other organizations, such as *Carnegie Library of Pittsburgh*.

Pittsburgh's Capital Budget also has items that do not meet the $50,000 capital eligibility threshold and are not wholly grant-funded. Some of these are funded by PAYGO, such as *Refinished Gym Floors* (2011), *Signage and Wayfinding* (2014), and *Zone 5 Mobile Public Safety App* (2011). Others are funded with bond proceeds, such as *Accomando Community Center* (2012), *Bob O'Connor Golf Course Clubhouse* (2012), and *Oakwood Walking Trail* (2012).

Most of the categories align with accounting categories of assets used in Pittsburgh's Comprehensive Annual Financial Reports (CAFRs). It is important to note that categorizations were based on project descriptions from the CIPs, and are inherently imprecise since they have been applied without access to detailed project information, which is not included in the annual CIP. Nonetheless, they help illustrate relative investments of types of projects over time.

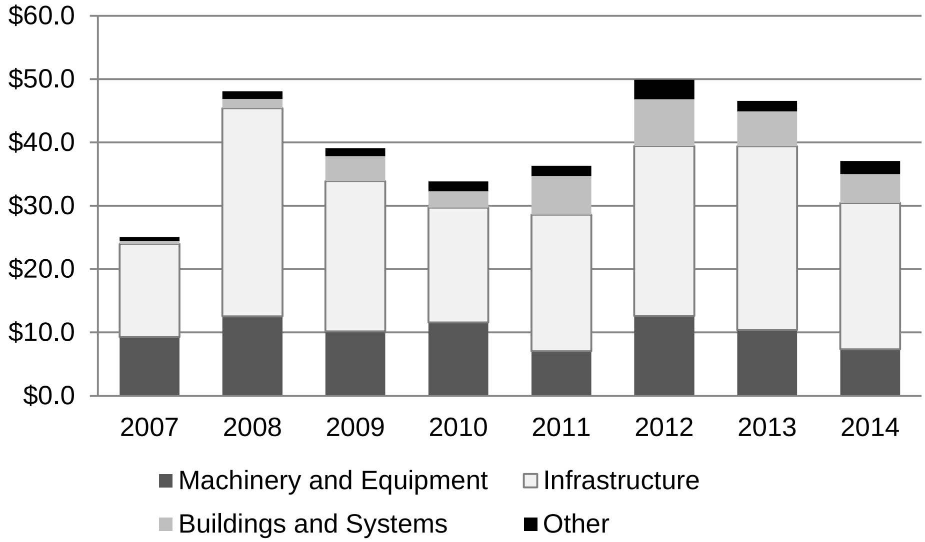
The table below shows that when categorized in this way, nearly 40 percent of the City's "capital" projects from 2007-2014 are more like operating expenditures than capital. Another 36 percent of the capital budgets have been for Infrastructure projects. About 16 percent have been for projects in the Machinery and Equipment category, while only 6 percent have been for Buildings and Systems.

Capital Budgets by Funding Source and Category, 2007-2014 ($ Millions)

	CDBG	PAYGO	Bonds	Other	Total	As % of Total
Buildings and Systems	3.5	12.1	12.1	4.3	**32.0**	6.1%
Furniture and Fixtures	0.0	0.1	0.1	0.0	**0.1**	0.0%
Infrastructure	24.4	49.5	48.3	67.8	**190.0**	36.4%
Machinery and Equipment	1.9	41.7	25.0	12.4	**80.9**	15.5%
Recreation Assets	3.5	4.5	4.9	0.1	**13.0**	2.5%
Operating	89.4	19.4	14.0	83.6	**206.4**	39.5%
Total	**122.7**	**127.3**	**104.2**	**168.1**	**522.3**	
As % of Total	***23.5%***	***24.4%***	***20.0%***	***32.2%***		

If the Coordinator's categorization of capital projects is reasonably accurate, then only about 60 percent of the capital budget over the last seven years has been dedicated to true capital purposes. Even this amount includes projects would not have met capital eligibility requirements established by Chapter 218 in 2012, and projects that are short-lived and thus arguably not capital in nature, such as Police vehicles. If the projects categorized as Operating are removed, then capital budgets by year and by category are as shown in the following chart.

Capital Budgets by Year and Category, 2007-2014 ($ Millions)
Excluding Non-Capital Projects



It is also telling that Pittsburgh's recent capital budgets appear not to include a variety of routine projects that would feature prominently in the documents of other cities. For example, with 25 fire stations, many over a half-century old, projects such as new roofs, structural renovations, and kitchen and bathroom improvements on those facilities are to be expected. Pittsburgh has dozens of other facilities - Police Zone buildings, EMS stations, community centers, senior centers, park shelters, and office space, all of which can be presumed to need cyclical capital investments like mechanical, electrical, and plumbing projects or door and window replacements. However, such projects rarely appear in recent City capital budgets and may indicate a level of underinvestment that could cause problems in coming decades if not addressed now.

Why is this important? The results of inadequate capital investment may escape notice in the short-term, but result in increased costs in the longer-term, and can lead to asset failures with even more dire financial consequences.

An excerpt from the Pavement Management Five-Year Capital Plan of Folsom, California illustrates the concept that deferring capital investment increases total costs:

> Street maintenance costs remain relatively low until a road's condition has deteriorated to the lowest acceptable level. As the [Pavement Condition Index] decreases, the cost of the recommended maintenance technique increases. For example, maintenance of a street in good condition calls for a relatively inexpensive preventative technique called seal coating. A roadway in fair to poor condition, however, often requires a rehabilitative technique called overlay – at 22 times the cost of seal coating. A failed roadway requires complete reconstruction, at more than twice the cost of overlay.[1]

As noted later in this chapter, a majority of Pittsburgh's streets are already at the lowest rating level for pavement quality.

[1] Pavement Management Five-Year Capital Plan, Folsom CA, May, 2005: http://www.folsom.ca.us/civicax/filebank/blobdload.aspx?blobid=2890

Now that Pittsburgh is in a more stable financial position and is planning to build on that stability, it is important for the building blocks of a sound capital improvement plan to be put in place: up-to-date asset inventories and condition assessments that will allow the City to prioritize among all its capital needs, with an understanding of the financial and operational repercussions of deferring improvements. As stated in a "Best Practice" of the Government Finance Officers Association (GFOA):

> Budgetary pressures often impede capital program expenditures or investments for maintenance and replacement, making it increasingly difficult to sustain the asset in a condition necessary to provide expected service levels. Ultimately, deferring essential maintenance or asset replacement could reduce the organization's ability to provide services and could threaten public health, safety and overall quality of life. In addition, as the physical condition of the asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities. Government entities should therefore establish capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and capital improvement plans should address the continuing investment necessary to properly maintain its capital assets. Such practices should include proactive steps to promote adequate investment in capital maintenance and replacement and necessary levels.[2]

Evaluating Capital Spending

Many cities have extensive information available on their capital assets. It is typical in best-practice communities to have an up-to-date asset inventory and related condition assessment of municipal infrastructure. This information was not available to the Coordinator, and may not exist for all or even most City assets.

Therefore, in order to gain an understanding of the level of Pittsburgh's underinvestment, the Coordinator evaluated Pittsburgh's recent capital investment through multiple means, combining data from the City's asset valuation, national best practices, staff interviews, facilities lists, and comparison with other cities to arrive at a general estimate of the level of investment needed during the Plan period and into the future.

Evaluating Capital Spending Based on Capital Asset Values

In the absence of condition assessments that include cost projections of capital needs, capital asset values from Pittsburgh's Comprehensive Annual Financial Reports (CAFRs) may be used to gauge recent capital investment relative to total asset value. The CAFRs categorize capital assets as follows:

- Buildings and systems
- Furniture and fixtures
- Machinery and equipment
- Vehicles
- Infrastructure

Each year's CAFR presents a schedule with the value of capital assets at the beginning of the year; additions and any deletions; and accumulated depreciation. Additions represent increases in value resulting from investment, while deletions represent the disposal of assets (e.g., through sale or disposal at end of useful life). The table below summarizes the ending balances from the 2012 CAFR as dollar values and shows each category as a percentage of the total.[3][4]

[2] Capital Asset Assessment, Maintenance and Replacement Policy, GFOA, rev. 2010: http://www.gfoa.org/index.php?option=com_content&task=view&id=1604

[3] There are three other categories of capital assets, which have not been included in this discussion. The *Land* category is not included because ongoing investment is not required for the asset to retain value and remain useful. *Land* is also traditionally valued at its acquisition price, which may be decades old. The *Construction-in-Progress* category is also not included because the

Category	Balance 12/31/12	As % of Total
Furniture and Fixtures	$4,192,053	1.2%
Building and Structures	$88,778,564	26.1%
Equipment	$4,325,887	1.3%
Infrastructure	$179,919,789	52.9%
Vehicles	$62,754,657	18.5%
Total	**$ 339,970,950**	**100.0%**

Because assets are generally valued at the cost at the time of their acquisition or construction, the replacement value of the City's assets are likely to be several times higher than the values shown in the table above. As an example, the Swinburne bridge, which is a concrete bridge carrying Frazier Street with a span of 599 feet and built in 1915, is valued in the CAFR at $2.6 million. By contrast, the 31st Street Bridge of Pittsburgh, which has a much shorter span of 360 feet, was renovated by PennDOT in 2006-2007 at a cost of about $27 million. Nonetheless, the *relative* values of the capital assets and additions to those values over time do provide an order-of-magnitude sense of the City's annual investments.

The values of the City's capital assets, as stated in its CAFRs, indicate that Pittsburgh's capital investments in recent years have been disproportionately dedicated to vehicle procurement. The table below shows that the value of the *Building and Systems* category of assets remained constant from 2005 to 2012 (2012 is the most recent CAFR available). The value of *Infrastructure* assets increased by 4.5 percent, and the combined value of the *Furniture and Fixtures* and *Machinery and Equipment* categories declined by 18.7 percent. However, the value of *Vehicles* increased by 52 percent.

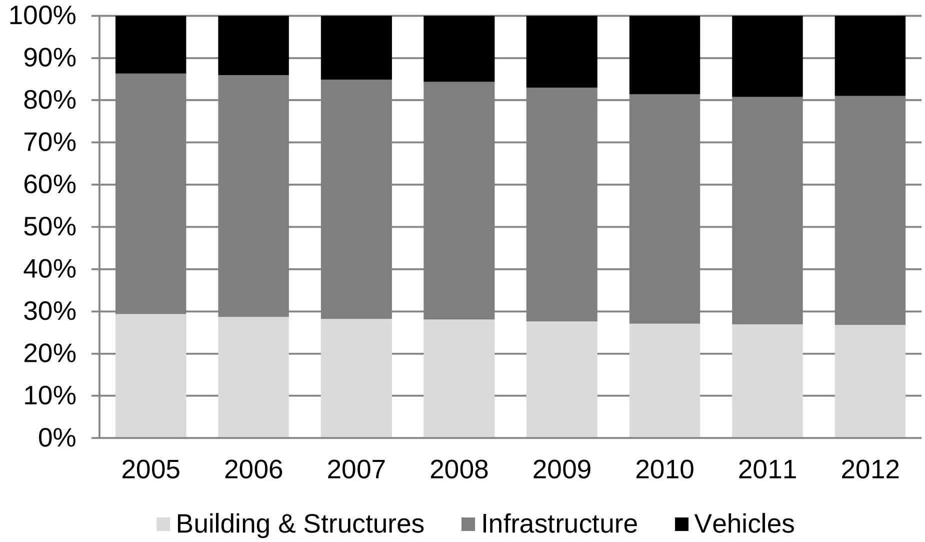
	Balance 1/1/05	Balance 1/1/12	Change ($)	Change (%)
Buildings and Systems	$88.8	$88.8	$0.0	**0.0%**
Infrastructure	$172.2	$179.9	$7.7	**4.5%**
Vehicles	$41.4	$63.0	$21.6	**52.0%**
Other Assets	$10.5	$8.5	-$2.0	**-18.7%**
Total	**$312.8**	**$340.2**	**$27.3**	**8.7%**

The chart below shows the accounting value over time of the three most valuable fixed asset categories, *Building and Structures, Infrastructure*, and *Vehicles*. These three categories represent about 97 percent of the value of Pittsburgh's fixed assets; *Furniture and Fixtures* and *Machinery and Equipment* make up the remaining 3 percent. It shows that the value of the *Vehicles* category of capital assets, though still significantly less than the *Buildings and Structures* and *Infrastructure* categories in 2012, has grown at by far the fastest rate.

value is converted into "additions" to other categories in subsequent years. The *Capitalized Leases* category has not been included because its value is relatively insignificant and did not change from 2005-2012.

[4] The analysis in this chapter is based on 2012 and prior CAFRs. The 2013 CAFR was published shortly before this plan was adopted; the analysis was not updated based on the new numbers, but a review of the 2013 CAFR shows that the results of an analysis based on the newer numbers would be substantially the same.

Relative Value of Major Fixed Asset Categories
Balance as of January 1, 2005-2012 per Pittsburgh CAFRs



In general, most governments seek to avoid purchase of vehicles with capital, and sometimes have policies requiring that most types of vehicle purchases be included in the annual operating budget. This approach is related to the short life-cycle of most City vehicles (especially police cars) and the fact that they generally don't meet minimum thresholds for capital.

In order to calculate the value of depreciation for each capital asset each year, the City defines the useful life of each category of asset as a range of years and uses the straight-line depreciation method. The estimated useful lives for capital assets are as follows:

Category	Useful life minimum	Useful life maximum
Furniture and Fixtures	3	5
Building and Structures	25	50
Equipment	2	10
Infrastructure	20	50
Vehicles	2	10

The actual useful lives of assets obviously vary dramatically depending on many factors such as use, weather, and quality of construction. Nonetheless, considering the accounting useful lives as proxies for physical useful lives, and taking into account the value of fixed assets from the CAFR, one may calculate the amount of investment that should theoretically be made each year, on average, in order to maintain the assets (value divided by useful life). That is, the City should be adding to the value of its assets at a pace that is equal to or greater than the pace of deterioration in order to continue to have usable assets. The table below shows how much should have been added to the value of capital assets in 2012 to keep pace with depreciation (based on the maximum useful lives shown above):

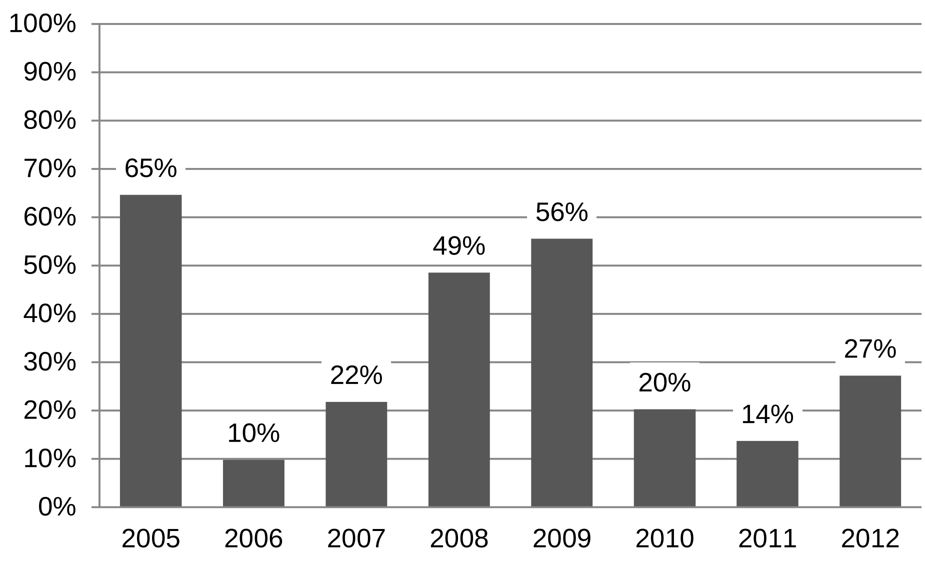
Value of Capital Assets and Target Investment Levels – 2012 ($ Millions)

Column	*A*	*B*	*C*	*D*	*E*
Category	**Useful life (Max)**	**Balance 1/1/12 (CAFR)**	**Additions 2012 (CAFR)**	**2012 Target Investment**	**Investment as % of Target**
				(B / A)	*(C / D)*
Furniture and Fixtures	5	$4.2	$0.0	$0.8	**0%**
Building and Structures	50	$88.8	$0.0	$1.8	**0%**
Equipment	10	$4.3	$0.02	$0.4	**5%**
Infrastructure	50	$179.9	$0.0	$3.6	**0%**
Vehicles	10	$63.0	$3.5	$6.3	**56%**
Total		**$340.2**	**$3.5**	**12.9**	**27%**

Again, it is necessary to keep in mind that the values of assets and the target investments are likely to be several times higher than the accounting values used in the CAFR. However, estimating capital needs for existing assets in this way suggests that the City's investment in 2012 was only 27 percent of what it should have been to be "on pace" to preserve capital assets over the long term. It also shows that the 2012 investment in the Vehicles category came by far the closest to approaching the target level. Without the spending on vehicles, the total investment as a percent of the target would effectively be zero.

Using this same method to estimate annual capital spending needs for each year from 2005 to 2012 (the most recent available CAFR) yields a picture of chronic under-investment. The chart below shows actual additions to capital asset values as a percentage of investment needed based on the life cycle of each asset category.

Actual Investments in Pittsburgh's Capital Assets as % of Target Levels
Based on Asset Values and Maximum Useful Lives per the City's CAFRs



Actual capital investments as a percentage of estimated target spending levels range from a maximum of 65 percent in 2005 to a low of 10 percent in 2006. On average, spending was 33 percent of the target over this 8-year period; in other words, capital spending should have been about three times what it actually was. Again, the shortfall for non-vehicle categories was even greater.

As a result of this persistent underspending, as well as the likelihood that current asset valuations and resulting annual replacement investments are low, a sustained period of more significant investment by the City is required.

Evaluating Capital Spending Based on the Example of Bridges

Bridges are an example of a category of City assets requiring ongoing inspections and capital investment as well as ongoing maintenance. Because of Pittsburgh's geography, bridges are an even more significant part of the portfolio of capital assets than in many other cities. According to a list provided by the Department of Public Works, Pittsburgh is responsible for 137 bridges.

The repercussions of inadequate investment in bridges can be particularly dire. According to the PennDOT website, "To preserve bridge safety, PennDOT, along with local bridge owners are in the process of adding new weight restrictions or lowering existing weight restrictions on approximately 1,000 bridges statewide.[5]" Of the bridges on the PennDOT list, updated in October, 2013, two are owned by the City of Pittsburgh: a bridge carrying the Boulevard of the Allies over a CSX railroad line and a bike trail, and a bridge carrying West Carson Street over Chartiers Creek.

When bridges require extensive repair work, they close – often resulting in detours for thousands of drivers a day for months at a time. As noted previously, the 31st Street Bridge, which connects Troy Hill with the Strip District, was renovated by PennDOT from February 2006 to November 2007 at a cost of about $27 million. When it closed for the project, the bridge was traversed by 7,000 vehicles per day[6].

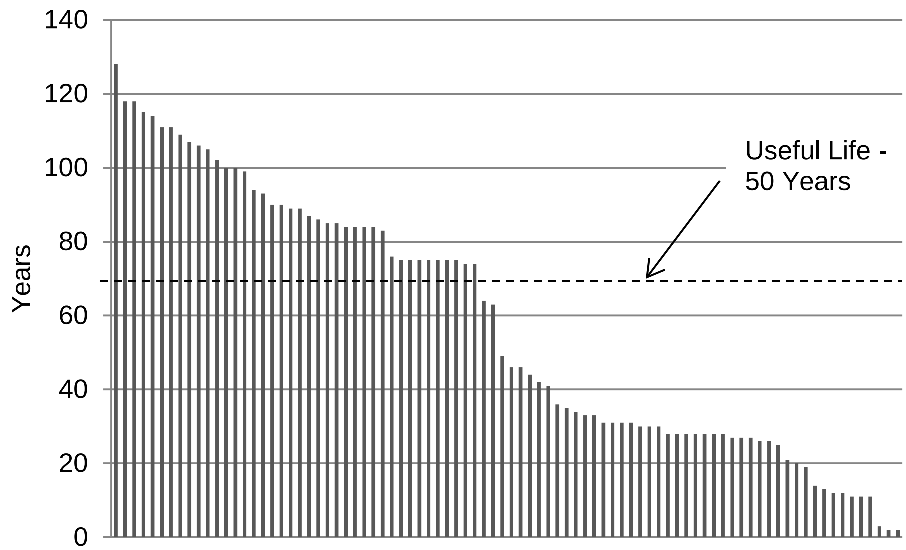
DPW's list of all City of Pittsburgh bridges includes a field for National Bridge Inspection Standards (NBIS) ratings of the three components of each bridge, the deck, superstructure, and substructure. NBIS ratings describe an existing bridge compared to its condition if new; ratings range from 0 (failed condition) to 9 (excellent).

Of the total 137 City bridges, 45 bridges do not have NBIS ratings because they are not required for the type of bridge (e.g., pedestrian bridges). Another six bridges did not have NBIS ratings because the ratings were unavailable or not yet updated. There are 86 bridges on the inventory with NBIS ratings. These 86 bridges were built between the late 1800's (Hot Metal Bridge) and 2012 (the Fancourt Street Bridge). According to the Public Works Department, the rule of thumb for the useful life of a bridge is 50 years; 49 percent of the 86 bridges are 60 years old or older.

[5] http://www.dot.state.pa.us/Internet/web.nsf/Secondary?OpenFrameSet&Frame=main&src=infoBridge?OpenForm; retrieved on 3/17/14

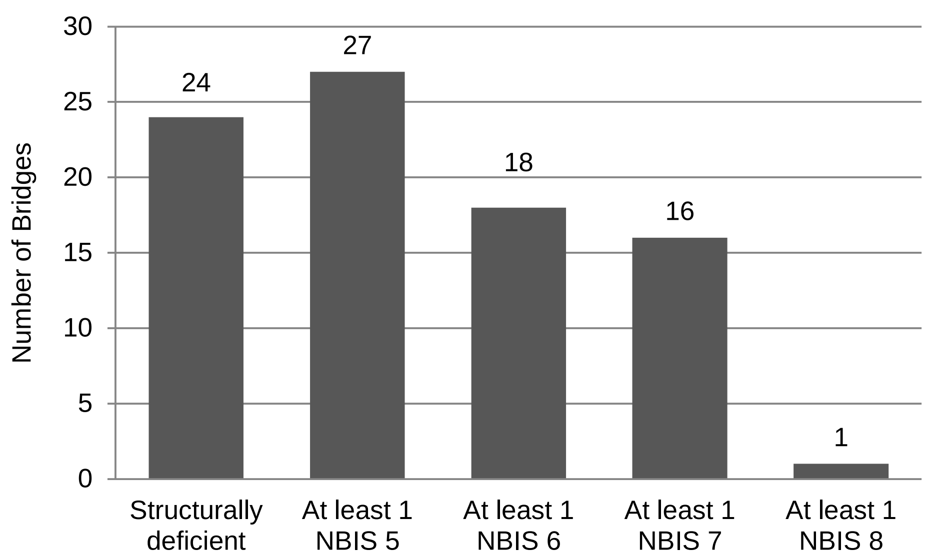
[6] "31st St Bridge to Reopen in Nov after 21 months of reconstruction," by Joe Grata, Pittsburgh Post-Gazette, 9/25/07. Retrieved at http://news.google.com/newspapers?nid=1129&dat=20070925&id=6KkkAAAAIBAJ&sjid=KnIDAAAAIBAJ&pg=2778,3420699 on 4/15/14.

Age of City of Pittsburgh Bridges (Years)
86 Bridges with NBIS Ratings



Of these 86 bridges, 24 (or 28 percent) are structurally deficient, meaning that monitoring and/ or repairs are required. The term "structurally deficient" is used for bridges that have at least one of three components – deck, superstructure, or substructure – with a NBIS rating of 4 or less. There are an additional 27 bridges (31 percent) that have at least one component NBIS rating of 5, meaning that they have the lowest rating possible without being categorized as structurally deficient. The chart below shows all 86 rated bridges, categorized by the lowest NBIS rating of their 3 components. It shows that more than 50 percent of all of Pittsburgh's bridges with NBIS ratings are either structurally deficient or 1 rating level above structurally deficient. None of the bridges have all components rated 9.

Pittsburgh Bridges Categorized by Lowest Component NBIS Rating



In spite of the number, age, and condition of bridges, over the eight years from 2007 to 2014, the capital budget has included a total of only $13.3 million for bridge projects from all funding sources, as shown in the table below.

Bridge Projects in Capital Budgets 2007-2014 ($000)

	2007	2008	2009	2010	2011	2012	2013	2014	8-Yr Total	Avg/ Yr
Bridge Repairs	400	200	300	700	400	730	550	400	**3,680**	**460**
E. Liberty/Shadyside Ped Br	0	0	432	0	0	0	0	0	**432**	**54**
Greenfield Ave Bridge	0	0	832	0	0	0	0	120	**952**	**119**
Wenzell Ave/ Carnahan Br	0	0	520	435	0	0	0	0	**955**	**119**
W Ohio St/Ridge Ave Bridge	0	0	624	469	400	0	400	500	**2,393**	**299**
Wilksboro Bridge	0	0	200	200	200	20	0	0	**620**	**78**
Brookline Blvd	0	0	0	628	0	0	0	0	**628**	**79**
South Highland Ave Bridge	0	0	0	451	2,000	0	0	0	**2,451**	**306**
2nd Ave Bridge Replacement	0	0	0	0	800	0	400	0	**1,200**	**150**
Bridges - Subtotal	**400**	**200**	**2,908**	**2,883**	**3,800**	**750**	**1,350**	**1,020**	**13,311**	**1,664**

Amounts were budgeted for eight specific bridges and there was a general “Bridge Repairs” line for all other bridges. To put the $13.3 million number in perspective, the amount budgeted over the same eight years for “Machinery and Equipment” projects was $80.9 million – six times as much.

Evaluating Capital Spending Based on the Example of Streets

A second critically important category of infrastructure for Pittsburgh is its streets. The City is responsible for 861 linear miles of asphalt streets, as well as 170 miles of concrete and brick/block stone streets. However, given that streets are different widths, a more precise way to describe them is to say that the City is responsible for 14.5 million square yards of streets. Of the total 14.5 million square yards, 12.9 million square yards or 89 percent are asphalt; these will be the focus of the following discussion.

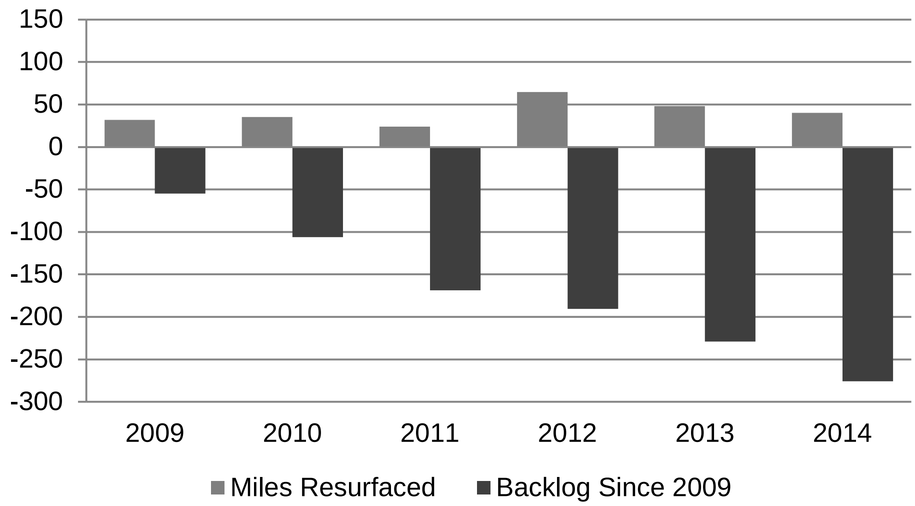
According to the Director of Public Works, asphalt paving has a useful life of 8 to 10 years, given weather and traffic conditions. That means that Pittsburgh should be re-surfacing one-eighth to one-tenth of all asphalt streets each year, or 87 to 108 linear miles. At an average cost of $250,000 per linear mile, the City should include $21.7 million to $27.1 million each year in its capital budget for life-cycle resurfacing.

Historically, however, this has not been the case. The table ahead shows the number of linear miles that were resurfaced from 2009 to 2013 and that are projected to be resurfaced in 2014. It also shows the shortfall each year, relative to the number of miles that should be resurfaced to keep up, and the cumulative shortfall.

Year	Lin. Mis Resurfaced	Shortfall Rel. to 86.6 Mi Target	Cumul. Shortfall
2009	31.8	(54.8)	(54.8)
2010	35.3	(51.3)	(106.1)
2011	24.1	(62.5)	(168.6)
2012	64.6	(22.0)	(190.6)
2013	48.0	(38.6)	(229.2)
2014	40.0 (Proj.)[7]	(46.6)	(275.8)

The chart below graphically shows the magnitude of the cumulative backlog relative to the number of miles being resurfaced each year.

Pittsburgh Asphalt Resurfacing and Backlog, 2009-2014



For those who use Pittsburgh's asphalt streets, the backlog is not just lines on a chart, but slower driving from avoiding potholes and greater wear-and-tear on vehicles or even vehicle damage. The Department of Public Works uses a pavement "Overall Condition Index" or "OCI" to assess the condition of each street segment in its portfolio. The OCI is a weighted average of three condition category indices: 80 percent pavement distresses; 10 percent rideability; and 10 percent drainage. The score for each street segment ranges from 0 to 100; each score may be categorized in one of five ways, from Very Poor to Excellent, as shown below.

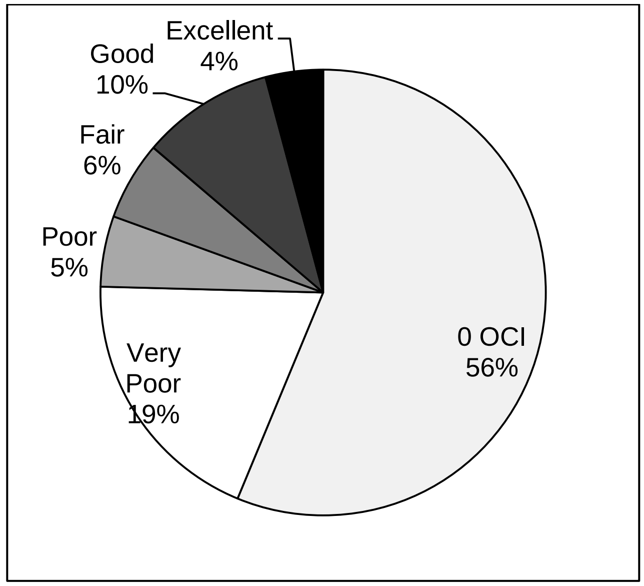
OCI Range	Pavement Condition	Recommended Action
0-24	Very Poor	Base Rehabilitation - Full Depth Reconstruction
25-47	Poor	Structural Improvement - Thick Overlay
48-67	Fair	Preventive Maintenance - Thin Overlay or Surface Treatment
68-87	Good	Routine Maintenance - Crack Seal and/or Skin Patch
88-100	Excellent	Do Nothing at this Time

[7] The 40 mile projection includes the potential addition of 11 miles to be funded from $1.8 million identified by City officials in late April 2014.

A report provided by Public Works shows that, of the total area of Pittsburgh's asphalt streets, 56% is rated with an OCI of 0 – the very worst possible rating. An additional 19 percent of total asphalt surface area has an OCI that is greater than 0 but lower than 25, so a total of 75 percent of the City's asphalt streets by surface area is *Very Poor*. Only 14 percent of all asphalt streets by area are rated *Good* or *Excellent*. This data is summarized in the table and chart below.

Pittsburgh Asphalt Streets by Area and OCI Rating

OCI Range	Sq. Yards	As % of Total
0 OCI	7,246,414	56.1%
Very Poor	2,464,011	19.1%
Poor	659,473	5.1%
Fair	733,395	5.7%
Good	1,237,000	9.6%
Excellent	535,788	4.1%
N/A	36,303	0.3%
All Asphalt Sts	12,912,384	100.0%



The burden of resurfacing 86.6 linear miles of asphalt roadway each year is significant – as previously noted, at the 2014 estimated cost per mile of $250,000, the financial cost is $21.7 million. However, the burden of a backlog is even greater. According to the Director of Public Works, in the last 20 years, the number of linear miles resurfaced in a year has been close to the target of 86.6 only twice, in 1994 (81 miles) and in 1999 (91 miles). The backlog of resurfacing from 2009 to 2014 alone is 275.8 miles. Supposing the City were to try to tackle the backlog of the last six years over the next ten years – i.e., if it added one-tenth or 27.5 miles to the 86.6 mile annual resurfacing target – the number of annual miles to resurface would increase by 32 percent, to 114.2 miles. Since construction costs typically grow over time, the cost of the backlog is not just the cost of the additional miles each year, but the difference between what the City will pay and what it would have paid if the work had been done years earlier. The table below demonstrates the increase in cost of eliminating a six-year backlog over a ten-year period, assuming 2 percent per year construction cost inflation.

The estimated cost of inflation on the backlog portion of each year's resurfacing cost is $6.5 million. Since the backlog of resurfacing should have been done from 2009 to 2014 – meaning construction costs would have grown over a longer period of time – the actual cost would probably be even greater. And since Pittsburgh has not been resurfacing the 86.6 linear miles necessary to keep up for much longer than the last six years, the costs to the City are likely higher still.

Year	Backlog	Lin. Miles	Total Miles	Est. Cost	Premium
	From 2009-2014 (mis.)	Life Cycle	Life Cycle + 10% of Backlog	$250K/ mi., 2% Inflation (M)	Inflation Impact, Base Yr 2015 (M)
2015	275.8	86.6	114.18	$28.5	$0.0
2016	248.22	86.6	114.18	$29.1	$0.1
2017	220.64	86.6	114.18	$29.7	$0.3
2018	193.06	86.6	114.18	$30.3	$0.4
2019	165.48	86.6	114.18	$30.9	$0.6
2020	137.9	86.6	114.18	$31.5	$0.7
2021	110.32	86.6	114.18	$32.1	$0.9
2022	82.74	86.6	114.18	$32.8	$1.0
2023	55.16	86.6	114.18	$33.4	$1.2
2024	27.58	86.6	114.18	$34.1	$1.3
TOTAL		**866.0**	**1,141.8**	**$312.6**	**$6.5**

Evaluating Capital Spending Based on the Example of Buildings and Systems

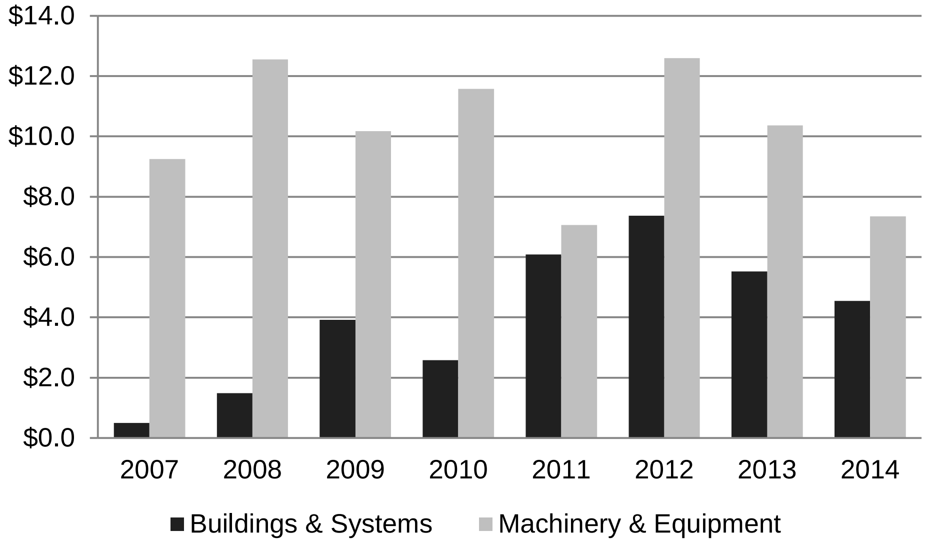
The fixed asset list used for the 2012 Capital Asset Schedule in Pittsburgh's 2012 CAFR includes 187 buildings ranging in age from 13 to 110 years old (as of 2012), which include the following:

- 52 recreation centers, senior centers, and pool houses/ pool buildings
- 44 firehouses, police zone buildings, medic/ EMS stations, or combinations of these
- 32 parks facilities, including field houses, clubhouses, skating rinks, and service buildings
- 24 Public Works facilities, including division offices, garages, salt domes, and an engineering and construction test laboratory
- The City County Building and the Municipal Courts Building.

A review of multiple years of capital budgets should show a pattern of cyclical investment – rehabilitating or replacing types of assets (e.g., firehouses) or systems (e.g., roofs or HVAC) over time. Pittsburgh's capital budgets from 2007 to 2014 do include Buildings and Systems projects each year. There are amounts budgeted each year for Elevator Repair and Maintenance, Refinished Gym Floors, and a catch-all "Building Improvements Plan." Others are for specific projects, such as the Riverview Community and Senior Center ($3.6 million in City funds from 2009-2014) and the Beechview Community and Senior Center ($600,000 in City funds in 2011 and 2012).

In total, however, amounts in capital budgets for Buildings and Systems projects seem low given a portfolio of 187 buildings. From 2007-2014, the total amount budgeted for these projects from PAYGO or Bond sources totaled $24.2 million, an average of $3 million per year. If all sources are included, the total is $32.0 million, an average of $4 million per year. The chart below shows amounts in recent capital budgets for Building and Systems projects and also Machinery and Equipment projects as a reference point. Over the eight years, the total amount for Machinery and Equipment projects was $80.9 million, 2.5 times the Buildings and Systems total. Along with the focus on vehicle spending described earlier, this indicates that Pittsburgh's capital investment is skewed toward shorter-lived assets.

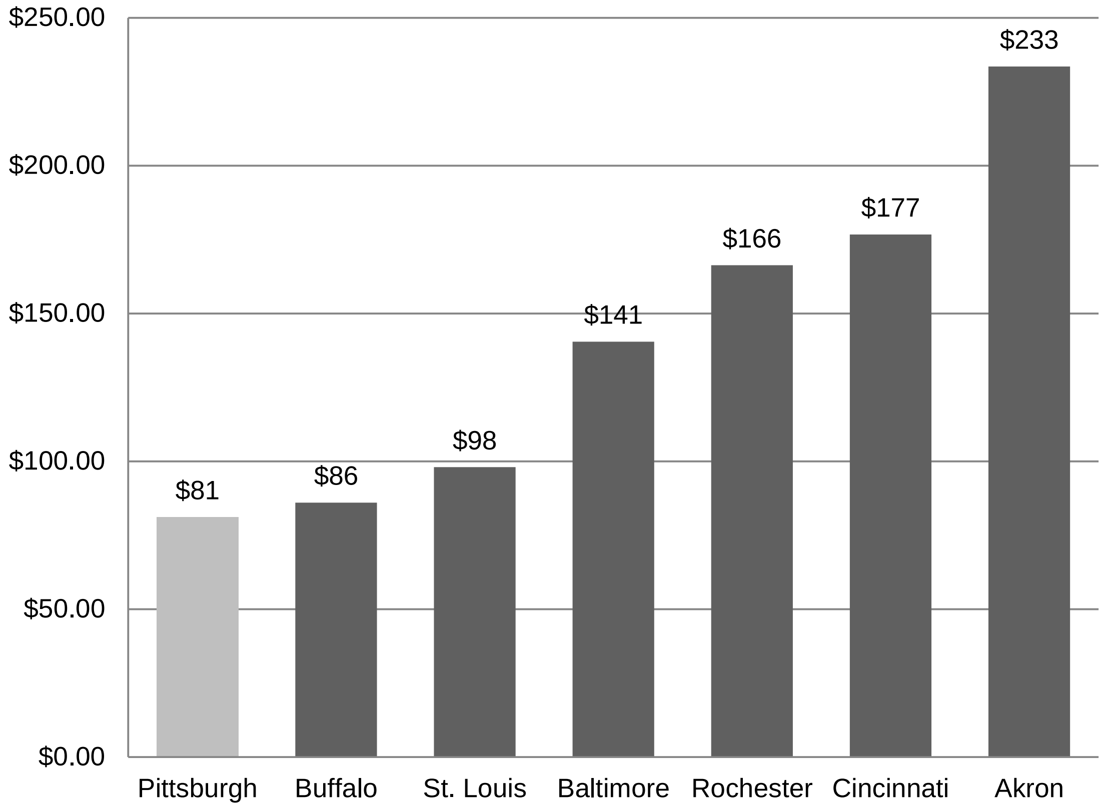
Buildings and Systems Projects Compared to Machinery and Equipment Projects
City of Pittsburgh Capital Budgets, 2007-2014 (millions)



Evaluating Capital Spending Based on a Comparison of Capital Budgets

The 2008 Recovery Plan compared city sources of capital funding for Pittsburgh and a number of peer cities in 2009 – i.e., PAYGO and bond funding, which together represent each city's own commitment to its capital program. In 2009, the only City in the sample with a lower level of capital funding was Buffalo, New York which was also under financial oversight. Based on the 2014 capital budget, Pittsburgh's level of spending has not changed significantly relative to this group of peers. The chart below shows a similar analysis, but with capital funds divided by city population in order to reduce differences that may solely be a result of city size. It shows that combined PAYGO and bond funds for capital purposes in Pittsburgh are almost the same as in Buffalo, but remain below levels in St. Louis, Missouri; Rochester, New York; Akron, Ohio; and Cincinnati, Ohio. The City of Baltimore, Maryland was added to the comparison group and also exceeds Pittsburgh in terms of local sources of capital funding.

Local Sources of Capital Funding per Resident
FY2014 Capital Budgets – Pittsburgh and Peer Cities, PAYGO and Bond Funding
2010 Census Data



Notes: PAYGO and Bond Funding information is from the FY2014 capital budgets of each city. To the extent possible, departments/ functions included in the capital budget number were equivalent to those in Pittsburgh; e.g., funds related to parking, water, and library functions were excluded. Population data is from the 2010 Census.

The 2014 CIP of the City of Philadelphia was also reviewed as a point of reference. Capital budget amounts are naturally not comparable, based on Philadelphia's much larger population and other important differences. However, Philadelphia's CIP does include many of the recurring investments in existing buildings and systems that are to be expected in the capital budget of any large city. The following table lists recurring buildings and systems projects funded with newly-issued General Obligation debt, demonstrating an ongoing commitment to investment in existing facilities. It should be noted that this list does not include all the recurring buildings and systems projects from the 2014 CIP; it includes only "new money" G.O. projects that are funded in 2014 as well as in multiple "out-years" of the Plan.

2014 Philadelphia Capital Budget: Recurring Buildings and Systems Projects ($000)

	2014 Budget	Avg/ Yr, 2015-2019
Fire Station Renovations - Ramps, Sidewalks, Paving	300	260
Parks and Rec – Cultural Facilities Renovations	377	250
Parks and Rec – Roof and Exterior Restoration	290	300
Horticultural Center – Building and Site Improvements	100	210
Improvements to Existing Recreation Facilities	7,900	7,900
Improvements to Existing Recreation Facilities - Infrastructure	490	750
Improvements to Existing Recreation Life Safety Systems	138	300
City Hall Exterior Renovations	600	1,100
Asbestos Abatement and Environmental Remediation	500	300
Improvements to Existing Facilities	5,100	3,100
Subtotal, These Projects	**15,795**	**14,470**

If we compare Philadelphia's 2014 budget for just these projects to Pittsburgh's 2014 capital budget for Buildings and Systems on a per capita basis, Philadelphia's investment per person is 8 percent higher *even though* many non-recurring buildings and systems projects are excluded. This comparison is shown in the table below.

	Philadelphia	Pittsburgh
Projects	Recurring building projects	All building projects
Funding sources	New G.O. Debt	PAYGO
2014 Capital Budget	$15,795,000	$2,950,000
2010 Population	1,526,006	308,003
Capital Budget/ Person	$10.35	$9.58

Initiatives

CP01.	**Institutionalize capital asset life cycle planning**	
	Target outcome:	Preservation of capital assets
	Five Year Financial Impact:	TBD
	Responsible party:	Finance; OMB; Capital Budget Manager

A best practice of capital program management is planning for capital asset acquisition, maintenance, replacement, and retirement[8]. Pittsburgh shall institutionalize processes related to

[8] National Advisory Council on State and Local Budgeting, Best Practices in Public Budgeting, Practice 5.2: http://www.gfoa.org/services/nacslb/

each phase of this cycle by producing and regularly updating a comprehensive infrastructure investment plan. The plan must reflect the following requirements:

- The plan shall be produced regularly and shall schedule infrastructure investments for a period of no less than 40 years.
- The plan shall address, at a minimum, the City's streets, bridges, buildings, and recreation assets.
- Each new plan shall document what progress has been since the publication of the previous plan and shall describe the impacts of such progress, or any lack of progress, on the current plan.

The 40-year planning horizon will allow a clearer view of the cyclical nature of asset useful lives and the impacts of deferring capital maintenance. Given historical under-investment in the City's capital assets, a long time horizon will also allow the City enough time to slowly but steadily shift from deferred maintenance types of projects to proactive projects.

Examples of other important components of plan development include the following:

- The City shall develop a capital asset inventory to be used for capital asset management, which shall include the type, location and use of each asset; information about the asset's size (e.g., number of floors and total square footage for buildings; spans of bridges; area or lane-miles of streets); age of the asset; and estimated value of the asset.

- The City shall invest in condition assessments of its capital assets to schedule capital maintenance projects, make wise renovate-vs.-replace decisions, prioritize capital needs, and estimate costs.

The City should also consider the development of policies or practices regarding funding methods for various asset types. For example, the policy might dictate that Pittsburgh only finance shorter-lived assets with PAYGO. The City might also take the step of establishing priorities for investment among different kinds of assets – e.g., infrastructure vs. vehicles and equipment; long-lived vs. short-lived; existing vs. new. This is a step the City of Milwaukee, Wisconsin took in its 2009-2014 capital program. That CIP was based on five capital financing strategies, the third of which was the following:

Focus facilities and systems projects on essential repair and refurbishment. The primary objective is to preserve existing assets, if necessary, to continue operations rather than to expand facilities and systems beyond what is either operationally necessary or financially realistic. This will require using performance and corrective maintenance data to prioritize capital funding for facilities.

For example, Pittsburgh's 2014 capital budget does not fund requests for Police Zone 4 security and bathroom renovations (a project for which design was complete in November 2009), but it does includes funding over six years for a new community and senior center in Riverview Park.

Life cycle planning needs to be done not only for infrastructure and "brick and mortar" projects, but for Information Technology projects as well. There were many requests for funding for IT projects in 2014, including the following projects requested by the Police Department alone:

- Replacement Records Management System ($1.5 million)

- Replacement Officer Performance Assessment and Review System (PARS) ($215,000)
- Replacement of Mapstats (crime mapping) system ($75,000)
- Ruggedized tablet mobile data terminals (MDTs) ($378,000)

None of these projects were funded in the 2014 capital budget. While they may legitimately be lower priorities than other projects, the City will nonetheless need to plan for the replacement or upgrade of these systems at the end of their life cycle in order to operate reliably.

Please see initiative IT02 in the Department of Innovation and Performance chapter for a related requirement.

Comprehensive infrastructure investment plans shall be used by the CPFC in the capital budget development process. Before beginning each year's ranking process, the CPFC shall be briefed on the most current infrastructure investment plan in order to understand the status of efforts to assess the condition of all major capital assets; the results of the condition assessments that have been completed; and the status of capital projects identified in the infrastructure plan.

Finally, the Mayor of Pittsburgh needs to support efforts to catch up on backlogged life cycle projects for the City's buildings and infrastructure. A comparison of the 2014 recommendations by the CPFC to the final capital budget suggests that there were many cases in which the CPFC's recommendations – which were based on the priorities established in the Capital Budget ordinance and on a scoring matrix based on those priorities – were not followed by the chief executive.

CP02.	**Increase capital spending on existing infrastructure**	
	Target outcome:	Preservation of capital assets
	Five Year Financial Impact:	($10,000,000)
	Responsible party:	Mayor's Office; Finance; City Council; Capital Budget Manager

For capital planning, an ounce of prevention is often worth a pound of cure. Failure to invest in existing assets in a timely manner often results in more extensive and more expensive needs later.

To help keep the City's assets in safe and working condition, the City needs to start "catching up" on its backlog of necessary improvements to or replacements of its infrastructure. Put another way, the City should be investing in its capital assets at a pace equal to or greater than the pace at which those assets are wearing out.

Although it is impossible to calculate with complete precision how much Pittsburgh should be spending on its existing capital assets until the conditions of all the assets are assessed, the evidence presented in this chapter shows annual investment levels are inadequate. Therefore, what Pittsburgh should be doing is budgeting enough money each year to keep pace with asset aging and enough additional money to incrementally eliminate the backlog of projects that should have been funded in the past. Unfortunately, given Pittsburgh's fiscal constraints, budgeting properly for capital assets in the short term is not possible absent additional revenue above the levels projected in this Plan.

To help the City make some progress on this front, the Recovery Plan requires the City to issue two $50 million capital bonds, one in 2015 and a second in 2017. The bonds will fund $25 million a year in capital improvement projects from 2015 through 2018.[9] The proceeds shall be dedicated to building and infrastructure projects identified through the City's capital investment and planning process and prioritized according to the condition assessments described in the prior initiative. The new bonds will increase the City's debt service, though the increase is small enough and timed appropriately to keep the City in compliance with its debt policy.[10]

Based on the Amended Recovery Plan projections, the City should also be able to make modest transfers from its fund balance to the capital budget while still meeting the minimum fund balance threshold.[11] Subject to the ICA's review and approval during the annual budget processes and evaluation of projected year-end 2014 results, the City shall use $5 million in 2015 and $5 million in 2016 from its fund balance for building and infrastructure projects identified through the City's capital investment and planning process and prioritized according to the condition assessments described in the prior initiative.

Projected Financial Impact

2014	2015	2016	2017	2018
$0	($5,000,000)	($5,000,000)	$0	$0

CP03.	**Direct a portion of any additional non-profit contribution to infrastructure needs**	
	Target outcome:	Preservation of capital assets
	Five Year Financial Impact:	TBD
	Responsible party:	Mayor, City Council, Finance

While the prior initiative directs some resources to infrastructure and building improvements, the level of spending in that initiative is not enough for the City to gain ground on the significant backlog of major renovation, repairs and repaving needs described earlier in this chapter. Given competing needs – including but not limited to increasing pension funding and maintaining a fund balance – the Amended Recovery Plan's projections do not explicitly show another source for funding capital projects. One possibility is for the City to negotiate increased contributions from non-governmental, tax-exempt organizations.

The Recovery Coordinator has repeatedly acknowledged the critical role that these organizations have played in stabilizing the City's finances. They are a major reason for Pittsburgh's reputation for world class educational, medical, cultural, charitable and corporate institutions and a major source of the region's best paying jobs. The relative stability of the health and higher education industries have helped Pittsburgh weather the recent recession better than other cities.

[9] It should be noted that $25 million per year would equate to about $81 per capita per year, still less than all of the peers surveyed.

[10] Please see initiative DS01 in the Debt chapter for more information.

[11] Please see initiative FI01 for the more information on the minimum fund balance threshold.

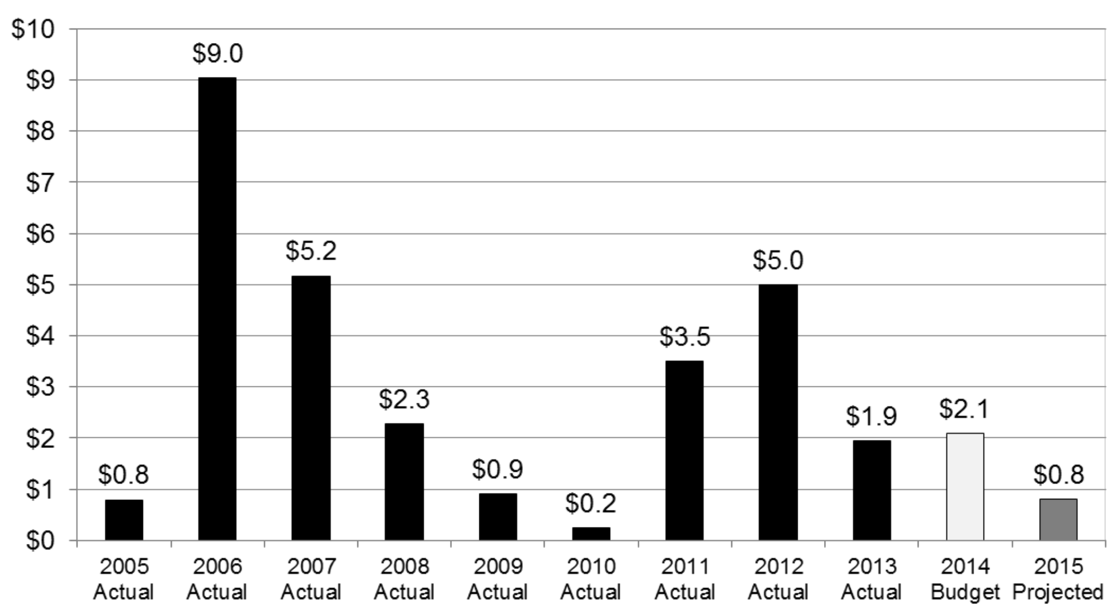
Nevertheless, because of their size, number of employees and the amount of land they own in the City, these institutions also utilize a variety of City services such as police, fire, utilities and public works. They also undoubtedly rely on the City's infrastructure, such as roads and bridges, to maintain their day-to-day operations and carry out their organizational mission.

Prior to entering Commonwealth oversight in 2004, the City received approximately $650,000 annually in contributions from selected non-profit institutions, an amount that was declining from previous levels. Further, changes in Commonwealth law made it increasingly difficult for Pennsylvania municipalities to negotiate agreements with tax-exempt institutions. As part of the 2004 Recovery Plan, the Pittsburgh Financial Leadership Committee – a group of civic leaders that developed recovery recommendations for Commonwealth and City elected officials in 2003 – reached a consensus that increased annual contributions from tax exempt institutions should be part of the City's fiscal reform package.

The Secretary of the Commonwealth's Department of Community and Economic Development and the Act 47 Coordinator played a major role in establishing a Pittsburgh Public Service Fund to accept these contributions and distribute them to the City. The agreement provided the City with $14 million for the three year period 2005-2007, which was used to support general operations.

The City negotiated subsequent agreements with the Pittsburgh Foundation for additional amounts, with 40 non-profits agreeing to contribute $2.6 million in 2012 and another $2.6 million in 2013 under the last agreement. The City's 2014 budget includes $2.1 million in 2014, which is the final payment under that agreement. After 2014, the baseline projection is approximately $830,000 per year, which would be the second lowest amount since 2006.

Non-Profit Contributions ($ Millions)[12]



[12] Timing issues related to when the parties approved the agreement and when City received the payments account for some of the large swings shown here. For example, the $2.1 million payment in 2014 was actually part of the agreement that covers 2012 – 2013, but the City will not receive the money until 2014. Similarly the $9 million that the City received in 2006 also covered 2005.

Mayor Peduto has publicly stated the need for the non-profit contribution to make direct financial contributions to address the City's infrastructure needs. At the time of Recovery Plan publication, there is not an agreement in place that would increase those contributions.

Given the critical need to invest in the City's infrastructure and tax exempt institutions' shared reliance on that infrastructure, the Recovery Coordinator urges those institutions to return to higher levels of direct contributions and requires that at least half of any contributions above the $830,000 baseline be allocated to building and infrastructure projects that are identified through the capital investment and planning process established by City ordinance and according to priorities set by condition assessments. Any part of the contributions that is not used for infrastructure improvements shall be used to fund the vehicles, equipment and other items that are traditionally included in the capital budget but have too short a useful life to qualify for debt financing. Recommendation 1 below addresses this issue in more detail.

CP04.	**Establish special revenue fund to segregate non-capital items**	
	Target outcome:	Increase transparency of City's capital investment levels
	Five Year Financial Impact:	N/A
	Responsible party:	Controller; Finance

There are two reasons that Pittsburgh's capital budget includes non-capital items. The first is that Pittsburgh uses the capital budget to account for some grant funds, most notably its Community Development Block Grant allocation (CDBG). The second is simply that Operating Budget funds are scarce. The first of these reasons is addressed here; the second is addressed in the Recommendations section at the end of this chapter.

The Capital Budget ordinance allows for the inclusion of grant funds for non-capital purposes by stating in the definition of "Capital Project" that "funds used for a Capital project shall be used in accordance with the rules and regulations of the fund source." While Pittsburgh is not alone in its use of the capital budget to account for grant funds, the result is that it is difficult to identify the amount that the City is actually budgeting for its capital assets.

One of the goals of the Capital Budget Ordinance is ensuring the transparent distribution of capital funds in Pittsburgh. To improve transparency going forward, the City shall create a special revenue fund or grants revenue fund to be used for accounting for grant funds that are not used for capital purposes. Taking this step will require a significant up-front effort to adjust the City's accounting system and to modify the City's Comprehensive Annual Financial Report (CAFR). However, the benefit will be increased transparency about the City's capital investment levels. In combination with comprehensive condition assessments, this would translate into greater accountability for caring for the City's assets.

CP05.	Amend and enforce the capital budget ordinance	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor's Office; City Council; Finance; Capital Budget Manager

This initiative includes multiple recommendations related to the City's Capital Budget ordinance. Some of them are recommended changes to the ordinance; others are recommendations regarding the implementation of existing provisions of the ordinance. All are intended to result in an annual capital budget and capital improvement program that does an even better job of meeting the City's goals of transparent, fair and equitable distribution of capital funding as well as enhancing accountability for the use of the funding.

Add a Useful Life Criterion to the Definition of Capital Eligibility

Section 2.c. of the Capital Budget Ordinance defines a capital project. This definition is critically important as it determines what should be in the capital budget and what should be in the operating budget. The definition includes several characteristics, but does not address the useful life of the project.

The City shall add a useful life criterion to the definition of capital project for two reasons:

- A minimum useful life of greater than one year will distinguish PAYGO projects from operating budget items;
- A minimum useful life for debt-funded projects will help the City ensure that the term of debt that pays for a capital project does not exceed the useful life of the project – i.e., ensure that the City isn't paying for projects long after they are no longer usable.

A common approach to the useful life criterion among cities is to establish a minimum useful life for a capital project of five years, and to require debt-funded projects to have useful lives that are equal to or greater than the term of the debt.

Improve the Quality of Capital Project Proposals

The Capital Budget Ordinance includes a lengthy list of information (218.4.c.i.) that must be included with capital project proposals. The list is exceptionally thorough and includes information that would be critically important for prioritizing limited capital funds among many competing requests. However, based on a review of the project proposals for FY2014, it appears that many project proposals do not include the information required by the ordinance. The following are items that were frequently excluded from or incomplete in FY14 capital project proposals:

- "A description of the geographic location of each proposed Capital Expenditure, including neighborhood census tract, and census block group." (b)
- "An estimated timeline for completion of the Capital Project…." (d)

- "Any potential impact… on the City's operating budget." (g)
- "For Capital Expenditures related to general maintenance of infrastructure, the total projected funds required to improve or rehabilitate the infrastructure type city-wide to an acceptable state of function or repair." (i)

In addition, there is a series of check boxes on the project request form that correspond to the priorities the CPFC is to use to rank projects. However, a checked box alone does not give the CPFC the information it needs to rank projects properly. For example, if a project is marked as "[resolving] an imminent threat to public or employee safety or health" box, the submitting department should describe the specific threat and how the threat will be removed if the project is implemented. If a project is marked for "[achieving] compliance with federal or state statutory mandates", the submitting department should cite the relevant federal or state law; explain specifically how the City is not complying with the law; and explain how the implementation of the law will allow the City to comply.

The City shall enforce the requirements established by the capital budget ordinance, and the CPFC shall not, after giving departments appropriate opportunities to comply, accept proposals that do not meet the requirements. Prior to implementing this initiative, the CPFC shall reevaluate and potentially modify the requirements. Results of applicable condition assessments should be required when they are available. In addition, the CPFC may find it appropriate to reduce information requirements to a smaller number of essential items.

Implementing this initiative is likely to require an increased level of effort on the part of the CPFC and the Capital Budget Manager to help proposers understand and meet the requirements, and an increased level of effort on the part of departments to provide the required information.

Ensure Transparency in the Project Ranking Process

Under the leadership of the Capital Budget Manager, the City of Pittsburgh has successfully developed a process for ranking capital project requests using weighted criteria based on the priorities stated in the Capital Budget Ordinance. Examples of the range of possible scoring values were provided to help the CPFC members apply the criteria consistently.

Capital project ranking decisions shall be readily available to both City departments and Pittsburgh residents. Completed scoring sheets shall be shared with departments so they can apply lessons learned to the development of their requests the following year and to enhance the accountability of the CPFC. The City should also consider whether to make public the list of projects that were requested but not approved. Doing so would enhance the transparency of the process and the accountability of the City for its priorities for limited capital funds, as well as increase awareness of the importance of the capital budget. Information about projects that have been requested but not funded may also be helpful to the CPFC in the prioritization process in subsequent years. Some cities include such a list as an appendix to the CIP.

Recommendations

The Recovery Coordinator recommends the following improvements, but they are not required for Recovery Plan compliance because they will require multiple years to complete or involve technical changes.

<u>Recommendation 1</u>   Remove operating items from the capital budget

Pittsburgh's capital budget includes non-grant funded items that do not appear to meet the definition for capital projects in the Capital Budget ordinance. Pittsburgh is not alone in this respect, and allowing items to cross the line from the operating budget to the capital budget is understandable for cities experiencing fiscal stress. However, in addition to obscuring the level of capital investment, including non-capital items in the capital budget can actually add to fiscal stress if the funding source is long-term debt. That is, if the City pays for a short-lived item with long-term debt, then the City will be paying significantly more in combined principal and interest over the term of the debt than the value of the item.

The City needs to develop a multi-year plan for gradually shifting items that are non-capital in nature from the capital budget to the operating budget. Capital Budget documents during the transition period should include a description of the plan and should specifically identify those projects that do not meet the City's capital eligibility criteria but have not yet been shifted out of the capital budget. The plan might include the temporary use of PAYGO for some items that ultimately need to be shifted to the operating budget.

On the operating budget side, such a transition will ultimately mean difficult decisions for departments – if the City Planning department has to accommodate Signage and Wayfinding costs in its operating budget, what will it have to eliminate to make room for those costs? The Office of the Budget will have to clearly articulate expectations regarding additional items to be accommodated in departmental operating budgets.

<u>Recommendation 2</u>   Eliminate "Non-repeating" from the definition of capital eligibility

Section 2.c. of the Capital Budget Ordinance states that a capital project is one "that is funded on a necessarily non-repeating, or non-indefinite, basis…." This provision attempts to distinguish capital items from operating items like payroll and utility costs that must be paid regularly. For some kinds of capital projects, this distinction makes sense. For example, once the City completes a bridge restoration project, it will not need to do that work again for many years. However, because of the way the City of Pittsburgh structures its capital projects, including giving many projects the same name year after year, the "non-repeating" distinction is awkward. The following list of projects would assumedly "repeat" each year, though the location where the work is done may not:

- Automated Fuel Dispensing System
- Bridge Repairs/ Bridge Repair and Rehabilitation
- Disabled and Public Sidewalk Program
- Neighborhood Street Improvements
- Park Reconstruction Program
- Slope Failure Remediation

Since the project locations are not uniformly included in the project descriptions, and the names are the same, it is not apparent that such projects meet the non-repeating criterion. It is simpler to rely on cost threshold and useful life criteria to evaluate whether a project belongs in the capital budget.

Recommendation 3 **Improve Project Descriptions in the Capital Budget Document**

Pittsburgh's capital budget document provides a lot of important information, such as the amounts budgeted or recommended by funding source for each year of the CIP, as well as the prior year. However, it is also missing important information – some of which is supposed to be provided in project proposals – such as timeline for project completion, operating budget impacts, and the estimated useful life of the project. The Capital Budget Document should be revised to include more information about each project.

In addition, projects that are included in each year's capital budget – such as Neighborhood Street Improvements and the Park Reconstruction Program – do not provide enough information about the specific sites for work planned in the budget year. There may be cases in which such information is not yet available, but generally, priorities based on condition assessments should be established sufficiently in advance to summarize the scope of work and cost for each site. This will help to ensure that capital funds are spent as intended, and allow residents to see whether their neighborhood capital assets are scheduled for improvement.

Recommendation 4 **Report on the Status of Capital Projects**

While the capital budget is an important record of the City's plans and priorities with respect to capital assets, monitoring progress in purchasing items or building projects with those approved capital funds is also very important. Currently, while the CIP Manager is complying with the reporting requirements of Chapter 218, reports are not sufficiently accessible and user-friendly for department representatives, Council members, or City residents to easily learn the status of approved projects.

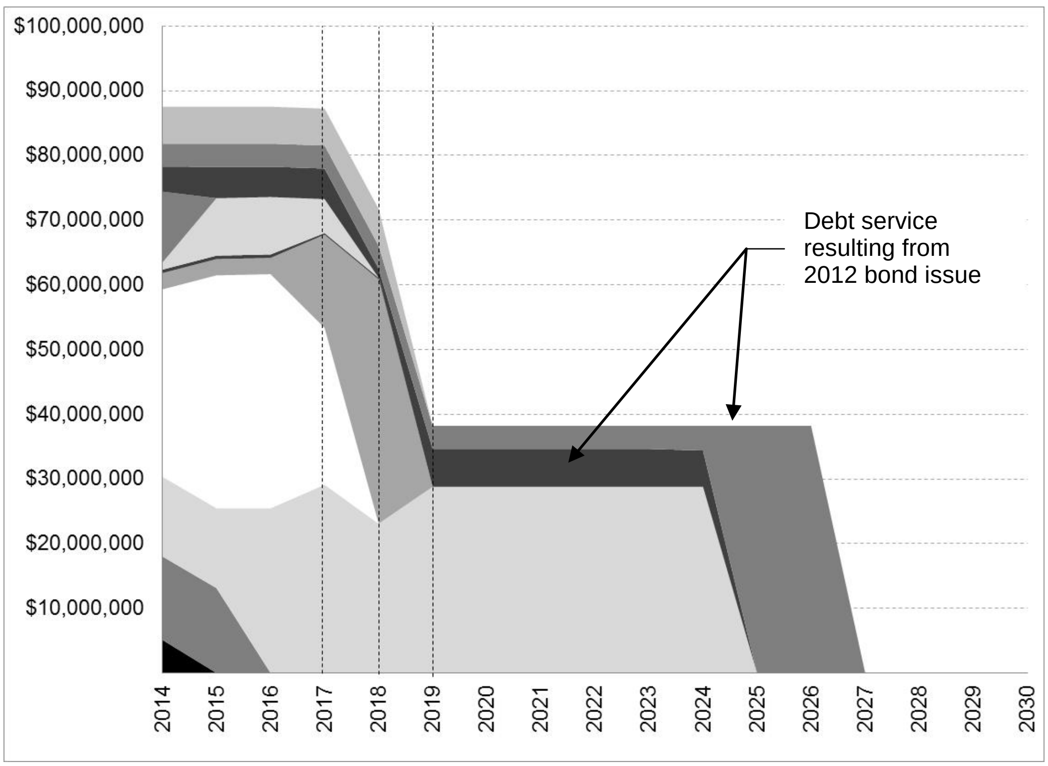
Stakeholders should be able to retrieve information about both the financial status of a project (i.e. how much has been spent or encumbered relative to the budget?) and physical progress of a project (i.e., where is it in the procurement, design or construction process and when can it be expected to be complete?). Such reports are important for meeting transparency and accountability goals because they "close the loop," revealing what projects were and were not successfully implemented, and how long implementation took. With such information, for example, the CPFC could consider whether to rank project requests higher if they are from departments with better records for completing projects on time and on budget.

Debt

The City's debt burden has been one of the most significant impediments to its financial recovery. The issuance of non-callable debt in the late 1990s and early 2000s and pension obligation bonds in 1996 and 1998, on top of regular bond issues for capital purposes, combined to produce a staggering level of debt service that consumed more of Pittsburgh's budget than any other category besides personnel costs. The stages of Pittsburgh's fiscal crisis immediately prior to the development of the first recovery plan in 2004 were highly correlated with the rapid growth of debt service payments – an increase of 56 percent from 2002 to 2004. The situation was compounded by "scoop refundings" that pushed debt service payments into the future rather than making them when due.

In 2004, the City's debt service obligations totaled $86.2 million, representing almost 23 percent of 2004 budgeted expenditures. This approximate level of annual debt service spending continued through the end of the decade. Between 2005 and 2008 the City executed three refundings in order to generate savings which were largely used to fund its capital program, but this required extending the higher debt service levels. Some debt service – mostly in future years – was added by a bond issue in 2012. The overall "shape" of future debt service payments is shown in the chart below.

Existing Debt Service, 2014-2030



When combined with the dedication of a portion of annual operating surpluses to pay-as-you-go capital contributions in recent years, the high annual debt service from 2004 through 2017 also means that current and recent taxpayers have borne a disproportionate share of the financial burden for capital assets that should last for decades.

Now this picture is changing, however. Much lower annual payments on existing debt service are now within the City's financial planning horizon as the City is nearing a major drop or "cliff" in its debt service payments that will occur in 2018 and 2019. As shown in the table below, total debt service for existing debt will drop from $87 million in 2017 to $72 million in 2018 to $38 million in 2019. This represents a decrease in debt service of 56 percent from 2017 to 2019. As a percentage of the total City budget, debt service is projected to decline from 16 percent in 2017 to 7 percent in 2019.

Baseline Debt Service Projections, 2014-2019 ($ Millions)

	2014	2015	2016	2017	2018	2019
Existing Debt Service	$87.3	$87.5	$87.5	$87.2	$71.7	$38.2
Existing Debt Service as % of Total Budget	18.1%	17.3%	16.8%	16.2%	13.0%	7.1%

This decrease provides some budget relief in 2018 and beyond. However, some of the new budget capacity has already been assigned to new needs. For example, the City has already planned for a $13 million increase in its parking tax payment to its pension systems to occur in 2018, the same year as the first significant drop in debt service. This is part of the multi-year plan for increasing the City's pension funding ratio, thereby avoiding absorption into the Pennsylvania Municipal Retirement System.[1] Therefore, almost all of the debt service savings in 2018 have already been "spoken for."

Another positive recent change was the adoption of a City debt management policy in December 2011. The policy limits the use of long-term debt to capital projects in the adopted Capital Improvement Program, and prohibits the use of long-term debt for current operations. It includes a debt affordability provision, which limits tax supported debt service to 17 percent of General Fund expenditures. The policy notes that "With the understanding that as of the date of adoption of this Debt Management Policy, the City exceeds this limit, the City has a ten-year goal of reducing this ratio to twelve (12.0) percent." The adoption of this policy will help Pittsburgh avoid re-creating the debt-related conditions that precipitated its fiscal crisis in the future. It is also viewed positively by the three major credit rating agencies.

However, the City is not able to properly care for its capital assets using only pay-as-you-go sources. As a result of reliance over the past decade on very limited capital borrowing and as-available pay-as-you-go contributions, a backlog of capital maintenance has grown steadily (as described in detail in the Capital chapter of this plan). Going forward, the City must strike a balance between spending enough on roads, bridges, and buildings from all available sources to slow the decay of its capital assets, and not issuing so much debt that the City consumes the debt service relief scheduled to begin in 2018 or violates its own debt policy.

The baseline budget does not provide sufficient capital resources for the City to meet its needs. In fact, after the $25 million pay-as-you-go contribution in 2014, the baseline has no additional resources dedicated to capital. Because it is unacceptable for the City to further reduce its already-insufficient level of road, bridge and building replacement, this Plan proposes to increase capital expenditures in each year compared to the baseline.

Pittsburgh's Debt in Comparison

Since the 2004 Recovery Plan was enacted, Pittsburgh's general obligation bond ratings have had upgrades from all three major credit rating agencies. Given that the City's debt was downgraded to speculative or "junk bond" status by all three agencies in 2003, the fact that all three now rate Pittsburgh's debt in the "A" range is a tribute to all the steps the City has taken toward sustainable fiscal balance. Note that a portion of this positive impact is related to the global revision of municipal credit ratings undertaken over the same period, a process that improved ratings for many public credits nationwide.

[1] Please see the Workforce and Collective Bargaining Chapter for more information.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Moody's[2]	Ba1	Baa3	Baa2	Baa2	Baa1	Baa1	Baa1	A1	A1	A1	A1
Fitch	BB	BBB	BBB	BBB	BBB	BBB+	A	A	A	A	A
S&P	BB	BBB-	BBB-	BBB	BBB	BBB	BBB	BBB-	BBB	A	A+

Excerpts from the most recent ratings report for each agency highlight both the successes and remaining challenges facing the City:

- **Fitch** (Affirmation of A rating with stable outlook on January 10, 2014): "Growth in fund balance levels has improved the city's financial flexibility, allowing it to fund some capital projects from operations. Financial performance is aided by ongoing state oversight. Debt service accounts for an above-average percentage of spending. Debt levels are well down from past highs and annual debt service is currently scheduled to decline substantially in 2018…. Pensions continue to pose risk…."

- **Moody's** (Affirmation of A1 rating; revised outlook from negative to stable on January 19, 2012): "The A1 rating reflects the city's relatively stable financial performance over the past six years, reflecting strong management that has produced operating surpluses in five of the last six years…. The change in outlook to stable from negative reflects improved funding of the city's pension funds, resulting in the avoidance of the city's forced entry into the Pennsylvania Municipal Retirement System…. Recent reserve declines and higher near-term pension costs may limit financial flexibility. Rising contractual salary and benefit costs could limit reserve increases going forward."

- **Standard & Poor's** (Upgrade from A to A+ with stable outlook on February 3, 2014): "The rating reflects our opinion of the [the city's] adequate economy… adequate budgetary performance… strong management conditions… and weak debt and contingent liability profile" based on debt service levels, pension funding levels, and OPEB liability.

Along with credit ratings, Moody's Investors Service provides Municipal Financial Ratio Analysis (MFRA), which is a basis for comparing Pittsburgh's current debt service with other municipalities. The primary indicators used here are:

- **Population –** Based on the last decennial census data (2010).

- **Current senior most rating –** This is the most current and highest rating for each municipality as assigned by Moody's.

- **Direct net debt –** A measure of the City's debt that is not self-supported by generating associated enterprise revenue, short term operating debt or funded by sinking fund accumulations.[3]

- **Direct net debt per capita –** Direct net debt divided by 2010 population to account for differences in municipality size.

- **Debt service as a percentage of operating expenditures –** Combined debt service expenditures for all operating funds and debt service funds divided by operating expenditures as classified by Moody's in a given fiscal year.[4]

[2] Moody's uses a 1, 2, or 3 to indicate where the obligation ranks in the rating category; 1 is higher, and 3 is lower.

[3] Direct net debt is calculated by taking the local government's gross debt less sinking fund accumulations, short-term operating debt, and bonds and other debt deemed by Moody's analysts to be fully self-supporting from enterprise revenues. Direct net debt typically includes the non-self-supporting portion of the local government's general obligation bonds, sales and special tax bonds, general fund lease obligations, bond anticipation notes, and capital leases.

The table below shows these five indicators for Pittsburgh and seven northeastern and Midwestern cities with similar demographics and population.

Moody's Financial Ratio Analysis (FY2012 Data Used)[5]

	2010 Population	Current Senior Most Rating	Direct Net Debt Outstanding ($000)	Direct Net Debt per Capita ($)	Debt Service as % of Operating Expense
Pittsburgh, PA	**305,704**	**A1**	**610,040**	**1,996**	**21.2**
Newark, NJ	277,140	A3	511,475	1,843	8.0[6]
Rochester, NY	210,565	Aa3	296,562	1,409	4.2
Buffalo, NY	261,310	A1	372,672	1,437	17.6
Cincinnati, OH	296,943	Aa2	574,142	1,938	13.7
Cleveland, OH	396,815	A1	662,870	1,670	11.8
Toledo, OH	287,208	A2	167,162	584	12.9
St. Louis, MO	319,294	Aa3	964,532	3,024	9.4
Median	**292,076**	**A1**	**542,809**	**1,757**	**12.4**
Average	**294,372**	**A1**	**519,932**	**1,738**	**12.4**

Pittsburgh's credit rating of A1 is now equal to the average and median ratings for the group included in the table above. This is a significant improvement relative to the equivalent comparison using FY2008 data that was included in the 2009 Recovery Plan. At that time, Pittsburgh's rating of Baa1 had recovered to a level slightly above non-investment grade, but was two steps below the A2 rating that was the average and median for this same group of cities.

Pittsburgh's direct net debt per capita, which accounts for population differences, remains high relative to the group, but is not as much of an outlier as it once was. In 2009, Pittsburgh's net debt per capita was 37 percent greater than the median and 57 percent greater than the average of the seven other cities. As of 2012, Pittsburgh's net debt per capita is 14 percent higher than the median and 15 percent higher than the average.

Debt service as a percentage of operating expenditures is a measure of the impact of debt service on a government's overall financial flexibility. A ratio above 10 percent constitutes a level at which budgetary competition is a significant consideration[7]. Pittsburgh's debt service as a percent of operating expenditures using the Moody's formula was 21.2 percent in 2012, 72 percent more than the average and median of the comparable cities.

Initiatives

Baseline budget projections indicate that Pittsburgh needs to continue to exercise discipline in the use of debt to maximize budgetary flexibility, and its "debt diet" will have to continue for several years to help avoid operating deficits. The budget's capacity for debt service, rather than the cost of capital needs, will have to determine the size of bond issues for the next several years. In the terms of the City's debt policy,

[4] The Moody's methodology is consistent for the comparison cities presented in the table, but may be different from other calculations of debt service burden presented in this chapter.

[5] 2012 is the most recent MFRA data available for Pittsburgh.

[6] 2011 was used for Newark NJ for debt service as a percentage of operating expense; 2012 figures were not available.

[7] Fitch Ratings, "Local Government General Obligation Rating Guidelines," March 22, 2007, p. 2.

reduced bond issuance will help to ensure that cumulative debt service will be less than or equal to the 12 percent target articulated in the debt policy. However, as noted elsewhere in this plan, the need for additional sources of capital is critical. With debt restricted to achieve budget balance, additional capital may be generated from a portion of annual surpluses, if achieved, or from other sources such as non-profit contributions.

Because of the direct connection between debt service and capital improvements, the reader should review these initiatives in conjunction with those in the Capital Improvement chapter.

DS01.	**Issue debt to ensure capital program of $25m per year**	
	Target outcome:	Preserve the City's capital assets
	Five Year Financial Impact:	($11.7 million)
	Responsible party:	Finance

Like the City's 2014 budget, the Amended Recovery Plan baseline includes no new resources for capital after a $25 million operating budget contribution in 2014. Given the significant needs for road and bridge repair, building rehabilitation and other critical investments, the City must fund additional capital improvements through 2018.

Accordingly, the City shall issue $50 million in general obligation bonds in 2015 and 2017, providing $25 million for capital projects in each year from 2015 to 2018 (the debt will be issued every other year to reduce issuance costs). The debt shall be structured so as to minimize debt service until 2019, when the City will have greater capacity to absorb additional debt service payments. This level of debt issuance strikes an appropriate balance between the fiscal discipline needed to keep debt service manageable relative to the budget, and the need for an ongoing source of investment to stabilize the City's decaying streets, bridges, buildings, and other capital assets. The table below identifies the estimated additional debt service associated with the two $50.0 million issuances.

Additional Annual Debt Service from $50 Million Capital Issues in 2015, 2017

2014	2015	2016	2017	2018	Total
$0	$1,162,000	$2,323,000	$3,525,000	$4,728,000	$11,738,000

Since these amounts are not enough to address Pittsburgh's deferred capital maintenance at an appropriate pace, the City is urged to seek additional sources of funding to support annual capital spending of $40 to $50 million. Those sources could include non-profit contributions, as well as pay-as-you-go contributions, if there are positive annual financial results and the City can meet this Plan's fund balance and pension contribution requirements.[8] It is important to note that this Plan requires that the full projected annual amount of Regional Asset District (RAD) payments to the City are needed to support the General Fund operating budget. RAD funds may not be used or pledged during the Plan period for other purposes such as backing new URA bonds or serve as security for any other issue, as they have been in the past.

The table below shows the projected amount of capital available from pay-as-you-go contributions and debt each year, and the resulting amount of potential capital spending each year. Ideally, the City will find additional capital investment of $25.0 million each year beyond what is available from existing sources.

[8] Please see initiatives FM01 in the Financial Management chapter and WF02 in the Workforce and Collective Bargaining Chapter for those requirements.

Sources & Uses of Capital Spending, 2014-2018 ($ Millions)

	2014	2015	2016	2017	2018
Sources					
Operating transfer[9]	$25.0	$5.0	$5.0	$0	$0
Debt Issuance (1)	$0	$50.0	$0	$50.0	$0
To Be Identified	$0	$20.0	$20.0	$25.0	$25.0
Total Sources	**$25.0**	**$75.0**	**$25.0**	**$75.0**	**$25.0**
Uses					
Capital from Identified Sources	$25.0	$30.0	$30.0	$25.0	$25.0
Additional Capital Needed	N/A	$20.0	$20.0	$25.0	$25.0
Total Required Uses	**$25.0**	**$50.0**	**$50.0**	**$50.0**	**$50.0**

(1) Debt issued every other year to reduce issuance costs

The approach of the "debt cliff" means that Pittsburgh will move each year towards its goal of reducing debt service to no more than 12 percent of total budgeted expenditures. The table below shows that, even with the new debt issued in 2015 and 2017, total debt service in 2019 is projected to be 9.0 percent of total expenditures – significantly below the 12 percent target.

Existing and Projected Debt Service, 2014-2019 ($ Millions)

	2014	2015	2016	2017	2018	2019
Existing Debt Service (Baseline)	$87.27	$87.26	$87.27	$87.12	$71.62	$38.20
Existing Debt Service as % of Total Budget	18.13%	17.32%	16.92%	16.47%	13.39%	7.40%
Projected Debt Service (With Initiative)	$87.27	$88.43	$89.59	$90.64	$76.35	$46.22
Projected Debt Service as % of Total Budget	18.13%	17.55%	17.37%	17.14%	14.27%	8.96%

DS02.	**Comply with debt policy requirements**	
	Target outcome:	Cost control
	Five Year Financial Impact:	See below
	Responsible party:	Finance

As noted previously, the City amended its Code of Ordinances to include a debt management policy in December 2011. The policy limits the use of long-term debt to capital projects in the adopted Capital Improvement Program, and prohibits the use of long-term debt for current operations. Its debt affordability provision limits tax supported debt service to 17.0 percent of General Fund expenditures, but states a goal of reducing this ratio to 12.0 percent by 2021.

[9] Please see initiative CP02 in the Capital Budget chapter for more information on the $5 million transfers in 2015 and 2016.

Under this initiative, future bond issues shall be structured in such a way that accomplishes multiple goals articulated in the policy simultaneously:

- Bond issues shall be sized and timed so that resulting total debt service will remain within the policy goal of 12.0 percent of General Fund expenditures.
- Financial flexibility shall be maintained for current and future citizens.
- Outstanding debt may be refunded if the transaction meets the criteria of the debt policy.
- The average life of debt should be no greater than the projected life of the assets being financed, and final maturities will generally not exceed 20 years.
- Debt shall generally be structured to achieve a goal of level annual debt service.

Workforce and Collective Bargaining

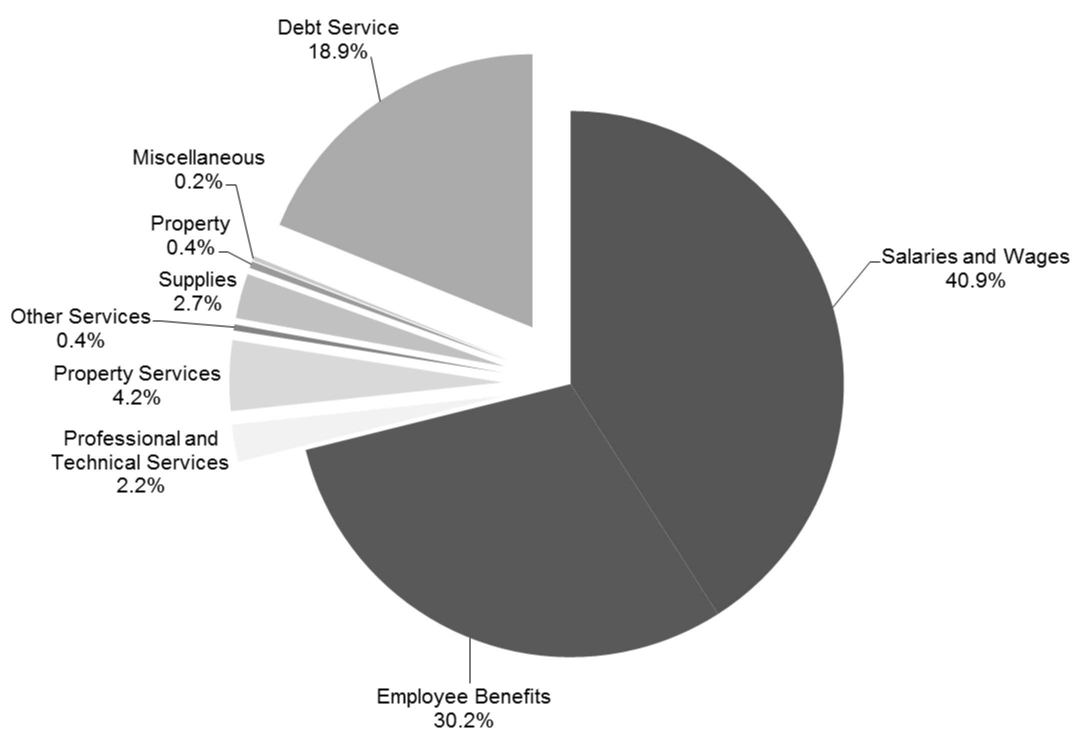
Overview

Pittsburgh has made significant progress toward establishing a more sustainable workforce cost structure since first entering Act 47 almost a decade ago. After prior years of labor costs outpacing revenues – triggering massive layoffs just before the City entered the Act 47 program – subsequent wage and benefit costs have grown at rates better aligned with the City's fiscal resources, enabling budget and service stability.

Also over this period, the City has taken major steps to reduce its longer-term underfunded pension, retiree healthcare, and workers' compensation liabilities, achieving measurable improvement. Nonetheless, the City's legacy retiree benefits burdens remain very high in comparison to national norms, and Pittsburgh's increased efforts to address these obligations have not yet ramped up to achieve full actuarial funding. For the City to exit the Act 47 program, it will be critical to bring the funding for these large-scale liabilities into a sustainable mode.

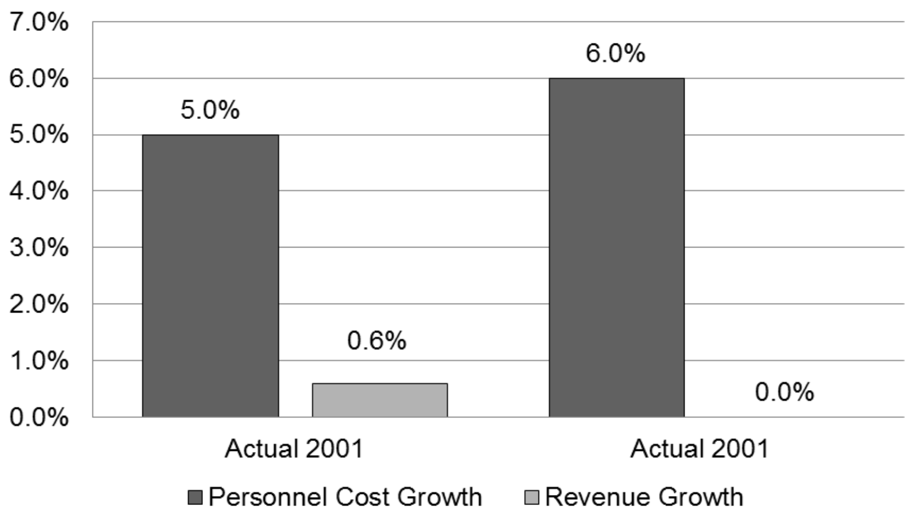
As with most local governments, personnel costs represent the majority of Pittsburgh's General Fund spending. The City requires people to maintain safe and clean streets, to prevent and investigate crime, to respond to fires and medical emergencies, and to deliver the many other important services of municipal government. As a result, wages and benefits are the City's largest expense categories, accounting for more than $328 million of the City's $462 million expenditures in FY2013. With approximately 71 percent of the annual budget allocated to employees, responsibly managing workforce costs remains critical to the City's fiscal condition.

FY2013 Actual Expenditures



During FY2001 and FY2002, in the period leading up to Act 47 oversight, personnel expenditures – which include salaries, premium pay, fringe benefits, uniforms and employer pension contributions – grew by 5 percent to 6 percent annually, in contrast to revenue growth over those years below 1 percent. This unsustainable imbalance contributed significantly to the City's severe deficits during those years, which, in turn, led to the layoff of 446 employees during the months just prior to the start of the Act 47 period (including nearly 100 police officers and 20 emergency medical technicians) and the shutdown of basic municipal services.

Revenue vs. Personnel Cost Growth FY2001- 2002



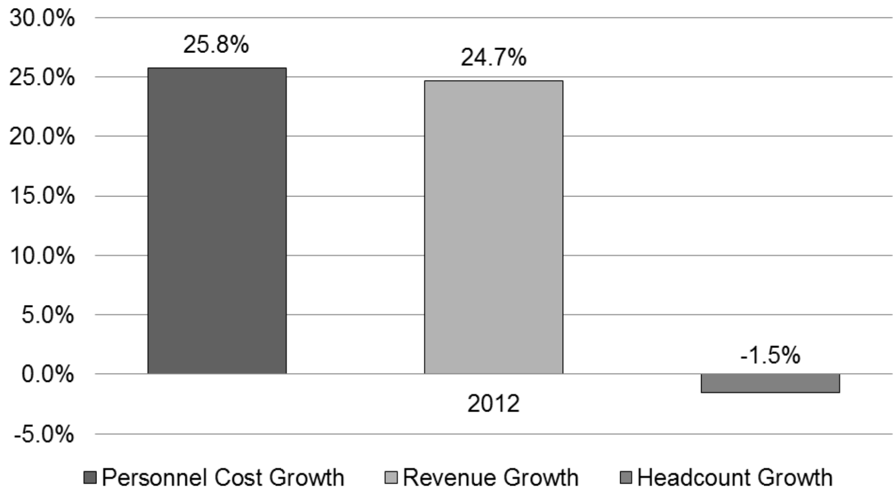
In part, this City of Pittsburgh labor cost growth was driven by the rising cost of healthcare and other benefits. At the same time, during these years when the City's fiscal condition was deteriorating, Pittsburgh's largest bargaining units also received across-the-board wage increases that exceeded inflation and the wage growth for other public sector employees in Pennsylvania, such as Commonwealth of Pennsylvania employees. Over the six years from FY1999 through FY2004, Pittsburgh firefighters (21.8 percent compounded increase), police officers (21.1 percent) and blue collar workers represented by the Pittsburgh Joint Collective Bargaining Council (20.7 percent) all saw general wage increases that outpaced both the largest state employee group (13.6 percent) and consumer price change (15.9 percent).

If costs per employee are not maintained at levels supported by available revenues, then the number of employees must be reduced – along with the services they provide – and/or other similarly difficult budget actions will be required.

Accordingly, the 2004 Act 47 Recovery Plan included a moderation of the rate of wage growth (with no reduction in pay for on board City workers), the introduction of health benefit cost sharing, and a range of other workforce cost containment strategies – while, at the same time, seeking to stabilize municipal services and maintain a competitive position for attracting and retaining public employees. These actions brought cost growth more into structural balance from 2005 to 2008, allowing the City to make significant progress toward financial recovery. In addition, there have been no layoffs since the start of the Act 47 period, and City worker compensation has remained competitive. Building on this progress, the 2009 Recovery Plan maintained the prior structural reforms to keep overall personnel cost growth within affordable parameters, while increasing flexibility for the City and its bargaining units to negotiate terms within available resources.

As a result of this approach, cumulative workforce cost growth of 25.8 percent from FY2004 through FY2012 closely paralleled growth in revenues of 24.7 percent. In turn, the City has been able to stabilize headcount levels – with only modest streamlining through attrition across this period, for total headcount reduction of just 1.5 percent.

Total Personnel Cost Growth vs. Total Revenue and Headcount Growth
Cumulative 2004-2012



Grounded in such operating budget stability, the City has also been able to begin to address severe legacy cost burdens from pensions, as well as other post-employment benefits (OPEB) – primarily retiree healthcare. As recently as 2009, the City's three major pension plans in the aggregate were funded at only 34.3 percent of the actuarially recommended levels – one of the worst funded ratios in the nation – with a total unfunded liability of $650.4 million. In tandem with a $359.1 million OPEB liability and $154.3 million in accrued workers' compensation claims, the City's total legacy burden had reached nearly $1.2 billion.

To begin to address this long-term challenge, the City transferred $45 million from the debt service fund to the pension fund in 2010, dedicating parking tax revenue to the pension fund beginning in 2011 (nearly $13.4 million annually, with increases scheduled in future years), and created an OPEB trust in 2012 with an initial contribution of $2.7 million in 2012, another $2.9 million in 2013, and $2.5 million budgeted for 2014. In addition, City-funded retiree healthcare will no longer be provided to employees hired since the start of the initial collective bargaining agreements reached under Act 47, positioning Pittsburgh for long-term relief from its OPEB liabilities. Further, the City has actively worked to improve its risk management programs to reduce workers' compensation liabilities, has adopted a more prudent actuarial investment return assumption to guide the funding of its pension plan, and has made additional pension payments above the legally required minimum levels.

Even with these important and positive steps, however, further, significant action remains critical if the City is to better provide for the sustainability of its retiree benefits programs. As of 2013, the City's pension plans remain only 58.2 percent funded in the aggregate – well below full funding and national norms – with a $484.6 million unfunded liability[1]. Of even greater concern, despite some improved actuarial assumptions, the City continues to base its overall funding approach on the minimum requirements of Act 82 of 1998 – outdated provisions unique to Pittsburgh that now fall well short of the funding levels recommended by the City's actuaries. Compounding these long-term pension funding pressures, the

[1] Because of the adoption of more prudent actuarial assumptions for the 2013 valuation, the City's current liability and funded ratio are not directly comparable to prior levels.

OPEB liability also continues to grow – reaching $495.8 million as of the most recent valuation – and workers' compensation liabilities, while improving steadily, remained at $131.9 million as of 2013.

Further, as pension and overall benefit costs continue to rise, City-wide revenues declined in FY2013 due primarily to real estate tax changes – and headcount was reduced by a total of 49 additional positions. As shown with the City's experience during the period just prior to Act 47, such trends are not sustainable, and continued budget stability depends on regaining structural balance between recurring revenues and recurring expenditures.

As a result, the City's primary workforce challenges over the next five years are as follows:

- Manage workforce costs at levels that can be sustained within the City's fiscal resources while maintaining a competitive compensation package and core public services; and,

- Achieve actuarially prudent funding levels for the City's still-high pension liabilities, while also incrementally continuing to address OPEB and workers' compensation costs.

Employee Overview

The City has nine employee unions as well as a non-represented employee group, for a total of 3,161 employees as of March 2014. Seven of the City's collective bargaining agreements expire in 2014, including those for the Fraternal Order of Police (FOP Lodge 1), International Association of Firefighters (IAFF Local No. 1), American Federation of State, County, and Municipal Employees (AFSCME Local 2719 and 2037), the Service Employees International Union (SEIU Local 192-B and 688), and the Fraternal Association of Professional Paramedics. The following chart details employee headcounts by collective bargaining unit:

City of Pittsburgh Headcount by Bargaining Unit (March 2014)

Employee Group	Covered Positions	No. of Employees	Contract Term
Fraternal Order of Police (FOP), Lodge 1	All Sworn Police Officers, including Detectives, Sergeants and Lieutenants	836	1/1/2010 - 12/31/2014
International Association of Firefighters (IAFF), Local No. 1	All Firefighters, Lieutenants, Captains, Battalion Chiefs and Deputy Chiefs	608	1/1/2010-12/31/2014
Fraternal Association of Professional Paramedics (FAPP)	All Paramedics, Crew Chiefs	154	1/1/2010-12/31/2014
AFSCME, Local 2037	First-level blue collar supervisors	267	1/1/2010 - 12/31/2014
AFSCME, Local 2719	Misc. white collar employees not inc. in other unions (Clerks, Inspectors)	43	1/1/2010 - 12/31/2014
SEIU, Local 192-B	Regular and Substitute School Crossing Guards	101	1/1/2010 - 12/31/2014
SEIU, Local 668	Rec. Program Coordinators, Athletic Instructors, Other Rec Facility employees	58	1/1/2010 - 12/31/2014
International Brotherhood of Teamsters, Local 249	All Refuse Drivers and Co-Drivers, Laborers and Helpers	183	1/1/2011 - 12/31/2015
Pittsburgh Joint Collective Bargaining Council (PJCBC)	Misc. blue collar employees (Painters, Custodians, Plumbers, Misc. Operators)	350	2012-2016
Non-Represented Employees	Executive, management, confidential	561	--
Total		**3,161**	

While Pittsburgh has controlled workforce cost growth since entering into Act 47, the City has also been able to maintain competitive, quality wages and benefits. For example, as illustrated in the chart below, Pittsburgh public safety wages remain well within the mainstream among other larger Pennsylvania municipalities and other regional, mid-sized cities (Baltimore and Cleveland) – generally paying above the median by the latter years of a career (on which pension benefit formulas are typically based).

Police Base Plus Longevity as of December 31, 2014

	5 YOS	10 YOS	15 YOS	20 YOS	30 YOS
Pittsburgh	**$61,779**	**$62,779**	**$66,514**	**$68,514**	**$70,514**
Baltimore	$58,244	$61,157	$64,070	$66,982	$69,893
Cleveland	$55,582	$56,015	$56,115	$56,240	$56,340
Philadelphia[1]	$68,208	$68,668	$69,128	$69,457	$69,851
Allentown	$65,691	$66,191	$66,691	$67,191	$68,091
Erie	$68,342	$70,009	$71,676	$73,343	$75,010
Reading[2]	$66,012	$66,827	$67,642	$68,457	$69,435
Scranton	$62,627	$64,451	$65,667	$66,883	$66,883
Median (excluding Pittsburgh):	**$65,691**	**$66,191**	**$66,691**	**$67,191**	**$69,435**
Rank	**6 of 8**	**6 of 8**	**5 of 8**	**3 of 8**	**2 of 8**

[1] Includes Stress Pay for Philadelphia Police Officers
[2] Includes Longevity for Reading which shall not be provided to employees hired after 12/31/2011 or to officers who were employed as of 12/31/2011 but did not reach eligibility for longevity.

Fire Base Plus Longevity as of December 31, 2014

	5 YOS	10 YOS	15 YOS	20 YOS	30 YOS
Pittsburgh	**$59,140**	**$60,140**	**$63,756**	**$65,756**	**$67,756**
Baltimore[2]	$64,365	$66,596	$68,826	$72,013	$75,199
Cleveland	$55,550	$55,982	$56,082	$56,207	$56,307
Philadelphia	$63,068	$63,493	$63,918	$64,222	$64,587
Allentown	$61,723	$62,023	$62,373	$62,773	$63,273
Erie	$65,436	$67,048	$68,670	$70,301	$73,264
Reading[1]	$58,342	$58,767	$59,192	$59,632	$60,532
Scranton	$67,509	$69,476	$70,786	$72,097	$72,097
Median (excluding Pittsburgh):	**$63,068**	**$63,493**	**$63,918**	**$64,222**	**$64,587**
Rank:	**6 of 8**	**6 of 8**	**5 of 8**	**4 of 8**	**4 of 8**

[1] Includes Longevity for Reading which shall not be provided to employees hired after 12/31/2011 or to officers who were employed as of 12/31/2011 but did not reach eligibility for longevity.
[2] Baltimore has a 47 hour work week, requiring fewer personnel to provide the same hours of coverage.

In addition to wages, Pittsburgh employees receive competitive health care, paid leave, and retirement benefits. The following tables detail key components of the City's benefit programs in comparison to U.S. state and local governments generally, and private sector norms in Pennsylvania.

Employee Premium Contributions

Employee Group	Individual Coverage	Family Coverage	Office Visit Co-Pay (primary)	Rx Drug Co-Pays (retail)
	% of premium or $ per mo.	*% of premium or $ per mo.*	*Per Visit*	*Per Rx*
Non-union, AFSCME Foremen & White Collar, SEIU, Paramedics, and Teamsters > $30,000	15%	15%	$10	$7 generic $15 preferred brand $40 brand
Non-union, AFSCME Foremen & White Collar, SEIU, Paramedics, and Teamsters < $30,000	7.5%	7.5%	$10	$7, $15, $40
Pittsburgh FOP	$63.94	$191.91	$10	$7, $15, $40
Pittsburgh IAFF	$66.90	$115.96	$15	$7, $15, $40
Pittsburgh Joint Collective Bargaining Coalition (PJCBC) > $52,000	$192.21	$192.21	$10/$25	$5, $10, $15 $15, $30, $45
Pittsburgh Joint Collective Bargaining Coalition (PJCBC) $30,000 - $52,000[2]	$134.55	$134.55	$10/$25	$5, $10, $15 $15, $30, $45
Pittsburgh Joint Collective Bargaining Coalition (PJCBC) < $30,000[2]	$96.10	$96.10	$10/$25	$5, $10, $15 $15, $30, $45
SEIU-192 B > $30,000	15%	71.67%	$10	$7, $15, $40
SEIU-192 B < $30,000	7.5%	69.17%	$10	$7, $15, $40
U.S. State and Local Governments[3]	13% of premiums ($105/mo.)	30% of Premiums ($448/mo.)	--	--
PA Private Industry[4]	21.4% of premiums ($88.50/mo.)	23.5% of premiums ($300.08/mo.)	$20	$10, $29, $52[5]

Pittsburgh employees also have access to basic dental and vision coverage with no employee premium contribution. Nationally, according to the Bureau of Labor Statistics, only 56 percent of state and local government full time workers have access to dental coverage, while just 39 percent have access to vision coverage.[6]

2 Shows both Basic and Premier Plan for Primary Care and Drug Co-pay

3 Bureau of Labor Statistics, National Compensation Survey, March 2013

4 Medical Expenditure Panel Survey, March 2012 (most recent available)

5 PA-specific data not available for Rx co-pays. Data shown reflects national levels, from the Kaiser Family Foundation and Health Research and Educational Trust 2013 Employer Health Benefits Annual Survey.

6 Bureau of Labor Statistics, National Compensation Survey, March 2013

City of Pittsburgh paid leave benefits also remain more generous than private sector norms, and competitive with other governments.

	Annual Holidays	Personal Leave	Vacation, after 1 year	Vacation, after 5 years	Vacation, after 10 years	Vacation, after 20 years
AFSCME 2037	10	3	10	15	20	20
AFSCME 2719	10	3	10	15	20	20
SEIU 192-B	Part of Vacation	6	15	15	15	15
SEUI 668	10	3	10	15	20	20
PJCBC	10	3	10	15	20	20
Teamsters 249	8	3	10	15	20	20
Non Union	10	3	10	15	20	20
FAPP	10	3	10	15	20	20
FOP	10	10	10	15	20	25
IAFF	10	0	10	15	20	20
Private Sector Median[7]	8	38% receive	10	14	17	19
State and Local Government Median[8]	11	59% receive	12	15	18	22

Further, like many public employers, the City offers a set of retirement benefits that exceed the levels typically found in the general labor market. These include a traditional defined benefit (DB) pension, rather than the 401k-style defined contribution (DC) plans now prevalent in private industry; post-employment healthcare coverage for public safety employees hired prior to the collective bargaining agreements determined under Act 47; and, for many, a modest retiree life insurance benefit.

	Primary Retirement Plan
City of Pittsburgh Employees	Traditional DB Plan
Private Sector	19% with access to DB plans, 59% with access to DC plan
State and Local Governments	83% with access to DB plan, 32% with access to DC plan

For the City's traditional DB pensions, civilians hired since 1988 contribute only 4 percent of salary. This contribution is nearly 2 percent below the national median[9] (5.7 percent as of 2012, and rising in recent years as many pension systems have increased employee contributions).

Economic Context

While the most severe economic downturn in generations finally reached its trough in June 2009, and the nation has seen slow recovery since, the U.S. economy had still not regained all of the jobs lost during the recession as of April 2014 – despite significant increases in population. As Federal Reserve Chair, Janet Yellen, said in her May 2014 Congressional testimony on the U.S. Economic Outlook:

[7] Bureau of Labor Statistics, National Compensation Survey, March 2013

[8] Bureau of Labor Statistics, National Compensation Survey, March 2013

[9] Public Fund Survey, Summary of Findings for FY2012 (December 2013).

"While conditions in the labor market have improved appreciably, they are still far from satisfactory. Even with recent declines in the unemployment rate, it continues to be elevated. Moreover, both the share of the labor force that has been unemployed for more than six months and the number of individuals who work part time but would prefer a full-time job are at historically high levels."

Also within this economic context, inflationary pressures remain low. According to the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, Second Quarter 2014 release, consumer price index (CPI) growth is expected to remain around 2.0 percent annually for the full calendar year 2014 and beyond.

Survey of Professional Forecasters CPI Projections

2014	2015	2016	2014-2018
1.9%	2.1%	2.2%	2.11%

Similarly, fiscal conditions across the public sector nationally have generally stabilized, but have not fully regained pre-recession levels -- and ongoing risks remain present roughly five years into the current phase of the business cycle. As the rating agency, Moody's Investors Service, wrote in their 2014 Outlook Report for U.S. Local Governments:

"In the aftermath of the Great Recession, stable means something new for local governments. Just as the "new normal" economy implies a landscape of constrained growth and lower expectations, the local government sector's "new stable" implies that credit quality is not as benign as it was before the crisis, nor will it be anytime soon. The "new stable" means that credit risks are more visible and predictable. It means most local governments have reduced cost structures and expectations to cope with constrained resources. In means conditions are not getting worse, but neither are they returning to pre-2008 conditions."

In recent agreements and benefits legislation impacting large public employers in Pennsylvania and nationally, wage agreements remain moderate and many continue to address benefit cost pressures:

- In the most recent round of bargaining for the Commonwealth of Pennsylvania (2011), most state employees saw their employee contributions toward health care benefits increasing to 5 percent of base pay effective July 1, 2014 (or 3 percent of pay with participation in health management programs). This reflects the latest increase in cost-sharing since employee premium contributions were first introduced for state workers at 1 percent of pay in 2003. Along with this adjustment, the four-year agreement included a first-year wage freeze, and subsequent annual pay increases of 1 percent, 1 percent (0.5 percent July + 0.5 percent January), and 2 percent.
- In March 2014, the City of Philadelphia and AFSCME District Council 47 reached an 8-year agreement (July 2009 - June 2017) that establishes important benefit reforms while providing modest, prospective wage increases. The agreement increases employee pension contributions by 1 percent (to 4.35 percent tied to actuarial costs) and provides future hires with the option of participating in a new hybrid DB-DC plan or paying 2 percent above the prior contribution level (5.35 percent) to remain in the existing DB plan. The contract includes a retroactive, nearly five-year wage freeze from FY2010 through ratification, with a $2,000 lump sum payment and 3.5 percent increase in late FY2014, 2.5 percent increase for FY2016, and 3 percent increase in FY2017.
- In New Jersey, under statewide legislation passed in June 2011, cost sharing reforms for health benefits now require state and covered municipal employees to contribute the greater of 1.5 percent of base salary or a tiered percentage of premium based on salary. These employee

contributions range from 20-35 percent of premiums for individual coverage, and from 12-35 percent for family coverage. In addition, New Jersey also enacted a broad set of pension plan changes for both state and municipal employees, increasing employee contributions for municipal participants in the Police and Firemen's Retirement System (PFRS) from 8.5 percent to 10 percent of salary, and suspending cost-of-living increases (COLAs) for all current and future retirees until the retirement system reaches a target funded ratio of 75 percent, increasing to 80 percent over seven fiscal years.

- For most New York State workers, the most recent five-year agreements covering April 2, 2011 through April 1, 2016, included a three-year general wage freeze (FY2012, FY2013, and FY2014), with one-time payments of $775 in 2013 and $225 in 2014 (not added to base), and 2 percent increases in each of FY2015 and FY2016. State employees also had unpaid furlough days, and agreed to significant changes to employee health care contributions. State employees in higher pay grades will see their contributions increase from 10 percent to 16 percent of premium for single coverage and from 25 percent to 31 percent of premium for the incremental cost of family coverage, while employees in lower paid grades will see their contributions increase from 10 percent to 12 percent for single coverage and from 25 percent to 27 percent for the incremental cost of family coverage. In addition, the State also implemented significant pension reforms with a new Tier VI for employees hired after April 1, 2012.

- More generally, public employers nationally have adopted numerous changes to address budget pressures and liabilities for retiree benefits – almost always in the context of less severe funding challenges than still faced by Pittsburgh's pension systems. According to data published by National Conference of State Legislatures, for example, from 2009-2012, 45 state-level pension systems enacted major pension changes for broad groups of public employees, with many of these states making changes to pension plan design and other features in more than one year. Among these plan design changes, 30 state systems increased employee contributions. Further, in 2013, three more states not among the 45 referenced above also took action, bringing the total making significant pension changes to 48 states since 2009.

In comparison to these examples of significant workforce cost containment elsewhere, the most recent round of City of Pittsburgh labor agreements under the 2009 Act 47 Recovery Plan were negotiated to be consistent with allocations roughly equivalent to the wage increases shown in the chart below.

Basis for the Prior (2009) Act 47 Recovery Plan Allocations

Year 1	Year 2	Year 3	Year 4	Year 5
$2,000 signing bonus ($1,000 for part-time employees)	2.0%	2.0%	2.5%	3.0%

Even excluding the value of the first-year signing bonus, these allocations provided for compounded wage growth from 2010 through 2014 of more than 9.8 percent. In contrast, consumer prices through April 2014 have increased only 9.1 percent.[10] Also under this prior Act 47 Recovery Plan, Pittsburgh workers generally experienced no further changes to health benefit premium cost-sharing or employee pensions.

Pensions

Pittsburgh continues to face a severe retiree benefit funding and sustainability challenge that threatens the future solvency of the City's pension funds, as well as Pittsburgh's ability to achieve a stable fiscal position overall. In the aggregate, the City's combined unfunded pension and OPEB liabilities were estimated at

[10] Consumer Price Index - Urban Wage Earners and Clerical Workers, December 2009 – April 2014, U.S. City average (seasonally adjusted).

more than $980 million based on January 1, 2013 pension and January 1, 2012 OPEB actuarial valuations (prepared every other year). This is roughly equivalent to two full years of City General Fund receipts.

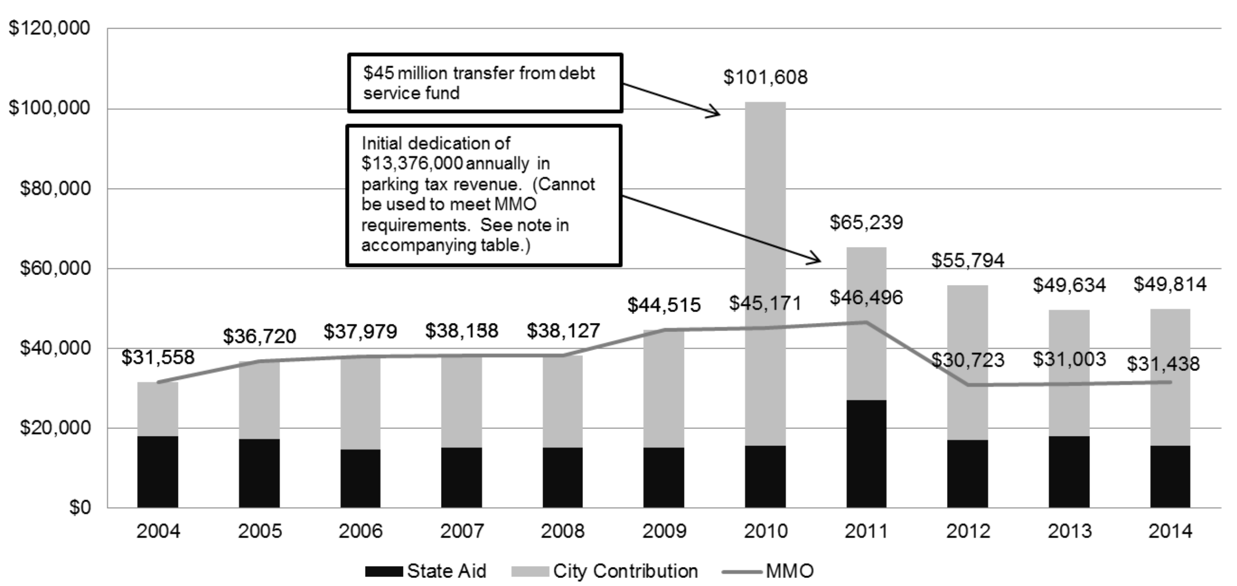
Looking first at pension benefits, Pittsburgh has three funds: the Policemen's Relief and Pension Fund, the Firemen's Relief and Pension Fund, and the Municipal Pension Fund. Combined, the City's pension systems were funded at 58.2 percent as of January 1, 2013 – with an Unfunded Actuarial Accrued Liability (UAAL) of $484.6 million.

Pension Plan	2013 UAAL	Funded Status
Police	$191,149,992	56.6%
Fire	$171,273,055	56.7%
Municipal	$122,167,120	62.4%
Total Pension Funds	**$484,590,167**	**58.2%**

At the time the City entered Act 47 oversight, the aggregate funded ratio was just 44.3 percent (2005 valuation), and this fell further to 34.3 percent with market declines on an actuarial basis (2009 valuation), and below 30 percent with assets valued on a market basis. Since then, the City has undertaken a series of significant steps to address its unfunded liability to improve plan funding, including:

- Placing a moratorium on further benefit improvements;
- Transferring $45 million from the debt service fund into pension system to improve short-term funding status;
- Pledging future parking tax revenues to the pension funds; $13.3 million from 2011 to 2017, rising to $26.8M from 2018 through 2041;
- Making additional contributions above the legally required Minimum Municipal Obligation in 2013 and 2014;
- Adopting more prudent actuarial assumptions, including reducing the investment return rate from 8 percent to 7.5 percent and updating mortality assumptions; and,
- Scheduling quarterly payments to the fund.

Employer Pension Contributions 2004 – 2014 (000s)



Employer Pension Contributions 2009 – 2014 (000s)

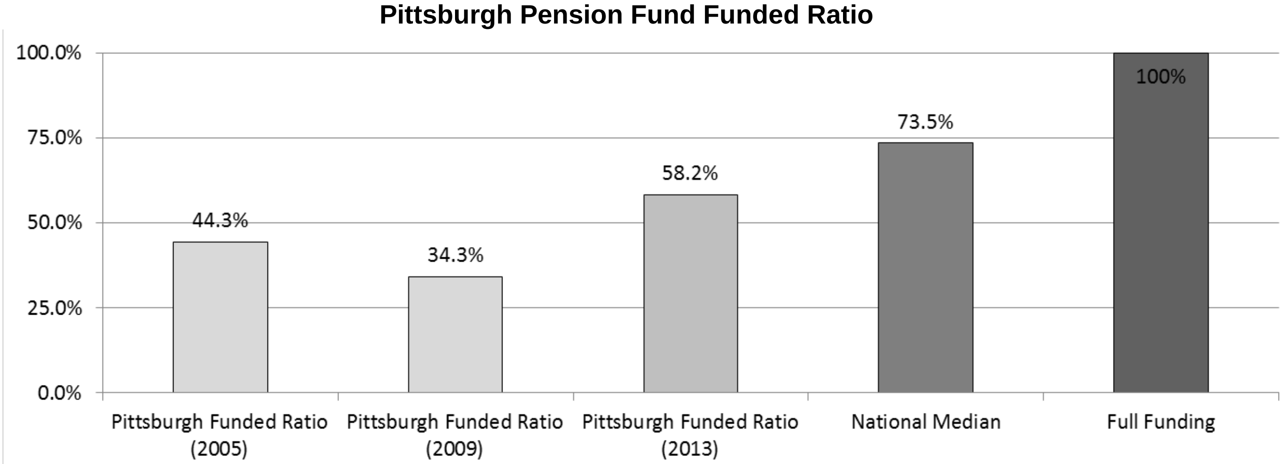
	2009	2010	2011	2012	2013	2014
MMO	$44,515	$45,171	$46,496	$30,723	$31,003	$31,438
Pension Contribution	$44,515	$56,608	$51,863	$42,418	$31,258	$31,438
Parking Tax Revenue[1]	-	-	$13,376	$13,376	$13,376	$13,376
Additional Contributions	-	$45,000	-	-	$5,000	$5,000
Total Contributions	**$44,515**	**$101,608**	**$65,239**	**$55,794**	**$49,634**	**$49,814**

[1] The present value of the scheduled contribution of parking tax revenues is already included as an asset of the pension fund for the purposes of determining plan funded levels under State requirements. As a result, these revenues cannot be "double counted" toward reaching the MMO funding requirement. If the parking tax revenue stream were not treated as an asset of the pension system, then the MMO would be higher due to a larger recognized, unfunded liability to be amortized.

As a result of this increased effort, the health of the City's retirement plans has begun to improve, but still falls well short of full funding. While some level of underfunding is not unique to Pittsburgh given the severe market downturn during the Great Recession, the City's aggregate 2013 funded ratio of 58.2 percent funding ratio remains well below the national median of 73.5 percent,[11] even with full actuarial recognition of the pledged parking tax revenue (inclusive of planned increases and amounts to be paid over the decades ahead).

With Pittsburgh's ratio at less than 60 percent of full funding, this poorly funded position remains of serious concern. Nearly five years into the expansion phase of the business cycle, it is important to achieve greater funding progress in advance of future market-driven impacts on asset value– and to do so on an actuarially sound basis.

Pittsburgh Pension Fund Funded Ratio



In 2013, the City's pension boards approved several prudent changes to the actuarial assumptions for the plans. The investment rate of return was reduced from 8 percent to 7.5 percent, a more conservative estimate in line with national trends. The plan's mortality assumptions were also adjusted to reflect improving longevity of annuitants. While these changes more accurately reflect plan experiences and expectations, the changes also resulted in a larger unfunded liability and triggered a higher legally required minimum employer contribution to the funds.

[11] Public Fund Survey of Findings of FY2012, December 2013

Projected Minimum Municipal Obligation (2014 – 2018)

2014	2015	2016	2017	2018
$31,438,298	$43,112,022	$43,742,428	$47,856,335	$48,551,412

Even with these improvements, however, the City is not yet adequately funding the plan at the levels recommended by its actuaries.

An actuary determines the "actuarial value of assets" and "actuarial accrued liability" using estimates and assumptions consistent with professional standards and/or as guided by applicable law. Because pension funds take in money today to pay for benefits in the future, an actuary must consider a multi-year period and make assumptions on factors including pension asset investment growth, mortality, retirement rates, and employee wage increases. Additionally, because the unfunded actuarial accrued liability is typically so large, it must be paid over a multi-year basis (as a mortgage would) and therefore needs to be amortized over a period of time. If the actuary's assumptions are correct and the respective contributions are made, then the unfunded liability will be paid off at the end of the amortization period. These assumptions and methods are therefore critical to understanding a pension plan's health.

In the most recent City of Pittsburgh valuation reports produced in March 2014, the plan actuary raises serious concerns about the soundness of the actuarial methodology permitted by a Pennsylvania law specific to Pittsburgh, Act 82 of 1998:

> *"Act 82 of 1998 has a significant impact on the minimum funding requirements.* ***<u>We believe that the procedure for determining amortization amounts in accordance with Act 82 no longer produces an actuarially appropriate funding level</u>****." [emphasis added]*

Under Act 82, the City was authorized to change the amortization schedule and to calculate the minimum amortization payment for the 1998 Unfunded Actuarial Accrued Liability amount using a special procedure that effectively lowered the payment the City would have otherwise had to have made under the general requirements of Act 205. With the special provisions of Act 82, the City was permitted to amortize the 1998 Unfunded Actuarial Accrued Liability over a 40-year period as opposed to a 30-year period, reducing annual payments in a similar way to going from a 30-year mortgage to a 40-year mortgage. This extended amortization period is different than what is permitted under Act 205.

Even more concerning, Act 82 also permits the amortization payment to be calculated using a 10 percent investment rate of return assumption as opposed to the plans' then-current 8.75 percent return assumptions as of 1998. The actuary notes that this "special procedure" of calculating the minimum payment on the amortization amount actually resulted in that portion of the unfunded liability <u>growing</u> for many years instead of being paid off as one would expect. To once again liken this to the mortgage example, it would be as if you paid your required mortgage bill each month, but the overall amount that you owed grew instead of shrank. As the actuary's valuation notes, *"When this legislation [Act 82] was enacted in 1998, investment conditions were different. An average 10 percent rate of return on a significant block of assets no longer seems reasonable."*

As a result of this outdated and unusual actuarial methodology, the actuary finds a heightened risk that the unfunded liability will not be paid off at the end of the amortization period but instead:

> *"[w]ill likely lead to significant experience losses, an increasing pattern of amortization payments and a funded ratio which will still be well below 100% at the end of the 40-year period due to remaining balances on these losses."*

In other words, the plan actuary has expressed significant concerns that continuing to use the Act 82 methodology will not result in the pension plan approaching full funding even by the end of the 40-year amortization period in 2037.

Rather than using the Act 82 methodology to develop the City's contribution to the pension plan, the actuary's valuation report recommends that the City amortize the 2011 unfunded actuarial accrued liability over a new 30-year period. In actuarial parlance, this is referred to as a "fresh start" wherein separate actuarial bases (often valued using different methodologies) are collapsed into one base and amortized over a new funding period. The net result to the City of the "fresh start" recommended to more prudently address the City's liability is that Pittsburgh's Minimum Municipal Obligation (MMO) payments would increase significantly. The following table reflects the estimated 2014-2018 MMOs under the current methodology and the actuarially recommended methodology taking into account current employee contributions[12]:

	2014	2015	2016	2017	2018
MMO Under Current Act 82 Methodology	$31,438,298	$43,112,022	$43,742,428	$47,856,335	$48,551,412
MMO Under Actuary's Recommended Methodology	$41,182,349	$54,667,475	$55,297,881	$55,959,818	$56,654,895
Difference	**$9,744,051**	**$11,555,453**	**$11,555,453**	**$8,103,486**	**$8,103,483**

These projections assume that the respective employer contributions above, and all other actuarial assumptions, are fully met. If these payments are not made in full for any one year, then (all other factors being equal) the amount required for the following year would be higher than shown above.

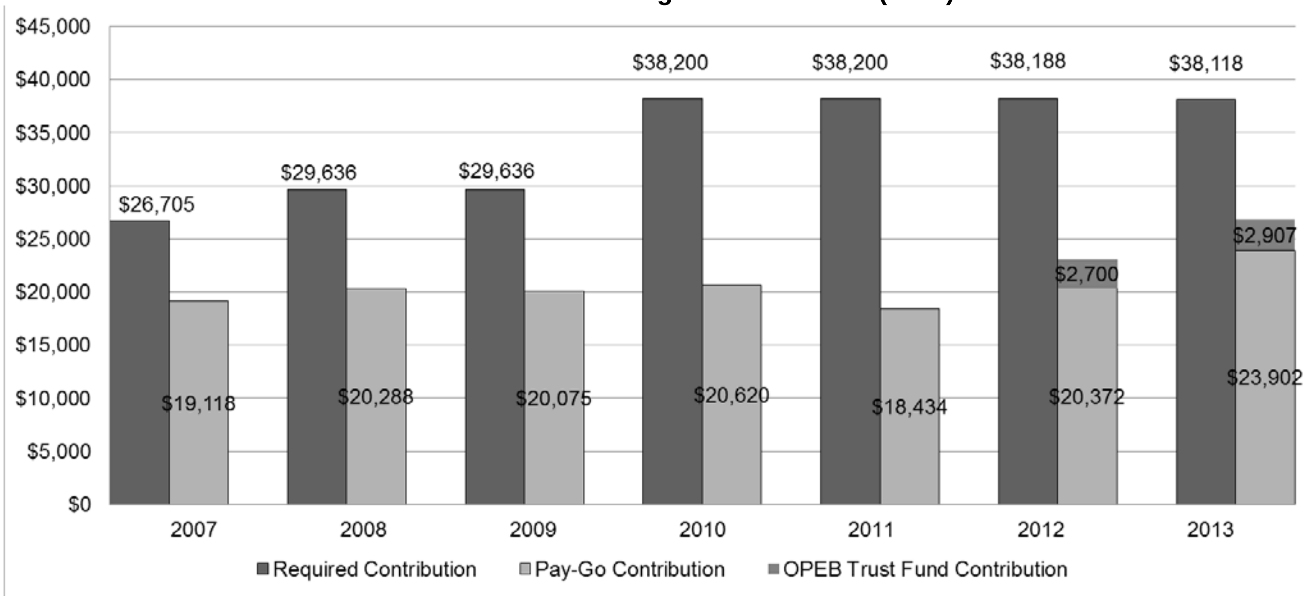
Based on this review of the actuarial valuations and the plan actuary's clear recommendations, the Act 47 Coordinators hold strong concerns that the current MMO payments at the Act 82 minimum levels will not be sufficient to move Pittsburgh's pension plans back onto secure footing for long-term. Whether or not appropriate in 1998, the Act 82 amortization methodology is not now viewed to be actuarially sound. To provide for sustainable pension benefits, it is important for the City to move toward the actuary's recommended funding levels.

Other Post-Employment Benefits (OPEB)

Along with defined benefit pensions, the City also provides retiree medical and life insurance benefits. As of January 1, 2013, the City's unfunded OPEB liability was nearly $495.8 million, greater than all General Fund revenues for the year. Prior to entering Act 47 oversight, the City did not have reserves set aside for OPEB liabilities, and financed costs solely on a pay-go basis. The 2009 plan called for the creation of an OPEB Trust Fund to prefund liabilities with a minimum annual contribution of $2.5 million, and payments began in 2012.

[12] The estimated MMO amounts under the current Act 82 methodology were provided by the plan actuary. Calculations of the estimated MMO amounts under the recommended methodology were confirmed by the plan actuary.

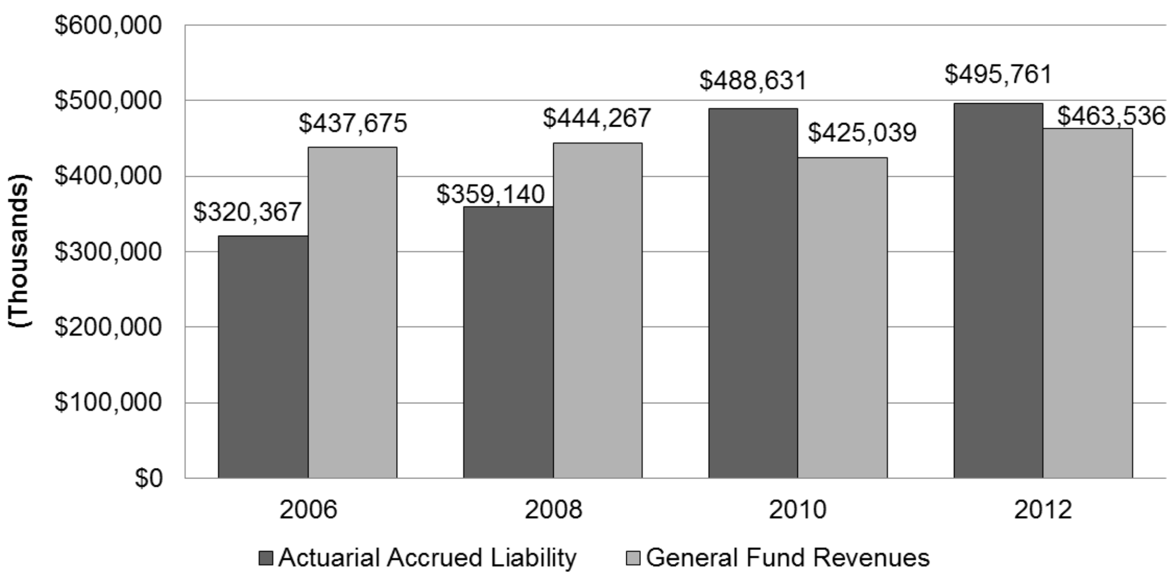
OPEB Contribution and Obligation 2007-2013 (000s)



OPEB Contribution and Obligation 2007-2013 ($ 000s)

	2007	2008	2009	2010	2011	2012	2013	2014
Annual Required Contribution	26,705	29,636	29,636	38,200	38,200	38,188	38,188	N/A
Pay-Go Contribution	19,118	20,288	20,075	20,620	18,434	20,372	23,902	25,993
Trust Fund Contribution	0	0	0	0	0	2,700	2,908	2,500
Total Contribution	**19,118**	**20,288**	**20,075**	**20,620**	**18,434**	**23,072**	**26,810**	**28,493**

OPEB Actuarial Accrued Liabilities vs. Revenues (000s)



Like the City's underfunded pension, OPEB liabilities threaten the City's long-term financial health by committing the City to pay increasing amounts for many years ahead to provide for benefits accrued in the past.

In addition to initiating an OPEB Trust, past recovery plans implemented benefit reforms to address the City's significant OPEB liability in the long-term, including:

- Eliminating retiree health coverage for employees hired in the Act 47 period (generally after December 31, 2004); and,
- Extending police cost-sharing requirements for retiree medical premium increases to fire retirees. Eligible retirees are charged for premium increases beyond the cost at the time of retirement.

Given the major scale of this liability, it is important that the City continue to prefund OPEB annually, while also continuing to limit this liability to employees and retirees already eligible. By staying on this course, the gap in plan funding can begin to decline and ultimately close in the decades ahead.

Of note, the establishment of health care exchanges under the Affordable Care Act now provides additional coverage options for any future retirees who may not yet be eligible for Medicare.

Workers' Compensation

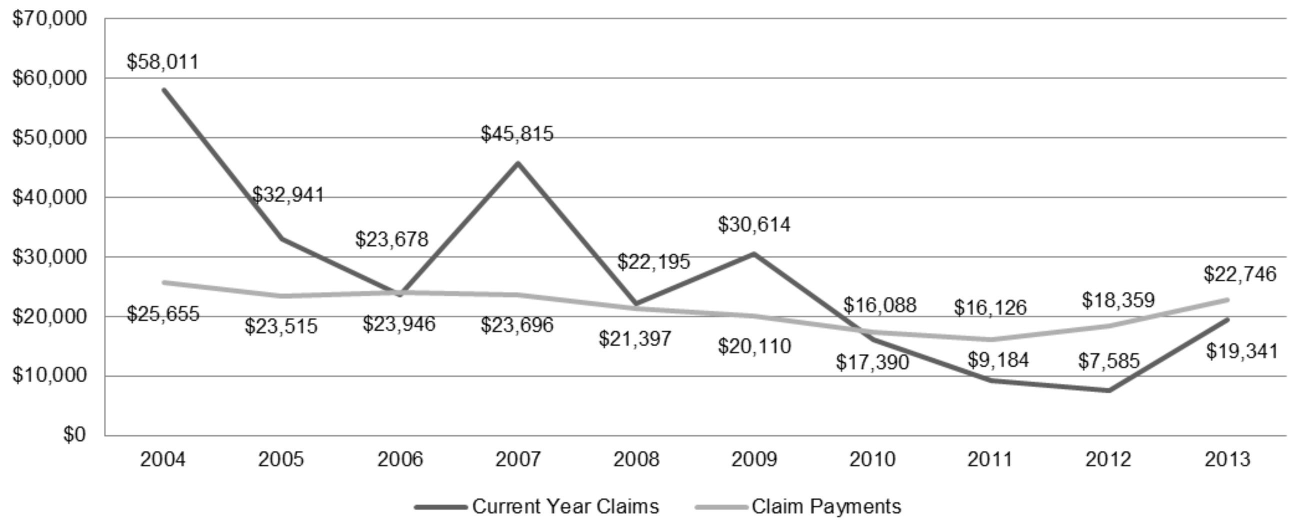
The City is self-insured for purposes of worker's compensation benefits and maintains an irrevocable trust which establishes liability reserves based upon expected future payments for all claims outstanding one year or more at the end of any fiscal year. The City's contribution to the fund is determined annually in negotiations with the Commonwealth Department of Labor.

Prior to 2004, the City also faced escalating workers' compensation costs. Reforming the system and implementing improved safety procedures was a key part of earlier Recovery Plans and has been an area of strong focus by the City's leadership, including implementation of key recommendations from past Recovery Plans:

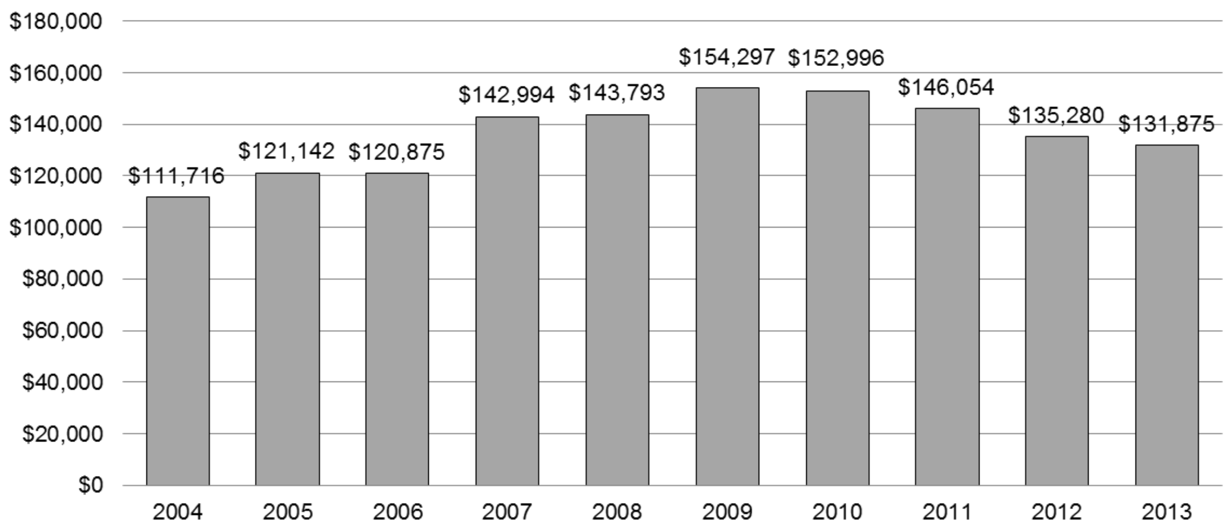
- Continuing the workers' compensation settlement program, realizing an estimated 12:1 return on investment;
- Ensuring full use of workers' compensation pension credit;
- Improved internal communications on labor and employment cases; and,
- Increased claims adjuster staffing.

As a result of such efforts, costs have been better controlled, the City has reduced open legacy claims, and the number of new claims is trending downward. As the graphs below show, since 2010 the City has been making claim payments larger than the current year claims and has been reducing its overall accrued workers' compensation since 2009.

Workers' Compensation Annual Claims vs. Payment (2004-2012)
(in thousands)

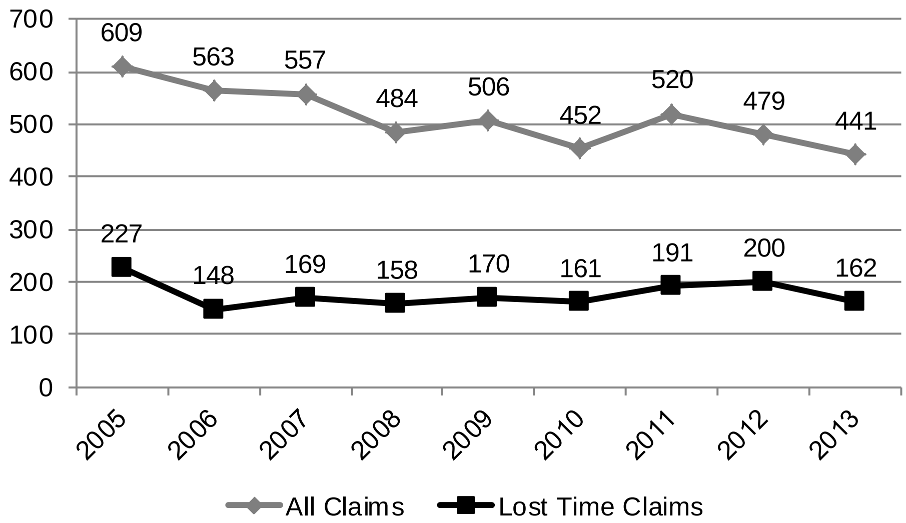


Accrued Workers' Compensation (2004-2012)
(in thousands)

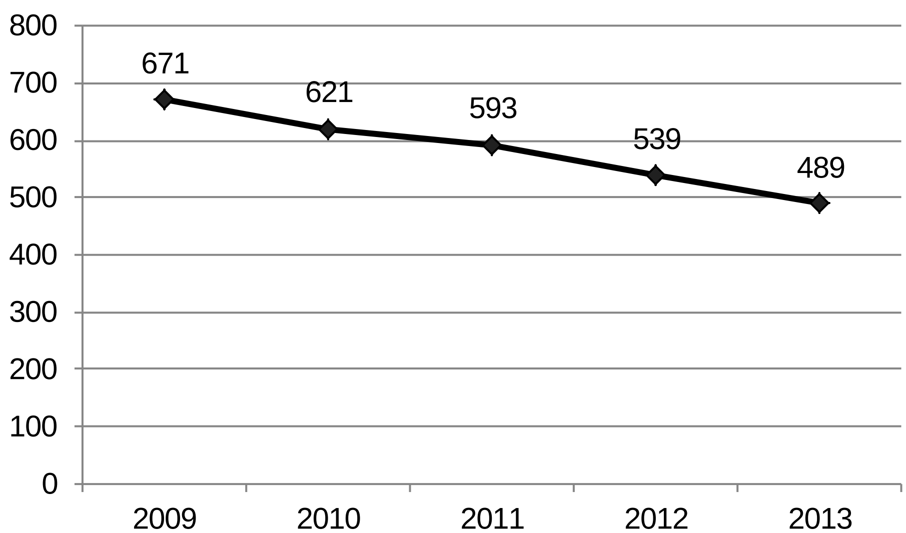


The number of new claims filed and legacy claims have both decreased. Legacy claims (1968-2005) have been reduced by more than 50 percent, falling from 1,037 to 489 since 2006.

Workers' Compensation Claims 2005 to 2013



Legacy Claims from 2009 to 2013



Recommendations from prior Recovery Plans that have not yet been implemented remain important if the City is to sustain and build on this progress. To be addressed through collective bargaining, these initiatives are again included in this Amended Plan: require employees to treat with City panel physicians for duration of disability; expand the job offer program; and implement post-incident drug testing.

Initiatives

To better secure Pittsburgh's financial health and sustainability, the workforce goals of this 2014 Amended Recovery Plan include:

- To maintain the core structural reforms and affordable rates of personnel cost growth in line with available resources that have been central to fiscal recovery and structural operating budget stability since 2004;
- To continue to provide bargaining flexibility as Pittsburgh transitions out of Act 47 oversight; and,
- To further address long-term liabilities to better position the City and its workers – both active and retired – for a secure and sustainable post-oversight future.

In developing this 2014 Plan, the Act 47 Coordinators met with representatives of City bargaining units, City Administration, and members of City Council. Each group expressed their genuine concern for the future of Pittsburgh's finances, and their commitment to working collaboratively to address the City's remaining challenges. In these meetings, leadership for both labor and management conveyed their view that a key factor in transitioning Pittsburgh out of Act 47 oversight is to maintain flexibility in the collective bargaining process.

In addition, this 2014 Plan reflects amendments to Act 47 enacted in 2012, which established that a capped amount shall be developed for each City bargaining unit to be available for total compensation. This approach is consistent with the use of allocations as adopted in the 2009 Pittsburgh Recovery Plan, and enables each bargaining unit to have an active and unit-specific role in collective bargaining. These 2012 Amendments to Act 47 call for the Coordinators to project revenues and expenditures for the current and next three fiscal years, and to include a cap on expenditures for individual collective bargaining units that the distressed municipality may not be exceed. With limited exceptions, arbitration awards for Act 111 units are also subject to this provision.

The Act 47 Coordinators fully support this allocation approach as part of the City's transition out of financial oversight.

WF01.	**Maximum compensation allocations and costing analysis**	
	Target outcome:	Maintaining budget stability and competitive compensation
	Five Year Financial Impact:	See below
	Responsible party:	Mayor's Office, OMB

The allocated amounts below shall be the maximum dollars available for each bargaining unit and non-represented employees in each year, inclusive of increases and improvements to all components of employee compensation other than pensions and retiree health. The amounts as shown include "baseline" costs prior to any adjustments through negotiations or arbitration, as well as additional allowances for collective bargaining.

Examples of components of compensation impacted by negotiations include, but are not limited to: wages/salaries, longevity, shift pay, special assignment pay, other cash premiums and bonuses, applicable payroll taxes, vacation, holidays, paid leave, active employee life insurance, and other miscellaneous fringe benefits. Included in the maximum allocations for each year are the costs carried forward from recurring increases in prior contract years.

Maximum Allocations

Non-Represented and Contracts Expiring December 31, 2014

Union	2014	2015	2016	2017	2018	Total
Non-Rep	Budget	$34,854,397	$34,949,946	$35,901,540	$36,892,346	**$142,598,230**
AFSCME Prof	CBA	$13,706,716	$13,880,652	$14,311,554	$14,763,232	**$56,662,155**
AFSCME Sup	CBA	$3,321,830	$3,364,262	$3,469,364	$3,579,421	**$13,734,877**
FAPP	CBA	$14,896,016	$15,084,278	$15,524,043	$15,983,244	**$61,487,581**
FOP	CBA	$82,675,892	$84,342,072	$86,611,958	$89,990,263	**$343,620,186**
IAFF	CBA	$73,973,915	$75,541,299	$78,168,737	$80,622,326	**$308,306,277**
SEIU 192-B	CBA	$2,405,361	$2,452,628	$2,536,421	$2,624,569	**$10,018,979**
SEIU 668	CBA	$2,990,910	$3,037,191	$3,137,585	$3,243,042	**$12,408,728**
Shaded boxes not eligible for negotiation (current CBA in effect)						

Contracts Expiring December 31, 2015

Union	2014	2015	2016	2017	2018	Total
Teamsters	CBA	CBA	$11,295,990	$11,490,934	$11,868,967	**$34,655,891**
Shaded boxes not eligible for negotiation (current CBA in effect)						

Contract Expiring December 31, 2016

Union	2014	2015	2016	2017	2018	Total
PJCBC	CBA	CBA	CBA	$24,008,156	$23,855,755	**$47,863,912**
Shaded boxes not eligible for negotiation (current CBA in effect)						

The 2015 allocations reflect the Administration's plan to eliminate thirty (30) budgeted, unfilled positions represented by the SEIU, Local 192-B and ten (10) budgeted, unfilled positions represented by the International Association of Firefighters, Local No. 1. According to information provided by the Administration, the eliminated positions are currently vacant and likely to remain vacant into the future. Eliminating the vacant positions will not impact the employment status of any current employees.

For represented employees, the City and their respective bargaining units may agree to spend the allocation on various compensation components as they mutually determine to be appropriate (except for specific limitations set forth in this Recovery Plan). However, in no case shall the requirements otherwise set forth exceed the annual maximum allocations in the chart above.

Compensation adjustments with deferred and/or disproportionate long-term costs shall be avoided. In particular – given the City's severe underfunding of retiree benefits and associated sustainability risk – the Act 47 Coordinators **strongly** advises against any improvement to retiree benefits that would add to these already daunting burdens. If the City and one or more unions agree to changes that help to reduce such liabilities, however, credit may be considered. For example, the savings to the City from any agreement to increase employee pension contributions may be offset from components of any provisions that increase overall costs when determining whether or not a particular tentative union agreement falls within the Act 47 Recovery Plan fiscal parameters.

In developing the above allocations, the Act 47 Coordinators estimated that a settlement as follows would be generally consistent with the maximums provided:

Year 1	Year 2	Year 3	Year 4	Year 5 and beyond
No Across-the-Board Increase	1.0%	2.0%	2.0%	2.0%
Employee healthcare premium contribution increases from 15% to 20% starting in Year 2 [or equivalent for employees with different negotiated contribution structures]				

The above framework provides for steady, continued growth in wages, with greater cost sharing for healthcare benefits – consistent with trends across the labor market in both public and private employment. By adjusting employee cost-sharing for healthcare, the City will promote a greater stake for the workforce in controlling these significant costs, while still providing a highly competitive offering.

Required cost projections

For any proposed changes to the Compensation Components in place at the expiration of the current collective bargaining agreement or any new Compensation Components proposed, the City shall conduct a full cost analysis of those changes for each year of the proposed collective bargaining agreement (or annually for non-represented employees) to determine and assure that the maximum allocations shown above are not exceeded. The City shall provide the full cost analysis information to the Act 47 Coordinators in form and content acceptable to the Coordinators as soon as possible for the Coordinators' review and approval. If the Act 47 Coordinators determines that the proposals exceed the maximum allocated amounts, the proposals shall be returned to the bargaining units or employees and the City for modification. The Act 47 Coordinators will not approve any cost analysis if the Coordinators determine that inadequate information is provided to verify the cost analysis or if the analysis is not provided in a timely manner. The intent of this provision is that the Act 47 Coordinators are the final decision maker as to the cost of any proposed change to a compensation component, whether those proposed changes occur during labor agreement negotiations or during arbitration of any such agreement or at any other time.

In providing this costing analysis the City shall include the following information for each Compensation Component for which there is a proposed change or any new Compensation Component proposed:

- Current rate, formula, leave allocation structure, etc. in place for that Component and the proposed changes to the Component.

- Number of employees in the bargaining unit who currently receive the Component, those who will become eligible for the Component during the term of the agreement under the status quo and those who would become eligible for the Component during the term of the agreement under the proposed change (e.g. X employees receive shift differential in 2014, Y will receive shift differential in 2015 under the status quo, Z will receive shift differential in 2015 under the proposed change). This should be provided on an annual basis for each year in the collective bargaining agreement where appropriate.

- Average salary of the employees who currently receive the Component and the average salary of the employees who would receive that Component under the proposal. This information shall be provided at the bargaining unit, position or whatever other level of detail is appropriate to the proposed change.

- The number of hours per shift and, if applicable, shifts per 24-hour period.

- Any applicable minimum staffing requirements or assumptions. If the proposed change affects overtime, the costing shall include an estimate on how the proposed change will impact overtime.

- Actuarial analysis, as applicable, of any modifications to retiree benefits.

The above list is provided to guide the City in providing adequate costing analysis and is not a comprehensive list of the information that the Act 47 Coordinators may request to verify costing analysis. All items may not apply depending on the change proposed. If the City does not provide additional information requested by the Coordinators, the Coordinators reserve the right to return the analysis for modification.

WF02.	**Adopt recommended actuarial methodology for pension funding**	
	Target outcome:	Improving pension plan sustainability
	Five Year Financial Impact:	$26.1 million
	Responsible party:	OMB

As previously outlined, Pittsburgh's pension plan actuary has cited serious concerns regarding the adequacy of the Act 82 funding methodology that establishes the City's legal minimums for employer contributions into the systems. For the long-term sustainability of these (already severely underfunded) plans – toward better ensuring that pension benefits are secure for past, current, and future City workers – it is of critical importance that funding be increased to reach actuarially sound levels.

Accordingly, the City shall work aggressively to fully fund the actuarially recommended levels as soon as possible. To help manage the budget impact of this adjustment, the Recovery Plan includes a phased increase in funding that shall be the minimum incremental contribution by the City, as illustrated below.

	2014	2015	2016	2017	2018
Required Incremental Funding Above Act 82 to Reach Actuarially Recommended Levels (Current Estimates)	$9,744,051	$11,555,453	$11,555,453	$8,103,483	$8,103,483
Act 47 Plan Minimum Incremental Funding	N/A	40% of difference	60% of difference	80% of difference	100% of difference
Incremental Contribution Requirement Above Act 82 Minimums[13]	N/A	$4,622,181	$6,933,272	$6,482,786	$8,103,483

In the event that actual year-end operating budget results for any fiscal year prior to FY2018 exceed forecasts, the City shall further apply such unanticipated resources toward additional funding of the actuarially recommended pension contributions to reach at least 100 percent of each year's incremental amount.

In recent fiscal years, including within the FY2014 Budget, the City has already been making supplemental contributions above the Act 82 minimums, responding to direction from the Pittsburgh Intergovernmental Cooperation Authority (ICA) to improve pension funding. In this initiative (WF02), the Act 47 Coordinators are assuming that such supplemental contributions will be applied toward meeting the targets outlined above for phasing in actuarially recommended funding, and will not be separate from or over and above the WF02 contributions. The Act 47 Coordinators fully share the ICA's concern that Pittsburgh's pension

[13] The dollar amounts shown are illustrative. Minimum actual contributions shall be based on the percentage of the incremental funding for each year required to ramp up toward full actuarially recommended funding by 2018. If less than the full actuarially recommended contributions are made in years prior to 2017, all other factors being equal, the amounts required in subsequent years would be expected to moderately increase.

liabilities should be prudently funded, and WF02 addresses this common goal through a linkage to the guidance provided by the City plans' actuary.

With such additional funding to reach actuarially recommended funding levels, plus employee contributions and the dedicated parking tax revenues (scheduled to ramp up in 2018), the City's gross annual pension contributions are projected to reach over $94.5 million by the end of this five-year plan period – significantly improving the security and sustainability of Pittsburgh's employee pension benefits.

	2014	2015	2016	2017	2018
Baseline Contribution *(City MMO per Act 82)*	$31,438,298	$43,112,022	$43,742,428	$47,856,335	$48,551,412
Supplemental Contribution *(Phase-in of Actuarially Recommended Level from WF02 for 2015 forward)*	$5,000,000	$4,622,181	$6,933,272	$6,482,786	$8,103,483
Parking Tax Commitment	$13,376,000	$13,376,000	$13,376,000	$13,376,000	$26,752,000
Employee Contribution *(Outside of General Fund)*	$10,600,000	$10,628,597	$10,731,615	$10,922,216	$11,130,808
Total Contribution	**$60,414,298**	**$71,738,800**	**$74,783,315**	**$78,637,337**	**$94,537,703**

WF03.	**Continue contributions to the OPEB trust above pay-go levels**	
	Target outcome:	Mitigating liability growth
	Five Year Financial Impact:	$12.5 million
	Responsible party:	OMB

Over time, the City shall also seek to fully fund its actuarial contributions for the City's OPEB liability, and ramping up to meet such levels should remain a continued, long-term goal for the City.

Given the elimination of retiree healthcare for employees hired over most of the past decade (thereby containing the long-term OPEB liability), however, the Recovery Plan assumes a more incremental funding approach as the minimum requirement. Consistent with the 2009 Plan, the City shall continue to make minimum annual contributions of $2.5 million into the City's OPEB Trust Fund over and above pay-go funding.

WF04.	**Affordable Care Act Study and Reopeners**	
	Target outcome:	Optimizing alignment with federal healthcare programs
	Five Year Financial Impact:	TBD
	Responsible party:	Mayor's Office, Human Resources, OMB

The ongoing implementation of the Patient Protection and Affordable Care Act (ACA) will likely create both challenges and opportunities for the City.

Among the most significant challenges, beginning in 2018, the ACA is expected to impose a 40 percent excise tax on the value of health insurance benefits exceeding certain thresholds – often referred to as the "Cadillac tax." The current threshold estimates are $10,200 for individual premiums and $27,500 for family premiums and both will be indexed to inflation. The thresholds will likely be higher for plans covering high risk professions, and employers will not be able to pass the excise tax along to employees.

Due to uncertainty surrounding the ACA's Cadillac tax on health care plans due to go into effect in 2018, and the potential that some of the City's plans may be subject to these charges if not adjusted, the City shall include healthcare reopeners during any labor agreements extending into 2018 to be able to address such issues before the tax goes into effect. The general budget assumptions and collective bargaining allocations within this Recovery Plan include no dedicated funding for Cadillac tax payments, such that plan redesign to remain below the ACA thresholds may be required to avoid instability.

At the same time, the creation of healthcare exchanges to provide greater access to coverage may provide opportunities to develop alternative, more affordable approaches for retiree healthcare for those Pittsburgh employees still eligible during the years prior to Medicare coverage. For example, some employers are moving toward a stipend approach that better aligns with the federal program.

Given the above and other potential impacts, it will be important for the City to actively study the projected impacts and potential opportunities created by the ACA, as it has already begun. This will likely require expert support, and would also benefit from early and active labor-management communications and collaboration.

WF05.	**Eliminate overtime from firefighter pension benefit calculation for new hires**	
	Target outcome:	Improving pension plan sustainability
	Five Year Financial Impact:	TBD
	Responsible party:	Mayor's Office

Of the nine unions in Pittsburgh, only the Firefighters have overtime included in final salary for the purposes of pension benefit calculations. The City shall seek to eliminate overtime from the pension calculation for IAFF-represented employees hired after the commencement of the next labor agreement or award. This change will still provide plan members with solid retirement income, pursuant to a formula consistent with other City employees, while moderating long-term pension liabilities and improving the health of the firefighters' pension fund.

WF06.	**Pursue Additional Workers' Compensation Reforms**	
	Target outcome:	Sustained reductions in the City's workers' compensation liability
	Five Year Financial Impact:	TBD
	Responsible party:	Mayor's Office, Finance, Human Resources

Some of the most impactful remaining opportunities for workers' compensation reform involve collective bargaining to implement and/or sustain:

- For example, the best way to reduce costs would be to require employees to treat with the City's panel physicians for the duration of disability. Care provided by trained occupational physicians results in a quicker return to work, reduces the possibility of over-treatment and unnecessary treatment, and provides some assurance that only legitimate work injuries will be accepted and treated. Consistent with these goals, the Act allows negotiation of longer captive periods, as does the Pennsylvania Heart and Lung Act that covers police officers and firefighters. The City shall pursue such reforms in collective bargaining.

- Additionally, the City shall implement a stronger return to work program which includes cross-departmental options. While most elements of such a program are management prerogatives, flexibility from the City's various unions is important for return-to-work assignments that may cross bargaining unit lines, and the City shall pursue such reforms in collective bargaining.

- Currently, only part of the workforce is subject to drug testing, and generally only when there is reasonable suspicion or following a vehicular accident. Instituting a Citywide policy which requires drug testing following workplace injuries can help the City to identify cases where state law allows for a claim to be denied because of illegal drug or alcohol use. Post-incident drug testing is relatively inexpensive to implement, and could result in significant savings on individual workers' compensation cases. Again, the City shall pursue such reforms in collective bargaining.

More detail regarding each of the above opportunities may be found in the 2009 Amended Recovery Plan.

Administration

Like the original Recovery Plan adopted by the City in 2004 and the first Amended Recovery Plan adopted in 2009, this second Amended Recovery Plan reviews the City's operations. In recognition of the City's progress since it entered Commonwealth oversight, and to keep the reader's attention on the legacy cost issues that are the primary focus of this Plan amendment, the operational review is shorter than in the prior two plans.

This chapter briefly summarizes the responsibilities of the City's elected officials other than the Controller whose office is addressed in the Financial Management chapter, along with the Department of Finance and Office of Management and Budget. It also covers the Department of Law, Personnel and Civil Service Commission, Planning, and other smaller units of City government. There are separate chapters addressing the Department of Innovation and Performance (formerly City Information Systems), the Department of Public Safety, the Department of Public Works and the Parks Department.

The chapters show the budgeted headcount for each department or major bureau from 2009 to present, using the figures in the annual budgets. The chapters also show the filled headcount for 2009 through 2013, which is based on the figures in the City's quarterly financial reports, averaged across all pay periods in a year. This filled headcount includes all active part time and full time City employees and those on various types of leave.

In some instances the City reports more filled positions than budgeted because of its method for funding part-time, temporary and seasonal employees. The budget allocates dollars for some part-time positions instead of showing a full-time equivalent count, while the quarterly reports count the employees in those part-time or temporary positions in the same way they count full-time employees.

Mayor's Office

The executive, administrative and law enforcement powers of City government are vested in the Mayor, pursuant to the City's Home Rule Charter. Elected to a four-year term, the Mayor is responsible for executing and enforcing the Charter, ordinances, and resolutions of the City; submitting proposed legislation to Council; supervising City employees and officers; and appointing the directors of all major administrative units, subject to approval of Council.

Additionally, the Mayor is responsible for providing leadership for the advancement of the City and achievement of the goals set forth in the Preamble of the City's Home Rule charter, making long and short range plans for the improvement of the economic, physical and social condition of the City and promoting effective intergovernmental relations. The Office of the Mayor acts as the official liaison with Allegheny County, the Pittsburgh School District and all other government agencies. If the Mayor is necessarily absent from the City or temporarily disabled, the president of council serves as Mayor.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	14	14	15	16	16	16
Filled	14	16	15	12	11	N/A

Bureau of Neighborhood Empowerment

In 2014 the City created the Bureau of Neighborhood Empowerment within the Mayor's Office. The Bureau has two main functions with leadership in each area directly reporting to the Mayor. The Chief Education and Neighborhood Reinvestment Officer oversees all education, external workforce training and neighborhood reinvestment initiatives; serves as the Mayor's liaison to the Pittsburgh Public Schools; and has responsibility over the Equal Opportunity and Review Commission. The Chief Urban Affairs Officer oversees all housing, non-profit and faith-based initiatives of city government; has responsibility over the Housing Authority and the Commission on Human Relations; and focuses in particular on underserved neighborhoods. The Bureau has 10 employees, four of whom were previously located in a separate Equal Opportunity Commission.

City Council and City Clerk

The legislative power of the City is vested in the City Council, pursuant to the City's Home Rule Charter. City Council is composed of nine members, each elected by a geographic district to serve four year terms. Council members are primarily responsible for making laws which govern the City of Pittsburgh, passing the annual budget and approving certain personnel appointments. One member is elected to serve as president for the ensuing legislative term. The president presides over all council meetings, establishes and appoints all committees of council, schedules public hearings and endorses all rules adopted for the government of council.

While the Office of the City Clerk is not mandated by the City's Home Rule Charter, City Council is authorized to employ a City Clerk and staff for support in operational matters. The City Clerk's Office coordinates Council meetings and public hearings; oversees the operations of the legislative process; maintains a citywide records management system; and assists in the production of the annual budget.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	39	39	39	39	39	41
Filled	47	46	48	48	46	N/A

Budgeted staffing levels remained stable at 39 positions until this year when the City added positions for City Council Solicitor and Archivist. Council reports more filled positions than budgeted because of the City's method for funding part-time, temporary and seasonal employees, including interns. The budget allocates dollars to the part-time positions instead of showing a full-time equivalent count.

Department of Law

The Department of Law acts as the attorney for the City and its officials and renders legal opinions and advice to the Mayor, City Council and City departments. It is comprised of several divisions with varying functions and services. The Litigation division represents the City in all lawsuits, including matters related to torts, civil rights, employment, taxation, and the collection of unpaid amounts. The General Municipal division defends ordinances against claims of unconstitutionality, reviews City contracts and provides legal advice and counsel to all departments and City Council. The Labor division handles all matters related to labor negotiations. The Taxes division is responsible for counseling the Department of Finance. The Real Estate division processes all transactions related to property taken for delinquent real estate taxes and handles all legal matters related to City real estate. The Zoning division advises City Planning and the Claims division investigates the validity of claims again the City.

The Department reports more filled positions than budgeted because of the City's method for funding part-time, temporary and seasonal employees, including interns. The budget allocates dollars to the part-time positions instead of showing a full-time equivalent count.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	29	30	28	29	32	32
Filled	32	32	35	36	35	N/A

Personnel and Civil Service Commission

The mission of the Department of Personnel and the Civil Service Commission is to provide expertise in areas related to workforce development and to promote a positive, diverse work environment. Department functions include recruitment and talent acquisition, employee recognition programs, diversity and equal employment efforts, assessing the impact of City Council actions and management decisions on employees, and the education, training and development of the City's workforce. Along with these functions, the department manages the administration of all employee benefits plans, the implementation of safety standards and the worker's compensation program.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	37	37	37	37	38	39
Filled	33	33	33	31	33	N/A

The City added a Benefits Manager in 2013 and a Group Benefits Coordinator in 2014.

Department of City Planning

The Department of City Planning is responsible for ensuring the consistent and orderly development of public and private property within the City. The Department ensures that development is in compliance with City neighborhood plans and zoning regulations and balances the interests of individual owners, developers and City government. The Department of City Planning is comprised of six divisions with functions and services as described below:

- The **Strategic Planning and Policy** division is responsible for ensuring the strategic development of property in the City. It conducts project development reviews to assess Americans with Disabilities Act compliance, traffic impacts, storm water management and geotechnical and environment concerns. It represents the City on regional and citywide transportation planning panels and staffs part of the residential parking permit program.

- The **Development Administration and Review** division administers the Pittsburgh Zoning Code by serving walk-in and telephone zoning permit customers, amending the Code to adopt best management practices and regulations that promote high quality planning and development, and processing lot subdivision and consolidation requests.

- The **Community Development** division manages federal funds received by the City to ensure compliance with all related regulations.

- The **Geographic Information Systems** division provides and maintains all spatial data for the City departments and residents. The department provides digital and hardcopy mapping and online web application development.

- The **Division of Public Art** maintains City-owned public art and works with the community to commission new art pieces within the City. It also oversees the Art Commission.

While most of the Department's positions are covered in the General Fund, there are 14 positions covered in a separate Community Development fund supported by federal and state grants. The headcount below includes employees in both funds.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	47	49	48	47	49	52
Filled	46	46	43	45	42	N/A

In 2014 the City added new positions (e.g. Open Space Specialist, Arts and Culture Specialist, Community Affairs Manager) and eliminated others (Secretary of Neighborhood Initiatives, Weed and Seed Site Coordinator). The net result was an increase of three budgeted positions.

Commission on Human Relations

The Commission on Human Relations is charged with enforcing City Code Title VI, Article V, Chapters 651-659 and, as such, receives, investigates and adjudicates complaints of unlawful discrimination in employment, housing and places of public accommodations within City limits. In addition, the Commission investigates and resolves conflicts within the community that negatively influence inter-group relations and provides information regarding the City Code to the community through education and outreach programming.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	8	8	8	8	8	8
Filled	7	7	6	7	7	N/A

Office of Municipal Investigation

The Office of Municipal Investigation (OMI) is responsible for the investigation of citizen complaints of civil or criminal misconduct by City government employees. The Office also conducts background checks on candidates for public safety positions. OMI acts solely as a neutral fact-finding agent and does not influence or provide disciplinary action recommendations. The Office is staffed by a blend of sworn and civilian investigators, relying on City work rules, union contracts, civil service regulations, City Code, and state laws to define illegal and inappropriate conduct.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	10	10	10	10	10	10
Filled	10	10	8	8	8	N/A

Citizen Police Review Board

The Citizen Police Review Board is responsible for providing independent review of the conduct of the Pittsburgh Bureau of Police. The Board investigates allegations of misconduct and holds public hearings to examine such allegations, reviews current police procedures to ensure safe, professional and effective law enforcement practices and educates the residents of Pittsburgh on rights, responsibilities and police authority.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	7	7	7	7	7	7
Filled	6	6	6	6	6	N/A

Initiatives

AD01.	**Reduce personnel expenses if corresponding external funding ends**	
	Target outcome:	Cost savings
	Five Year Financial Impact:	See below
	Responsible party:	Mayor's Office; Office of Management and Budget

In the 2014 budget, the City added new positions in the Bureau of Neighborhood Empowerment that are currently being funded from external sources to support strategic Administration priorities. The external funding appears as a $233,041 reimbursement (or a negative expenditure) in the salary budget.[1] If the external funding expires during the period covered by this Amended Recovery Plan, the City shall reduce expenditures by a corresponding amount. The City may keep the specific positions associated with this external support and eliminate others so long as the total reduction matches the drop in external funding.

While the impact of this initiative will vary based on if, when and how much of the external funding expires, the projected financial impact shown below assumes expiration of the full reimbursement at the end of 2015.

Projected Financial Impact

2014	2015	2016	2017	2018
0	0	233,000	233,000	233,000

[1] Pittsburgh 2014 Budget. Adopted February 17, 2014. Pages 62-63. The $233,041 corresponds with the salary expenditures for one of two positions (Chief Urban Affairs Officer or Chief Education and Neighborhood Investment Officer) plus two of the following positions: Education and Workforce Development Manager; Small Business and Redevelopment Manager; Non-Profit and Faith Based Manager; and Housing Manager.

Financial Management

Overview

While all units of City government share responsibility for using the City's financial resources efficiently and effectively, three units are focused primarily on financial management – the Department of Finance, the reconstituted Office of Management and Budget and the office of the separately elected City Controller. This chapter briefly describes those units and the City's Enterprise Resource Planning system.

Department of Finance

In early 2014 the City moved some of Finance's responsibilities and staff to a new Office of Management and Budget (OMB). In this new arrangement Finance will generally oversee the revenue-related activities and OMB will oversee expenditure-related activities.

Finance's responsibilities include:

- Billing and collecting most major City taxes including real estate, payroll preparation, local services, amusement and the parking taxes. The Department also manages delinquent tax collections, maintains tax records, audits tax accounts and conducts tax-related investigations as necessary.

  The City collects taxes other than the earned income tax on behalf of the Pittsburgh School District. As required by Pennsylvania Act 32 of 2008, a separate external tax collection officer[1] collects earned income tax on behalf of the City, Pittsburgh School District and the Borough of Mount Oliver.

- Collecting and investing all cash generated by other City government departments and staffing cashier windows for conducting service charge and user fee transactions

- Overseeing investment of the City's three pension funds, in cooperation with the Comprehensive Municipal Pension Trust Fund Board

- Issuing new debt and using debt-related proceeds

- Collecting delinquent real estate taxes, acquiring and selling tax-delinquent properties on behalf of the City, School District and Allegheny County and marketing properties for economic development in cooperation with other government and community organizations.

- Working with the City Controller on the City's annual external financial audit.

In 2013 the Department of Finance had 119 full-time positions, including seven in the Three Taxing Bodies Trust Fund and 20 in the Bureau of Procurement, Fleet and Asset Services. The Trust Fund supports the employees who manage real estate for the City, School District and Allegheny County (i.e. the three bodies). The Bureau of Procurement, Fleet and Asset Services performed the responsibilities described by its title and other functions previously housed in the Department of General Services, like energy management.[2]

[1] Jordan Tax Service, Incorporated currently handles EIT collections.

[2] The City eliminated the Department of General Services in 2006.

In 2014 the City moved its budget staff and some positions in the Bureau of Procurement, Fleet and Asset Services positions to the separate OMB described below. The Department of Innovation and Performance (formerly City Information Systems) now handles energy and utility management.

Budgeted Headcount[3]

	2009	2010	2011	2012	2013	2014
Finance (includes Budget until 2014)	95	97	92	92	92	73
Three Taxing Bodies Trust Fund	6	6	6	6	7	10
Procurement, Fleet & Asset Services	22	22	21	20	20	0
Total budgeted	**123**	**125**	**119**	**118**	**119**	**83**

Filled Positions (Includes Part-time/Seasonal)

2009	2010	2011	2012	2013
115	116	111	99	98

Office of Management and Budget

With 24 budgeted positions, OMB will oversee most of the City's expenditure functions, other than debt management, which remains in Finance. OMB prepares the operating and capital budget and monitors the City's compliance with it. The Office also manages procurement and vehicle fleet services, where the City has a contract with an outside organization for vehicle maintenance.

City Controller

Other than the Mayor, the City Controller is the only official who is selected through a Citywide election with four year terms. The Controller's Office is the internal "fiscal watchdog" for monitoring whether the City spends money with accountability, efficiency and effectiveness. The Controller issues financial audits, including the Comprehensive Annual Financial Report (CAFR), and performance audits of City departments and authorities.

While most of the Controller's functions are focused on City expenditures, the Controller also certifies the revenue projections in the City's budget and handles accounting, payroll auditing and bank account reconciliation. Given these responsibilities, the Controller is actively involved in the development, launch and continued use of the new Enterprise Resource Planning (ERP) system that is discussed later in this chapter.

Like Finance, the number of filled positions in the Controller's Office has declined since 2009.

Office Headcount[4]

	2009	2010	2011	2012	2013	2014
Budgeted	58	58	58	54	53	56
Filled	49	47	46	46	45	N/A

[3] In addition to the full-time positions shown here, the City also allocates dollar amounts for part-time employees.

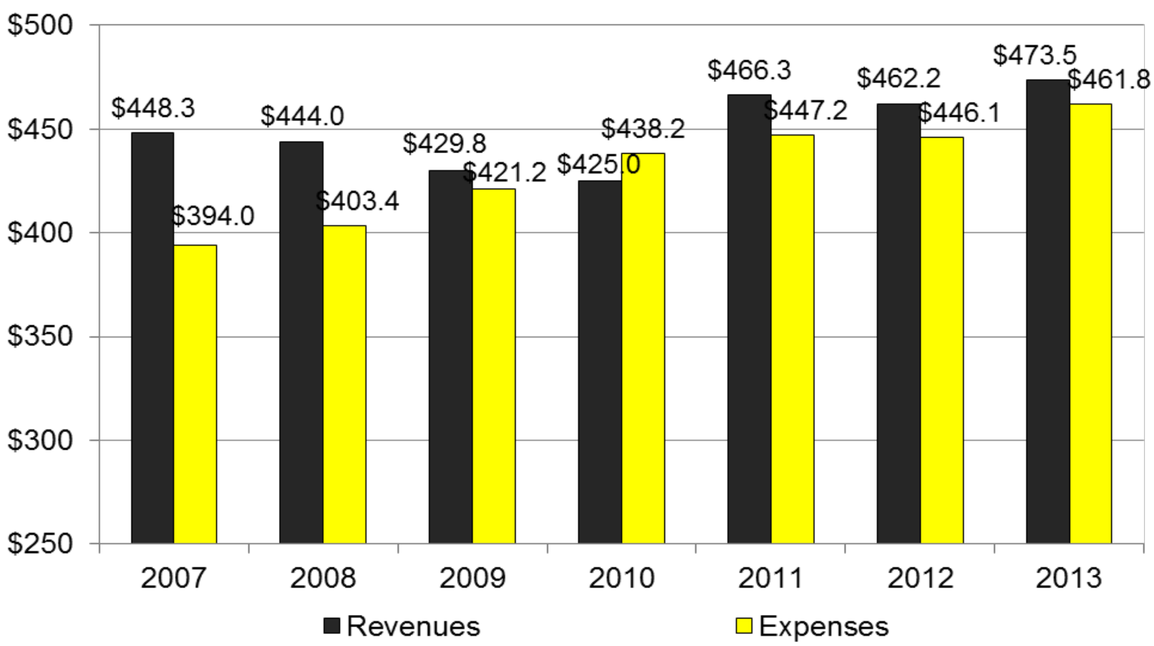
[4] In addition to the full-time positions shown here, the City also allocates dollar amounts for part-time employees.

Assessment

There are several criteria by which to evaluate a City government's financial performance, including changes in its fund balance and reserve levels, trends in important ratios (i.e. debt as a percentage of spending, debt per capita) and reviews by credit rating agencies or external auditors. The financial management efforts undertaken by City staff are just one factor in that evaluation but they are an important factor. From most accounts and by most measures, City government is better at financial management now than it was when the City entered oversight in 2004.

At the budgetary level, the City has lived within its means on an annual basis. It has kept total expenditures in its General Fund below total revenues in every year but 2010, and that operating deficit was largely the byproduct of two unique events.[5] The operating margins were smaller in recent years than in 2007 and 2008, but they are still positive.

General Fund Annual Operating Results ($ Millions)



Source: Unaudited results as presented in the City's quarterly financial and performance reports.

The City's budget should be based on realistic revenue projections that do not exaggerate anticipated revenues to support additional expenditures. The City's actual year-end revenues have finished within 2.6 percent of the total budget target every year but 2010.[6] With allowances for unforeseen, one-time events, the City should spend less than it budgets each year, and it has done so each year but one since 2007.

[5] On the revenue side, the City received $7.3 million in local gaming revenue in early 2011 instead of in 2010. On the expenditure side, with the approval of the ICA and the Act 47 Coordinators, the City used all the money in its debt service reserve fund to boost its pension funding level above 50 percent by the State mandated deadline. The City then had to incur an operating deficit to pay the debt previously scheduled to be covered by the debt service reserve fund.

[6] Please see the prior footnote which explains part of the revenue variance.

Actual-to-Budget Results since 2009 ($ Millions)

	2009	2010	2011	2012	2013
Actual expenditures	$421.2	$438.2	$447.2	$446.1	$461.8
Budgeted expenditures	$438.0	$446.5	$450.0	$468.3	$469.5
% of budget spent	***96.2%***	***98.1%***	***99.4%***	***95.3%***	***98.4%***
Actual revenues	$429.8	$425.0	$466.3	$462.2	$473.5
Budgeted revenues	$441.4	$447.1	$455.1	$458.5	$470.2
% of budget collected	***97.4%***	***95.1%***	***102.5%***	***100.8%***	***100.7%***

Source: Council approved annual budgets and unaudited results as presented in the City's quarterly financial and performance reports. The 2012 revenues do not include $10 million in prior year fund balance.

Another common measure of a city's financial condition is the size of its fund balance, which provides a cushion against unanticipated revenue shortfalls or expenditure increases, and typically allows the city to avoid short-term borrowings for cash flow purposes early in the fiscal year The Government Finance Officers Association (GFOA) best practice policy statement from 2009 states the following:

> GFOA recommends, at a minimum, that general purpose governments, regardless of size maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[7]

The two-month minimum threshold (or 16.7 percent) is higher than the minimum amount established in the 2009 Amended Recovery Plan (5 percent of annual revenues). The table below shows the City's unrestricted fund balance since 2009, with the City reaching the GFOA threshold in 2012.

Unreserved General Fund Balance[8] ($ Millions)

	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13
Unreserved GF balance	$55.4	$42.6	$63.0	$84.4	$85.7
Total GF revenues	$437.5	$434.8	$489.3	$477.2	$482.7
% of GF revenues	**12.7%**	**9.8%**	**12.9%**	**17.7%**	**17.7%**

The credit rating agencies that review and monitor the City's ability to repay debt also have an improving view of the City's financial management capacity. In early 2012 Moody's Investors Service wrote, "The A1 rating reflects the city's relatively stable financial performance over the past six years, reflecting strong management that has produced surpluses in five of the last six years."[9]

Earlier this year Standard and Poor's rated the City's financial practices as "good" using its Financial Management Assessment (FMA) methodology. The ratings report explains:

[7] The GFOA applies the two-month threshold to revenues or expenditures, including transfers, depending on which is more predictable. Pittsburgh's revenues are more predictable and less subject to one-time transactions (e.g. transfers to pay-go capital funding). So the remainder of the fund balance discussion is indexed to the City's revenues.

[8] This table presents final, audited figures from the City's Comprehensive Annual Financial Reports. Other tables throughout this Plan use unaudited figures from the City's quarterly reports, which provide more helpful detail. Starting in 2011, Pittsburgh changed how it reports fund balance in accordance with the Government Accounting Standards Board Statement No. 54. The chart shows unreserved fund balance for 2009 and 2010 and the combination of unassigned and assigned (i.e. encumbered) fund balance in 2011 and 2012. Unrestricted fund balance generally refers to the combination of unassigned, assigned and committed fund balances.

[9] Moody's Investors Service. January 19, 2012

> We view Pittsburgh's management conditions as strong, supported by "good" financial management policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Under the oversight of the Intergovernmental Cooperation Authority, a special administrative body created by the commonwealth to oversee the city's finances, and Act 47, Pittsburgh implemented a number of financial practices we believe improved its financial management.[10]

The City has taken steps to "formalize" its financial practices in the form of policies that guide the City's use of debt and creation of a capital improvement plan.

With support from the Recovery Coordinator and the ICA, City Council adopted and the Mayor signed an ordinance enacting an official debt policy in 2011.[11] The ordinance requires, among other actions, that the City contract with an independent financial advisor, issue debt only for capital projects that are included in the capital program, limit the use of tax revenue anticipation notes, limit its tax supported debt service to 17 percent of General Fund revenues and establish a 10 year goal of reducing the ratio to 12 percent. In addition, the ordinance prohibits the City from issuing debt with derivative products. The ordinance acknowledges that the foundation of a well-managed debt program is a "comprehensive debt management policy that exists to establish parameters and provide guidance governing the issuance, management and evaluation of debt obligations."

With support from the Act 47 Coordinator and the ICA, City Council enacted and the Mayor signed an ordinance in 2012 to establish a formal process for developing a capital improvement plan and budget.[12] The ordinance set a definition for "capital projects", established an interdepartmental committee to evaluate project proposals and recommend project funding amounts, and provided Council and City residents an expanded opportunity to participate in the process. Under the new ordinance, each year the Mayor must declare his capital priorities in May, each department must submit its proposed projects to the Office of Management and Budget by June, the interdepartmental committee must submit its recommendations to the Mayor by the end of August, and two public meetings must be held to allow residents to comment on the multiyear plan. In addition, the City had to appoint a Capital Improvement Manager, and the capital project accounting had to be established in the ERP system by the end of 2012.
Adopting formal policies that improve how the City manages debt and prioritizes capital improvements was another important step forward. The next challenge is to use those policies to advise actual debt issuance decisions and improve capital project planning and execution. Please see the separate chapters on Debt Service and Capital Improvements that address those challenges in more detail.

Challenges

The biggest anticipated challenge related to financial management over the next five years will be maintaining the progress described earlier in this chapter in the face of the pressures outlined in the Plan introduction. While the reader should pay particular attention to the Introduction, the challenge can be summarized as this: the City has to maintain an adequate fund balance and keep annual expenditures within annual revenues while increasing its contribution to the employee pension fund and spending more on its infrastructure needs. Initiatives FM01. FM02 and FM03 address these overarching challenges more specifically.

Two other financial management challenges have mostly been addressed under the ICA's oversight -- implementation of a comprehensive Enterprise Resource Planning (ERP) system and improving cash management procedures.

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[10] Standard and Poor's Ratings Service, February 3, 2014

[11] Ordinance 29-2011 of December 12.

[12] Ordinance 2-2012 of February 7.

ERP system implementation

An ERP system is computer software that organizes and manages the information and activities of the City's financial, accounting, payroll and human resource functions. When fully implemented, Pittsburgh's ERP will store sensitive employee compensation information; enable the City to more efficiently complete transactions such as payroll, procurement and grant reimbursement; provide quicker access to the information the City needs to monitor its fiscal health; and support required critical accounting functions.

In 2004, the original Recovery Plan identified the need for the City to upgrade and integrate the patchwork of systems then in place. Reflecting the joint priorities of the Act 47 Coordinator and the ICA, the 2009 Amended Recovery Plan acknowledged the ongoing dialogue between the City and County regarding a joint ERP purchase and installation and recommended that the City migrate its ERP functions to the County platform. A successful merger of the City and County systems was expected to provide an excellent base from which additional shared services, for information technology or other areas, could be developed over time. By January 2012, the City went live on the new JD Edwards system and has since used the system for accounting and financial management functions, like maintaining its general ledger and producing its quarterly reports. The City and Allegheny County have also established a Shared Services Center to share software, hardware and technical support.

The next step is to move the City's payroll functions that are currently handled by an external organization to the new City-County system. During the Recovery Coordinators' interview process, there were conflicting reports on whether the City was ready to move payroll onto the County's system. At the time of Recovery Plan release, the Administration was seeking external support from a new vendor to help manage the move.

Other activities also need to be integrated into the JD Edwards system. For example, the City uses a separate system (Quadrant) to manage cash transactions and that system is reportedly incompatible with JD Edwards.[13] The City Planning Department also has its own system (Accela) for managing certain transactions.

An important longer term objective is to change the accounting and budgeting procedures so that certain costs, like employee health insurance or vehicle fuel, are charged to the departments that incur the costs, instead of centrally budgeting them within one department. This will make it easier to track the full cost of providing certain services and advise resource allocation decisions.

Cash management

In 2012 the ICA contracted with the Certified Public Accountant and consulting firm Gleason and Associates, PC to review the City's cash management practices, procedures and policies. As of December 2013, Gleason had completed its review of the City Finance, Parks and Recreation, Public Works and Planning departments and the Bureau of Building Inspection.

Gleason found basic internal controls in all departments and did not find any instances of fraud or misappropriation of cash. But the CPA firm did note that some controls "should be enhanced to minimize the risk of fraud." Recommendations include:

- Better physical security to limit access to cash (Parks, Planning);
- More timely deposits of cash (Parks, Planning, Public Works);
- More restrictions on how checks are endorsed (BBI, Parks, Planning, Public Works);

[13] Gleason and Associates, PC; Review of City of Pittsburgh Cash Management Practices – Department of Finance; December 27, 2013

- Limiting the number of places where cash payments are accepted (Parks);
- Allowing credit or debit card payments (Parks, Planning, Public Works);
- Eliminating non-City bank accounts (Parks);
- Improved segregation of duties (BBI, Parks, Public Works); and
- Better written documentation of cash management policies and procedures (BBI, Finance, Parks, Planning).

In December 2013 City Council passed and Mayor Ravenstahl approved an ordinance addressing some of these same issues. The ordinance clarifies that the City's cash management policy shall include "departmental specific policies, procedures and internal controls over cash, including, requirements for timely deposits."[14]

The ICA's review was prompted in part by a federal investigation of the Bureau of Police's Special Events office. Outside entities employ off duty Pittsburgh police officers to provide security at their events and then pay for this additional coverage. The Bureau of Police manages these "secondary employment" details and the City receives an administrative fee for doing so. After it was discovered that money from secondary employment details was routed to a separate bank account outside the City's control and fund structure, the FBI began an investigation of how this money was handled.

Initiatives

FM01.	**Maintain fund balance**	
	Target outcome:	Maintain financial stability
	Five Year Financial Impact:	See below
	Responsible party:	Finance, OMB

For several reasons, the City needs to maintain an unassigned General Fund balance. The balance helps the City pay its obligations early in the year before tax revenues arrive, without having to issue Tax Revenue Anticipation Notes and paying interest for the borrowed money. It provides a buffer against unexpected revenue shortfalls or unbudgeted expenditures. Fund balance level is one of the criteria used to set the City's credit rating, which directly impacts the interest rates the City pays when it issues debt.

Therefore the City shall continue to maintain an unassigned General Fund balance of at least 10 percent of annual General Fund revenues. The unassigned fund balance excludes money that is restricted, committed or assigned to specific purposes, as determined by the City's external auditor. If the City falls below the 10 percent threshold, it shall include corrective actions to restore fund balance to that level in the subsequent year's budget.

This 10 percent threshold is lower than the GFOA recommended threshold of "no less than two months of regular general fund operating revenues or regular general fund operating expenditures," or 16.7 percent. The Act 47 Coordinator recognizes the City's success in achieving this threshold in 2012 and maintaining it through December 2013, and affirms the value

[14] City Council Ordinance 2013-1910.

of maintaining this level of fund balance as a best practice and long term goal. However, the Coordinator is also aware that it will be difficult for the City to maintain fund balance at this level while significantly increasing its contribution to the employee pension fund and making more regular investments in its infrastructure needs.

The 10 percent threshold is a **minimum level,** intended to meet the City's short-term cash flow needs and provide some contingency against unexpected financial results. The ICA may impose a higher threshold for a minimum fund balance and require the City to comply with that threshold in its annual budget and multi-year plan submissions to the ICA.

With all Amended Recovery Plan initiatives implemented, the Act 47 Coordinator projects that the City will maintain its fund balance at the 10 percent threshold required by this initiative.

	2015	2016	2017	2018
Projected fund balance	60,536,000	59,357,000	60,047,000	61,278,000
Projected total GF revenues	501,189,000	511,865,000	523,151,000	535,198,000
% of GF revenues	**12.1%**	**11.6%**	**11.5%**	**11.4%**

FM02.	**Non-personnel operating expenditure reduction**	
	Target outcome:	Reduced costs; operational efficiency
	Five Year Financial Impact:	$11.8 million
	Responsible party:	OMB; various departments

The City's 2014 budget allocates close to $50 million for operating expenses that are not directly related to its employees. This covers the cost of utilities, supplies, vehicles, equipment, court fees, and services provided by outside contractors. The City has closely managed its spending on these items and has spent less than budgeted each year since 2009.

Non-Personnel Operating Costs

Year	Budget	Actual	Savings ($)	Savings (%)
2013	48,775,114	46,245,907	2,529,207	5.5%
2012	48,812,705	44,263,945	4,548,760	10.3%
2011	45,325,052	39,680,298	5,644,754	14.2%
2010	41,414,982	36,865,394	4,549,588	12.3%
2009	44,175,957	37,253,371	6,922,586	18.6%

Source: Figures shown here come from the City's fourth quarter financial and performance reports

Given this performance and the need to keep City spending levels within the amounts supported by available revenues, the City shall reduce its spending in these areas by 5.0 percent below the baseline projection for 2015 – 2018. The City can comply with this initiative by reducing its total spending on non-personnel operating costs.[15] It does not need to apply a five percent across-the-board cut to every category or department so long as the total savings target is achieved.

This reduction target is close to the savings level achieved in 2013 and lower than the levels achieved before that in recognition that the City may need to spend more on certain items than it did in prior years to support other priorities in this Amended Recovery Plan. For example, the City may determine that it needs to maintain or even slightly increase spending on property maintenance to prevent the further deterioration of its infrastructure. Grouping those expenses together gives the City flexibility to achieve this savings target without doing an across-the-board reduction.

The estimated financial impact of this initiative is shown below. Given the City's success in controlling costs in prior years, the calculation assumes the City will achieve 50 percent of the savings target in 2014.

Projected Financial Impact

2014	2015	2016	2017	2018
1,268,000	2,573,000	2,612,000	2,664,000	2,717,000

FM03.	**Direct windfall proceeds to Amended Recovery Plan priorities**	
	Target outcome:	Maintain fiscal stability; increase pension funding levels; preserve City infrastructure
	Five Year Financial Impact:	See below
	Responsible party:	Mayor, Finance, Office of Management and Budget, City Council

During the period covered by this Amended Recovery Plan, the City may benefit from financial windfalls – unexpected, significant, short-term increases in revenues or reductions in expenditures above budgeted or projected levels. By their nature, these windfalls cannot be predicted, but they have happened before. For example, in 2011 the City received an unanticipated $11.5 million increase in Commonwealth pension aid because a change in Commonwealth law generated a one-time increase. The ICA required the City to use a portion of that windfall as an additional contribution to the employee pension fund.

With the guidance of the Act 47 Recovery Coordinator, and subject to the direction of the ICA, the City shall use any financial windfalls for one of the following priorities, if not needed to address an unexpected significant short-term decrease in revenues or increase in expenditures within the same year:

- Funding capital projects as defined by the City's Capital Budget Ordinance and identified through the process described in that Ordinance.[16]
- Making a contribution to the employee pension fund above the levels required in the Amended Recovery Plan.[17]

[15] Using the accounting subclasses in the 2014 budget, this applies to Professional and Technical Services, Property Services, Other Services, Supplies, Property and Miscellaneous.

[16] Please see the Capital Improvement chapter for more information.

- Building fund balance to the target level set by the ICA during the annual budget process.

For the purposes of this initiative, a financial windfall is defined as a positive change in an individual budget line of at least $5 million[18] relative to the levels budgeted for the current year with reasonable expectation that the change will not recur in the next five years.

FM04.	**Cash management improvements**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Finance; Controller; various departments

Under the ICA's direction, the City shall improve its cash management policies, practices and procedures to address the recommendations in Gleason's reports issued as of December 31, 2013. City officials should start by preparing a written document outlining the corrective actions they have taken or will take in response to Gleason's findings, similar to how many municipalities issue formal written responses to an external auditor's findings. That response should be jointly written by the City Department of Finance, Controller and the relevant departments to ensure the necessary communication and coordination for successfully implementing corrective actions.

While the ICA can provide further guidance on any timetables or deadlines for the City to act, the Act 47 Coordinator recommends that the City focus first on completing the written department specific policies recommended by Gleason and required by the City ordinance passed in 2013, and then move to changes that can be implemented quickly and at a low cost. Other changes that require significant investment of time or money, like potentially integrating BBI's Accela system with the City's ERP, will have to be prioritized in light of the City's other commitments and planning processes.

FM05.	**Transparent budget practices**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Finance; Office of Management and Budget; Controller

Since the City entered Commonwealth oversight in 2004, it has made its budget and financial documents more intelligible to citizens and interested parties. To guide further improvement, the ICA shall give the City direction on required changes to the City's budget document by July 30 of each year and the City shall incorporate those changes in the budget document submitted to the ICA each September.

[17] Please see initiative WF02 in the Workforce Chapter for more information on the Amended Recovery Plan's required level of pension contributions.

[18] A positive change means revenues are at least $5 million higher than budgeted or expenditures are at least $5 million lower than budgeted. The $5 million threshold is approximately 1 percent of the City's General Fund budget.

Possible changes include, but are not limited to:

- Abstaining from the past practice of netting payments for service or reimbursements against related expenditures, and instead showing both revenues and expenditures in the budget and financial reports. As a positive example of the City's progress to date, the budget shows the annual state pension aid payment as revenue and the City's pension payments as an expenditure, rather than showing the net expenditure.

- Showing more detail in financial and budgetary documents where that information guides management decisions and enhances oversight of the City's financial condition. For example, it may be useful to show the City's debt service payments on each bond in the multi-year projections, rather than grouping all debt service together in one line.

- Allocating fringe benefit and other costs to departments as soon as the ERP is capable of making such allocations.

- Clearly identifying transfers among "trust funds" and the General Fund or other City funds.

- Limiting to the maximum extent possible "off budget" accounts and funds, including the use of trust funds.

- Resuming the consensus revenue estimating process that brought together Administration, City Council, Controller and oversight personnel to set annual revenue levels in advance of the September budget submission to the ICA.

In addition to providing direction on the budget's structure and content, the ICA has approved prior City budgets under the conditions that the City must make progress on specific priorities, such as ERP implementation, establishing an OPEB trust fund and reaching an agreement with the tax exempt non-governmental institutions. Those conditions remain in effect subject to the ICA's modification.

FM06.	**Coordinated response to independent audit findings**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Controller; Finance

The 2009 Amended Recovery Plan noted that the City does not have a formal process for addressing comments made by the City's independent auditors. Over the years, annual audit reports have repeatedly contained the same comments on the same issues. The City should provide written responses for all comments in the annual audit, including whether a City department agrees (and why), the plan for addressing the issue and the time frame for doing so.

To ensure that the City is collaboratively addressing the identified flaws in its financial management, the Controller and Finance Director need to create a formal policy and procedure for responding to the findings of an independent auditor. The goal is to fix the procedural problems, improve the City's financial reporting, and optimize the City's standard operating procedures.

The Controller's Office and the Department of Finance shall develop a formal process for responding to findings and recommendations from the independent audits. The Controller's Office is the logical coordinator for this effort, though Finance will have to be involved in the response. Once the process is in place for responding to external audits, it should be expanded with modification for responding to internal audits where the City Controller makes the findings and the Administration should respond.

Department of Innovation and Performance

The Department of Innovation and Performance – which was formerly called City Information Systems (CIS) -- provides and maintains all software, hardware, computers and mobile, telecommunications and networking systems for the City. The Department is responsible for ensuring consistent functionality of all technology, keeping pace and setting direction regarding changes in technology needs and standards, providing City employees with on-demand technology help, and supporting City employees in their efforts to implement new technology to deliver City services. The Department is divided into ten units with responsibilities as follows:

- The **Administration** unit is responsible for general clerical, accounting, contract and inventory management functions including the procurement of hardware, software, and maintenance and license agreements.
- The **Client Support** unit provides direct support to City staff interacting with any of the City's technology.
- The **Network Administration** unit is responsible for setting up and maintaining the City's computer networks.
- The **Website Development and Maintenance** unit designs and maintains the City's website.
- The **Software Development** unit is responsible for writing, installing and maintaining both commercial and custom-built software.
- The **Public Safety Systems** unit provides information systems and services to the City's police, fire, and EMS operations.
- The **Voice and Data Communications** unit installs and maintains voice and data communication systems throughout the City offices.
- The **Television Production** unit operates City Channel Pittsburgh and the City's government communications channel.
- The **311 Response Center** answers inquiries and processes service requests from city residents.
- The **Utility Management** unit manages the City's energy accounts and develops energy efficiency strategies.

The City increased the number of budgeted positions from 55 to 59 in 2012 when it added Systems Analyst and Systems Programmer positions. The number of filled positions has remained generally constant since 2009.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	56	58	55	59	60	61
Filled	53	55	53	53	53	N/A

Assessment

Innovation and Performance is one of the only departments that regularly interacts with every other department as it must ensure that all City employees have consistent access to functional and current technology. There are different ways to evaluate performance across the broad range of services that this department provides, but one of the most useful is feedback from direct users, in this case, from City employees.

While the Department performs many functions that are not easily visible to the public, the Recovery Coordinator received a lot of feedback from other operating departments on the City's information technology capacity during February and March staff interviews. Several departments cited problems with the reliability of basic technology, such as internet access or voicemail or problems accessing certain reporting systems.[1] Other departments also cited slow responses from the City's IT support staff to requests for help when technology is not functioning properly – delays that impact the completion of work that directly affect the citizens of Pittsburgh.

The Department's management cites two obstacles to responding to these problems. First the Department reports there are only four full-time equivalent positions assigned to the Client Support Unit. If those four employees are the only ones responsible for providing help desk support to all other employees in City government, then the City has one support staff member for every 775 employees.[2] Even if all Department positions with information technology responsibilities are counted,[3] the ratio is approximately 50 to 3,100, or 1.6 percent. According to a 2011 survey, the average percentage of IT full-time equivalents to total employees is 3.6 percent for state and local government.[4]

Second, the Department does not have an accurate inventory of all City technology, which makes it difficult to manage all the hardware and software to prevent problems from occurring or respond to problems when they do occur.

Addressing these problems will help the City better meet day-to-day service demands, but more should be done to improve operational efficiency and quality of service. There are opportunities to provide residents with more access to government services online, needs for better or more integrated operational data management systems and innovative ideas that the Department's own staff is pursuing, like open data management and performance based budgeting.

Under the new administration, the City is restructuring what was City Information Systems to achieve a more innovative approach to managing and leveraging the City's technology. As the department looks ahead to these strategic changes, it must also ensure that it is meeting the basic needs of the City's employees.

[1] Please see the assessment section of the Public Safety chapter for specific examples.

[2] This uses an estimate of 3,100 City employees.

[3] For this purpose we are removing the 12 positions assigned to the 311 response line and three positions related to sustainability and performance improvement. Other positions in the Department also may not have significant IT responsibilities.

[4] Gartner IT Key Metrics Data. 2012 IT Enterprise Summary Report.

Initiatives

IT01.	**Increase capacity for client support**	
	Target outcome:	Improved efficiency and quality of service
	Five Year Financial Impact:	N/A
	Responsible party:	Department of Innovation and Performance

Department staff noted that they struggle to respond to service requests because they only have four full-time equivalents in the Client Support Unit. Given the competing demands on the City's limited resources, it will be difficult for the City to add more positions to this unit without reducing positions elsewhere in City government. Looking just at the Department's staffing levels, the Department should consider whether it has allocated an adequate portion of its total staff to client support relative to other activities, like the television production unit or the 311 response center.

The Department may be able to cross-train employees to handle some service requests, even if others require a specialized level of technical expertise. A cross-trained department provides nimbleness that can significantly improve resource allocation and efficiency. This would be particularly helpful in catching up with backlogged requests and on days when employees in the Client Support Unit are absent.

As part of the City's 2015 budget process, managers in the Department of Innovation and Performance shall include a written plan for increasing capacity to respond to service requests, including a report on the current response times and performance goals for improved response times.

IT02.	**Produce an accurate inventory of technology assets**	
	Target outcome:	Improved condition of capital assets; improved efficiency
	Five Year Financial Impact:	N/A
	Responsible party:	Department of Innovation and Performance; Office of Management and Budget

Just as the City does not have a complete list of all its capital assets,[5] it does not have a list of its technology assets, including software that requires security updates, upgrades or license renewals. As part of the 2015 Capital Budget process, the Department shall produce an accurate inventory of these assets, including notations on their replacement cycle where applicable. Assets that meet the City's definition of capital eligibility shall be included in the capital program development process. Eventually the Department should use this asset inventory to develop a preventative maintenance and life cycle replacement plan.

[5] Please see the Capital Program chapter for more information on this issue.

Public Safety

The City's Department of Public Safety contains the two largest units in City government, the Pittsburgh Bureau of Police (1,091 budgeted positions in 2014) and the Pittsburgh Bureau of Fire (674 budgeted positions). Along with the Bureau of Emergency Medical Services (180 budgeted positions), these bureaus provide traditional public safety services for City residents and visitors including police patrol, criminal investigations, fire suppression, fire prevention and Advanced Life Support. These three bureaus have regularly scheduled shifts every hour of every day.

While the Bureau of Animal Care and Control is much smaller (16 budgeted positions), it also responds to calls for service on a 24-hour, 7-days a week basis. The Department also contains the City's Bureau of Building Inspections (BBI), which regulates the construction, demolition and occupancy of all City buildings and structures (76 budgeted positions).

Four of the five bureaus are led by Bureau Chiefs. Those chiefs and the Supervisor for Animal Care and Control report to the City's Public Safety Director who has a separate, small administrative unit (23 budgeted positions).

This section briefly outlines the responsibilities and staffing structure for these six bureaus, describes some of their financial and performance management challenges, and offers recommendations to address those challenges.

Public Safety Administration

This Bureau is responsible for improving community and first responder safety through training, technology, fleet upgrades and increased community visibility.

It houses the Director and associated staff, and the Office of Emergency Management and Homeland Security. Emergency Management's responsibilities include developing citywide plans for responding to natural or man-made disasters; managing the programs and assets from the US Department of Homeland Security, Pennsylvania Emergency Medical Agency (PEMA) and the Region 13 Counter-terrorism Task Force; and coordinating implementation of the National Incident Management System (NIMS).

The Department had a consistent headcount before adding six positions in 2014, including a Public Information Officer position previously assigned to the Bureau of Police.

Public Safety Administration Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	15	17	17	17	17	23
Filled	16	17	15	17	16	N/A

Animal Care and Control

The Bureau of Animal Care and Control responds to situations involving domestic animals and wildlife including the following activities:

- Public education for responsible pet ownership; managing the spay and neuter program; and issuing dog licenses;

- Responding to nuisance animal requests; removing dead animals from private and public property; and controlling the stray and wild animal population; and

- Enforcing the Dangerous Dog Law; assisting the Pennsylvania Game Commission with rabies virus tracking; and issuing citations and making court appearances.

The City currently contracts with an external provider for the detention and euthanasia of domestic animals. Wildlife euthanasia is performed by a separate veterinarian with whom the Bureau has contracted. Private contractors also handle rodent control.

The Bureau has had consistent budgeted staffing levels since 2009. The 2014 budget funds the Bureau Supervisor, Assistant Supervisor, a clerical specialist and 13 field positions, including a truck driver. As of February 2014, the Assistant Supervisor position was vacant, so the Supervisor was handling most managerial tasks with limited support.

Animal Care and Control Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	16	16	16	16	16	16
Filled	16	15	14	14	15	N/A

Building Inspections

The Bureau of Building Inspections (BBI) regulates the construction, demolition and occupancy of all City buildings and structures. The Bureau also reviews, approves and issues all permits required by code for the repair, alteration or additions to all public and private buildings and structures, as well as permits for new construction. The Bureau has three divisions.

- The **Construction and Engineering Division** is responsible for reviewing building and construction plans and issuing permits for all phases of construction including building, electrical, mechanical, occupancy, fire sprinkler and fire alarm permits.

- The **Code Enforcement Division** enforces the City's Property Maintenance Code through in-field inspections of buildings and structures and issuing violation notices. The Code Enforcement Division is also responsible for enforcing the Business Licensing Code which requires that businesses pay licensing fees to the City for a variety of business-related activities.

- The **Condemnation and Demolition Division** is responsible for condemning unsafe and structurally unsound buildings and monitoring condemned buildings for improvement or demolition. The Bureau employs private contractors to demolish buildings that are safety hazards and City-owned buildings that are unsafe, deemed unmarketable or cannot be repaired.

Construction in the City of Pittsburgh is regulated by the Commonwealth of Pennsylvania's statewide building code, generally known as the Uniform Construction Code (UCC) and all UCC certified inspectors within the Bureau's divisions are required to enforce this code.

BBI's full-time budgeted staff has remained stable, as have the number of filled positions since 2009. The Bureau has had nine to eleven vacant full-time positions for much of the last five years, though the specific vacancies have varied over that period. In the upcoming fiscal year, BBI plans to hire four additional electrical inspectors to replace recent retirees and bring staffing levels up to the budgeted amount.

BBI Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	74	75	75	75	76	76
Filled	65	65	64	65	65	N/A

In 2008, the Intergovernmental Cooperation Authority (ICA) funded a Bureau operational study performed by the TriData Division of the operations consulting firm System Planning Corporation. The report highlighted issues surrounding the Bureau's organizational structure and supervisory protocols (chain of command), lack of certifications among inspectors, and a deficient computer-based code enforcement system. As discussed later in this chapter, the City has increased the number of staff certifications but other challenges remain.

Emergency Medical Services

The Bureau of Emergency Medical Services (EMS) is dedicated to the reduction of morbidity and mortality of residents and visitors through the provision of Advanced Life Support (ALS) pre-hospital care, medically directed Technical Rescue and transportation of the ill and injured.

The Bureau has four divisions:

- The **Ambulance Division** is responsible for providing pre-hospital emergency medical care to the sick and injured.

- The **Rescue Division** manages and delivers medically directed technical, tactical and heavy rescue. It has the following units:

    - The *Hazardous Material Unit* is jointly operated with the Bureau of Fire and responds to potentially hazardous material investigation calls throughout the City. It consists of 38 paramedics and 45 firefighters.

    - The *Heavy Rescue Unit* is staffed with a minimum of four paramedics at all times and operates two rescue vehicles to respond to mass casualty incidents, trench/confined space incidents, and elevator entrapments.

    - The *River Rescue Unit* is jointly operated by the Bureau of EMS SCUBA Search and Rescue Team and the Bureau of Police River Patrol. It is responsible for surface and subsurface water rescue and for administering ALS emergency medical care to victims until a medic unit arrives to provide additional treatment. It is staffed with 25 Certified Master EMS Divers and 22 police officers.

- The **Special Operations Division** provides emergency medical services for special and large-scale events.

- The **Training Division** ensures the Bureau meets paramedic and EMT certification requirements and provides permanent Child Passenger Safety Seat Fitting services.

The Bureau's budgeted positions have remained consistent, with small fluctuations in the number of filled positions. Although there were eight vacancies in 2013, the Bureau is in the process of filling the vacancies.

EMS Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	180	181	180	180	180	180
Filled	182	178	176	175	172	N/A

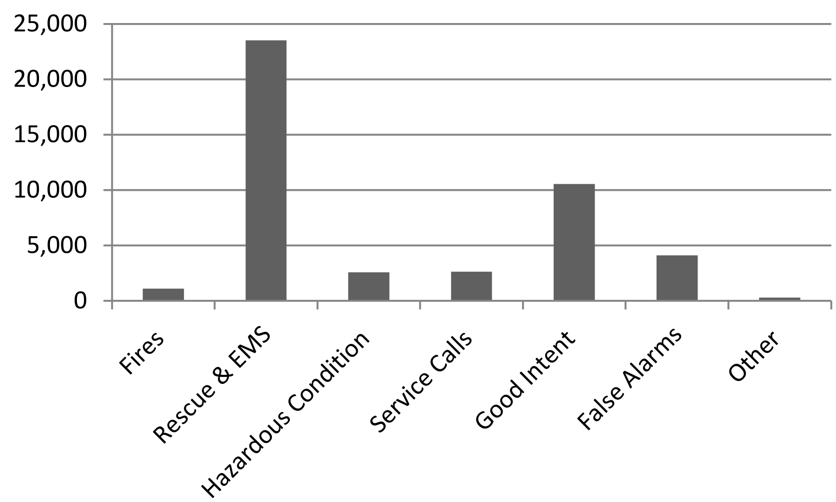
Fire

The Bureau of Fire's mission is to protect life, property and the environment through fire suppression, first responder medical service, hazardous materials mitigation, emergency management service and domestic preparedness. The Bureau provides these services throughout the City and the Borough of Wilkinsburg.

The Bureau of Fire is divided into four battalions deployed regionally and consisting of 30 fire stations, including one in Wilkinsburg; 25 engines; 11 trucks and three quint truck companies; and one mobile air compressor (MAC) unit.

In 2013, the Bureau responded to 44,746 calls for service, 52.5 percent of which were calls for emergency medical services or rescue related incidents. The second most common type of call was "good intent" calls[1] at 23.6 percent. Fires accounted for 1,089 calls or just 2.4 percent of the total calls in 2013. The Fire Bureau also responds to calls for gas main rupture/explosions and severe weather emergencies.

Bureau of Fire Call Distribution



The 2014 budget funds 674 positions with 667 firefighters and seven civilians. The City added 15 firefighters in the 2011 budget and has stayed close to that budgeted level since, though the number of filled positions is consistently less than 674.

Fire Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	660	660	675	674	674	674
Filled	640	623	624	603	624	N/A

[1] These are calls that were cancelled en route, calls where the location was wrong, or calls that did not require service upon investigation.

Police

The Bureau of Police patrols over 58 square miles of land and water area and investigates crimes using three branches:

- **Administration** includes the Police Training Academy; Personnel and Finance; Planning, Intelligence, Support Services, Research and Special Events; Support Services; and School Crossing Guards.

- **Operations** personnel are deployed throughout six geographic zones (police zones). The Special Deployment Division includes Traffic, Special Emergency Response Team (SERT), Street Response Unit (SRU), Collision Investigation Unit, Explosives Ordinance Disposal team, and the staff at the Tow Pound.

- **Investigations** personnel focus on solving crimes against persons and property. This branch includes the Office of Family Violence and Missing Persons; Narcotics and Vice; and the Major Crimes, Narcotic/Vice and Firearms Tracking Units.

The 2014 budget funds 1,091 positions with 892 police officers, 134 school crossing guards and 65 civilians. The budgeted headcount has been level since the City cut 26 positions (25 officers and one civilian) in the 2011 budget.

Police Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	1,116	1,116	1,090	1,092	1,092	1,091
Filled[2]	1,078	1,085	1,055	1,049	1,044	N/A

Progress and challenges

The Coordinator met with Public Safety bureau leaders to discuss the bureaus' recent achievements and current challenges. The Coordinator's review focused on administrative and financial management issues – how the City manages its workforce, measures performance and allocates resources – as opposed to the intricate operational details associated with delivering high quality public safety services.

Since the City passed the first Amended Recovery Plan in 2009, it has made progress in staff training and certification, which was a Recovery Plan priority for the Bureau of Building Inspections. The Bureau of EMS continues its involvement in advanced research, and the Bureau of Fire has increased employee certifications and raised its Insurance Services Office (ISO) rating.

Like other City departments, Public Safety has challenges related to technology and infrastructure, specifically the buildings and vehicles designated for public safety use. While those issues are noted here, the Plan has separate chapters for Capital Improvement and technology managed by the Department of Performance and Innovation (formerly City Information Systems).

Employee training and certification

The 2009 Amended Recovery Plan identified BBI employee training and certification as a high priority. The Commonwealth's Uniform Construction Code (UCC) requires that code inspectors obtain certification for the categories in which they perform inspections. As of January 2009, the City only had one employee

[2] Filled positions include all sworn and civilian personnel, including school crossing guards.

certified to work as building plans examiner, electrical plans examiner and residential mechanical inspector.

With the training support from the Pennsylvania Department of Community and Economic Development (DCED) and adjustments to the City's employment policies (i.e. making certifications a condition of employment) the City has made progress in addressing this deficiency. As of April 2014, the City had 10 more certified building inspectors, 13 more certified accessibility inspector/plans examiners, nine more energy inspectors and four more fire inspectors. The table below shows the City's progress relative to the certification levels shown in the 2009 Amended Recovery Plan.

UCC Certification Category	January 2009	May 2014
Building Inspector	20	30
Accessibility Inspector / Plans Examiner	2	15
Asbestos Inspector[3]	3	4
Building Plans Examiner	1	7
Electrical Inspector	7	6
Electrical Plans Examiner	1	2
Energy Inspector	2	11
Fire Inspector	2	6
Mechanical Inspector	2	4
Property Maintenance[4]	5	9
Residential Mechanical Inspector	1	1
Energy Plans Examiner	N/A	3
Mechanical Plans Examiner	N/A	2
Residential Building Inspector	N/A	4
Building Code Official	N/A	7

As a result of these changes, BBI has reduced its back log and improved its turnaround time, though further work is still needed.

The Bureau of Fire has also made progress in employee certifications. In 2010 the Bureau was officially designated a 100 percent certified department by the Office of the State Fire Commissioner, meaning all members have a minimum certification of Firefighter II, demonstrating a higher competency in fire safety and firefighting.

In 2013, most of the Bureau of Fire company officers were certified as fire inspectors at the Inspector 1 level. The costs associated with this process were paid for through a Federal Emergency Management Agency (FEMA) Assistance to Firefighters grant. This designation is a mark of professional recognition among the fire service community.

Prevention and other proactive strategies

As the national EMS community focuses on prevention, the City Bureau of EMS is concentrating on their Community Outreach Program and Education (COPE). This program focuses on deterring the need for

[3] Asbestos Inspector certification is an Alleghany County certification requirement and not part of the Commonwealth UCC enforcement.

[4] Property Maintenance certification is an International Code Council (ICC) certification that is required for local property maintenance inspectors and enforcement, and not part of the Commonwealth UCC enforcement.

emergency medical response through patient education, medical screenings and resident CPR training. The goal is to prevent emergencies from occurring in the first place and to train the public to assist in the case of cardiac arrest.

As part of its focus on intergovernmental cooperation, the Congress of Neighboring Communities (CONNECT) is working on managing growth in EMS needs by reducing the number of patients who call 9-1-1 repeatedly. Using funding from Highmark Blue Cross Blue Shield and the University of Pittsburgh Medical Center (UPMC), in partnership with the Allegheny County EMS Council and the Center for Emergency Medicine of Western Pennsylvania, the Bureau refers patients transported to a hospital repeatedly to CONNECT's program. CONNECT then provides additional medical assessment and makes referrals to various entities that assist in managing the patients' health related issues (chronic or immediate, but not emergent in nature). The program is expected to reduce repeat requests for emergency medical services from program participants.[5]

The Bureaus of EMS and Fire are participating in the Resuscitation Outcomes Consortium (ROC) study. The ROC Study is a network of eleven regional clinical centers and a data coordinating center, conducting experimental and observational studies of out-of-hospital treatments for cardiac arrest, which causes many future disabilities and often results in death. This study will help to identify the pre-hospital treatments and interventions that result in better long-term outcomes for patients. These practices will likely be adopted by emergency medical providers throughout the country.

The Bureau of Fire used a FEMA Fire Prevention and Safety grant to establish its Risk Watch Program. This program incorporates safety, healthy living and prevention content into the academic curriculum for students in kindergarten through sixth grade. Teachers include the content in their daily lesson plans, which is a more efficient way for the Bureau to share prevention and safety information with school children. The Bureau provides materials related to motor vehicle safety, bike and pedestrian safety, water safety and preventing fires, burns, suffocation, poisoning, falls and firearm injuries.

The Bureau of Fire's Insurance Services Office (ISO) rating was recently upgraded from Class 4 to Class 2. The ISO is a for-profit organization that provides statistical information on a community's fire incident risks. This rating is often used as part of a larger calculation for setting fire insurance rates among communities. The Bureau's goal is to achieve a Class 1 rating, to help drive down fire insurance rates and certify a higher level of fire protection capacity.

Technology

While the City's Department of Performance and Innovation (formerly City Information Systems) manages City government's information technology, each of the Public Safety bureaus cited challenges and opportunities related to technology during the Coordinator's review.

Some bureaus cited problems with the reliability of basic technology, such as internet access or voicemail. The Bureau of Fire noted concerns over server space and problems accessing the National Fire Incident Reporting System (NFIRS). NFIRS is a federally directed report that documents all specific actions taken at an incident. When the system is not available, the Bureau records this information by paper and holds it until the system is operational again. Due to the complications in reporting these national statistics, this system should be better maintained and supported.

The City's technical limitations also make it difficult to advance more sophisticated initiatives that would otherwise improve service and increase efficiency. As of February 2014, BBI reported that the mobile computers previously purchased to support field work were inoperable. These computers were intended to improve inspectors' speed and efficiency in receiving, responding to, and reporting code violations in the field by allowing personnel to immediately input service data and research property data in real-time.

[5] Please see the Intergovernmental Cooperation chapter for more information on CONNECT.

Beyond these more visible technical deficiencies, BBI also does not have a single point-of-reference database to manage all information related to properties in the City. Instead BBI uses manual data entry and multiple disconnected databases to record and manage this information. This hinders BBI's ability to manage its workload, measure its productivity, identify and respond to trends or coordinate functions across its own staff and other City departments. Because there is no single database, it will be challenging to create a web-based interface that would support online permitting. If the City can bridge the information within these various databases, then online permitting and wireless field reporting can become reality, making process and performance improvement achievable.

The Bureau of EMS would also benefit from stronger mobile technology. EMS leadership is exploring new ways to collect patient information more quickly and accurately. Using mobile technology in the field to transfer patient information to receiving hospitals or collect billing information would improve the speed and accuracy of those processes. In the medical reimbursement field, proper documentation of medical interventions also leads to better collection rates. The challenge for the City is in finding resources to pay the upfront costs associated with this improvement.

The Bureau of Police has had success moving its technology projects forward in recent years. New systems, such as the electronic ticketing system, enable officers to send information directly from the field to the proper endpoint (the courts in this example) for appropriate follow up. The Bureau has additionally acquired in-car cameras to enhance accountability and assist with training by monitoring officers' interactions with the general public. The Bureau reports this new technology has helped reduce the number of complaints regarding officer behavior.

Despite these improvements, the Bureau of Police has growing concerns about how it will maintain current technology and meet future needs. The Performance Assessment Review System (PARS) and other back-end technology need a maintenance plan to ensure proper ongoing support. Police also need assistance with new technologies that would provide more real-time data management and support operational data-driven decision-making. As described in the next section, that challenge is also true for other public safety bureaus.

Performance measurement and management

Before 2007 the City's quarterly financial reports included input, output and outcome data from a popular performance management program called CitiStat. The City used CitiStat to track budgetary information, staffing levels, activity levels (e.g. number of EMS calls, number of arrests) and performance measures (e.g. response times, time to complete plan reviews). The CitiStat reports were extensive but there were not clear links between the reports and the City's financial decisions. In 2007 the City moved to the Pittsburgh Management and Performance System with similar results – the PittMAPS reports were extensive but it was unclear how they were used to guide operational or financial decisions.

Currently the City uses some performance measurement in different departments, but does not operate on a comprehensive performance management system linked to budgetary expenditures or budgetary decision-making. Although not uncommon, this presents problems in identifying opportunities for investments that will yield improved outcomes.

For instance, various stakeholders, including City Council, have expressed a desire to hire more police officers. But what would those additional police officers yield in terms of lower crime rates or higher case closure rates, and what does that performance improvement cost taxpayers? These are questions that could be better answered by a comprehensive performance management system.

Another example is in the Bureau of Animal Care and Control, which captures information on number and type of calls for service but does not have a system for establishing performance measures or estimating costs for improving results. According to Bureau records, Animal Care and Control fields over 35,000 calls per year, which is equivalent to 96 calls per day. While the Bureau has some information on the different types of services requested, it records that information manually, making it difficult to fully assess the

Bureau's workload in comparison to its staffing or its budget. The Bureau's paper-intensive process for receiving, communicating, tracking and documenting service requests results in lost productivity and makes it more difficult to set performance management goals or track progress toward them in a cost-effective manner.

The Peduto Administration has expressed interest in improving performance management and moving toward "performance based budgeting," where there is an explicit link between the quality of services delivered and the amount funding they receive.

Staffing

The majority of the Public Safety budget goes toward employee compensation. For example, the City budgets $72.3 million for the Bureau of Police in 2014 with $70.2 million (or 97 percent) allocated for employee wages and other compensation. Even at these levels, the budget obscures the size of the City's commitment to employee compensation since all fringe benefit expenditures for public safety employees are budgeted in Finance (pension benefits) and Personnel (active and employee health insurance). The Workforce Chapter discusses compensation costs in more detail.

The level of premium pay[6] usage is often discussed in conjunction with staffing levels. In reality staffing levels are just one factor in the City's premium pay usage, along with environmental issues beyond the City's control (i.e. severe weather), leave time usage, operational decisions made by City and bureau management and provisions in the collective bargaining agreements.

As a whole, the Department of Public Safety[7] has $143 million budgeted for personnel in FY2014. Premium pay makes up 16 percent of the total personnel budget. The Bureau of EMS and Fire have the largest allocations by percentage of total personnel budget at 21 and 23 percent respectively, and Fire is projected to spend the largest dollar amount ($12.8 million) in 2014.

Premium Pay Review

	2012 Actual Premium Pay	2013 Actual Premium Pay	2014 Budget Premium Pay	Total 2014 Personnel Budget	Premium as % of Total 2014 Personnel Budget	Total 2014 Budget
EMS	$3,342,162	$3,558,814	$2,607,836	$12,608,097	21%	$13,269,178
Police	$7,008,842	$8,629,591	$7,296,441	$70,152,852	10%	$72,346,870
Fire	$14,595,817	$17,817,588	$12,780,920	$55,340,312	23%	$56,231,566
Subtotal	$24,946,821	$30,005,993	$22,685,197	$138,101,261	16%	$141,847,614

To manage the root causes of premium pay, the Bureau of EMS should have better methods to track this expenditure. Bureau leaders are anecdotally aware that compensatory, sick, vacation and other leave time drive overtime costs, but there is no systematic way to measure or monitor the extent to which each item triggers the expense.

Recommendations

The original Recovery Plan adopted by the City in 2004 and the Amended Recovery Plan adopted in 2009 had several initiatives requiring changes to improve the impact, efficiency and cost-effectiveness of City government operations. The City implemented many of those initiatives in its public safety units and other

[6] Premium pay includes several types of pay including acting pay, acting pay on overtime, regular overtime, overtime shift differential, special events detail pay, worked holidays, call backs and call outs, court time, Fair Labor Standards Act (FLSA) overtime, reimbursed overtime and all other incentives such as hazmat pay, driving pay, semi-skilled pay and supper pay.

[7] Inclusive of the Public Safety Administration, Animal Care and Control, Building Inspections, EMS, Fire and Police bureaus

parts of City government. Those operational initiatives have been part of the City's successful efforts to balance recurring revenues with recurring expenditures.

In writing this second Amended Recovery Plan, the Coordinator again reviewed the City's operations, but did so with a much higher level of detail than in 2004 or 2009. As noted earlier the Coordinator focused on challenges related to financial and performance management instead of operations. This section outlines the Coordinator's recommendations to address these challenges, some of which were offered by leaders in the public safety bureaus. Most of the recommendations cannot be implemented immediately. Some require staff or funding to be allocated to these functions. Others require new technology investments, processes for coordinating across bureau or department boundaries or a desire to prioritize these projects over other competing needs.

When the Coordinator conducted staff interviews in early 2014, several bureaus had acting chiefs who have since left City employment or new leaders who only recently arrived. Those leaders have not had time yet to communicate their vision and goals for incorporation in this Amended Recovery Plan.

In recognition of the City's financial progress to date and the need to give new City leaders the time to set their own priorities, the Coordinator offers the following recommendations without the requirement that they be implemented to achieve Recovery Plan compliance.

Recommendation 1. Police civilianization

As mentioned in the 2009 Amended Recovery Plan, there continue to be opportunities to reduce Police personnel costs using a different approach to staffing. Setting aside the school crossing guards, the Bureau of Police has 892 police officer positions and 65 civilians. There are sworn officer positions that could be otherwise filled by civilians in areas such as the Mobile Crime Unit, crime analysis, property room management, warrant office administration, firearms tracking, and missing persons administration.

If City leaders want to increase the police presence in its neighborhoods by adding more officers to patrol or criminal investigations, the City should review these areas for opportunities to consolidate administrative or support functions among existing staff and shift the officers handling those functions into the field.

The City can also use civilianization to reduce its personnel expenses, even if the police officers start with a lower base salary than some civilians. For example, a new police officer has a starting base salary of $42,548 in 2014, rising to approximately $65,000 by 2018, assuming annual 2.0 percent base wage increases and annual step increases. In contrast, an employee with the title "Support Services Shift Supervisor" currently has a base salary of $51,055 in 2014 that likely would rise to $55,000 in his or her fourth year, assuming 2.0 percent base wage increases. Despite the lower starting salary, the police officer has a higher base salary within a couple years. Police officers also receive certain kinds of additional compensation, like uniform allowances or holiday pay, which most civilian employees do not receive. For these reasons, the City should identify opportunities to fill existing positions with civilians, even if it waits do so until the police officers currently holding those positions leave City employment or are transferred elsewhere.

Additionally, the City should carefully review any requests for new positions that would be filled by active police officers. Some responsibilities, like patrol, are clearly the purview of active police officers. But others, like cyber-crime investigations, may actually be handled more effectively by a civilian with specialized experience, including retired police officers. Instead of filling the new position with a police officer because it nominally increases the police presence in the community, the City should consider civilian staffing alternatives.

Recommendation 2. **Tracking premium pay usage**

The City budgets $22.7 million for premium pay in the Department of Public Safety, most of which goes toward the Bureaus of Police, Fire and EMS. A large part of premium pay is used to maintain staffing levels and sustain operations when employees are absent, whether the compensation is called acting pay, overtime pay or call back pay.

Managers within each bureau make decisions every day on when to use these types of pay, but with little ability to effectively evaluate trends in usage or the budgetary impact of those decisions. Various leave usage, such as sick or compensatory time, can lead to high costs associated with premium pay, however, current City systems do not easily provide the intelligence needed to develop strategies to reduce or contain these costs. EMS, Fire and Police managers should have access to regular reports regarding the relationship between various types of leave usage and the particular types of premium pay expenditures to mitigate budgetary problems or negative trends.

This may require assistance from the Department of Innovation and Performance to determine whether current information systems can support data analysis to build meaningful tracking reports. If there is not a feasible solution within the current systems, the City could explore other options. Sophisticated programs exist that can work in tandem with back-end administrative and financial systems to provide the additional and essential operational and financial management information for bureau leaders. If a monitoring program is combined with work rule or operational practice adjustments, savings may quickly recover the costs associated with investments in better tracking solutions.

Recommendation 3. **Review fire and EMS deployment**

In 2008 the ICA commissioned operational studies of Pittsburgh's Bureaus of Fire and EMS. In the Fire study, TriData recommended a series of short-term station eliminations, engine relocations, and consolidating two stations into one. Longer-term recommendations include eliminating three engine companies and one truck company. TriData's long-term deployment plan envisioned a smaller Bureau of Fire: "there would be 23 stations requiring an on-duty staff of 143, 16 fewer personnel than in the current arrangement. Operational staffing is reduced from 641 to 572, a reduction of 69 full-time positions."[8] But TriData acknowledged the need to reduce the number of vacant buildings, strengthen fire prevention and education activities and make targeted investments to replace or upgrade facilities.

In the EMS study, TriData found that the Bureau operated an appropriate number of ambulance units, given the population demographics and projected demand for service. TriData also advocated for Fire to have a greater role in responding to medical emergencies to improve response times. "Mitigation of response times could improve greatly if the [Bureau of Fire] responded to more first responder calls."[9] Specific recommendations included a new first responder program staffed by firefighters trained at the EMT-Basic level and Basic Life Support (BLS) ambulances operated out of the Bureau of Fire during periods of peak demand for EMS services. TriData also emphasized the need for greater cooperation between the Bureaus.

While these study were completed almost six years ago, TriData's recommendations are still worthy of consideration and the issues they highlighted are still relevant. Whatever tensions may have existed between the Bureaus of Fire and EMS, they both provide a form of emergency medical response, though with different responsibilities. As TriData suggested, firefighters provide immediate medical care until an EMS unit with paramedics arrives. This allows the City to reduce response times and improve results for patients. Last year the Fire Bureau responded to 20 times as many EMS calls as structure fire related calls.

[8] TriData, "Comprehensive Management Study – Pittsburgh, PA Bureau of Fire," April 2008, page 7.

[9] TriData, "Administration and Response Report – Pittsburgh Bureau of EMS," April 2008, page 4.

Through interviews with Public Safety bureau leaders, the Coordinator noted other opportunities for Fire-EMS cooperation. Both are participating in the ROC study, and they jointly staff the hazardous material unit. The 2009 Amended Recovery Plan required the City to enhance rescue services by building the Bureau of Fire's capacity, and the City has not made enough progress in that area. TriData advised the City to grant Fire the authority to "assume more oversight responsibility for special services such as technical rescue, primarily because the personnel resources needed are in the fire department" and then went on to note that the "present system where EMS is responsible for technical rescue is not effective."[10] The City should address the coordination issues between Fire and EMS with respect to technical rescue. The Bureau of Fire has capacity to respond to technical rescue calls as revealed by TriData's study and further reinforced by Fire leadership. The Bureau of Fire should be provided the tools and ongoing training to perform the functions of a technical rescue particularly in cases where EMS resources are not available. This will expand the City's preparedness for incidents of mass casualty as well as enhance the City's deployment model to mitigate times of high service demand.

Under the original 2004 Recovery Plan, the City closed six fire stations and reduced firefighter headcount by 22 percent. As acknowledged in the TriData report, there are more opportunities to restructure the Bureau of Fire, but they should be pursued following the completion of updated analysis of how Fire and EMS can work together to meet the demand for fire suppression, fire prevention, technical rescue and emergency medical services. Then the City can consider alternate staffing and deployment models to achieve the desired outcomes at the cost the City can afford.

Recommendation 4. Work order management system

BBI simultaneously uses separate databases to track different pieces of information related to properties, making it difficult to see the comprehensive story behind each City property or the global issues for Pittsburgh in general. Additionally, the back-end paperwork and data input routine is labor intensive and creates a delay. BBI staff cites a three-week delay to enter final permit information into the property database. Therefore, it is difficult to assess the time it takes to get through each step of the permitting process, measure staff performance or workload or discover recurring problems in the field that are better addressed by education or other proactive solutions.

BBI should utilize the Accela system to streamline the data capturing process. Then it will be in a better position to explain the problem areas in the permitting process, enhance overall service delivery and discover operational efficiencies.

In addition to the workforce management software system, the previously purchased mobile computers should be used to document field work in real-time to eliminate the paper-intensive documentation process. This will free staff to perform other tasks, such as quality control, or otherwise expedite service delivery.

Recommendation 5. Certification Requirements

Although BBI has increased the number of employees certified to enforce the Commonwealth's Uniform Construction Code (UCC), the City should continue to build upon its progress in this area. In particular, since the 2009 Amended Recovery Plan the Bureau has not increased the number of certified Electrical Inspectors and Residential Mechanical Inspectors. While these two areas require further attention, additional certifications, including in UCC enforcement, should be sought in the context of the Bureau's general workload demands and immediate needs to reduce process bottlenecks. The City should additionally encourage cross-certification as a valuable tool for developing a more versatile workforce. This will help to mitigate staffing difficulties when members leave positions or when fluctuations in inspection needs occur.

[10] TriData, "Comprehensive Management Study – Pittsburgh, PA Bureau of Fire," April 2008, page 5.

As the Bureau enhances the work order management system and field technology, it should establish a regular reporting process to review the Bureau's workload and anticipate future certification needs. Bureau certification levels should be a key consideration in building a more efficient and effective operation.

Department of Public Works

Overview

The Department of Public Works is comprised of four bureaus, with functions and services as described below:

- The **Bureau of Administration** is responsible for information management, long term planning and accounting, among other administrative functions.

- The **Bureau of Operations** maintains the City's infrastructure through resurfacing streets, reconstructing bridges, rebuilding walls and steps, preserving park facilities, and rehabilitating public structures. The Department also responds to weather-related emergencies such as flooding, land subsidence, and snow and ice storms.

- The **Bureau of Environmental Services** is responsible for the daily collection of municipal solid waste and monitors business and private hauler's compliance with City ordinances governing solid waste.

- The **Bureau of Transportation and Engineering** oversees the design and construction of the City's infrastructure. Within the Bureau there are five divisions: Executive, Engineering, Traffic Operations, Construction Services, and Facilities.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	607	608	606	607	617	622

The Department's budgeted staffing remained stable around 607 full-time equivalent positions (FTEs) between 2009 and 2012. The increase of 15 positions between FY2012 and FY2014 was primarily due to additional staff in Environmental Services and Transportation and Engineering. In 2013, Environmental Services added four refuse workers and one anti-litter coordinator. In 2014, Transportation and Engineering added staff in their Traffic Operations division and six laborers. In 2014, the Bureau of Properties was eliminated and its employees and functions were moved into the Bureau of Operations. The Bureau of Operations absorbed the Bureau of Properties' functions previously handled by 39 FTEs and only added 25 FTEs.

Employee Count – Budgeted Positions

	2012	2013	2014	Change
Administration	13	13	14	1
Operations	321	327	346	25
Environmental Services	196	201	201	5
Transportation and Engineering	37	37	61	24
Properties	40	39	0	-40
Total	**607**	**617**	**622**	**15**

Department Headcount

	2009	2010	2011	2012	2013
Filled	662	649	658	661	666

The Department reports more filled positions than budgeted because of the City's method for funding part-time, temporary and seasonal employees. The budget allocates dollars to the part-time positions instead of showing a full-time equivalent count. Even with the part-time employees included, the number of filled positions has remained stable for the last five years.

Assessment

In response to a recommendation in the 2009 Amended Recovery Plan, the Department of Public Works implemented a professional management system for street paving, street cleaning and snow removal. The Department reports that the pavement management system works effectively, helping it track activities, costs and maintenance needs.

Public Works, like many other City departments, has struggled to keep pace with the need to replace or rehabilitate City-owned infrastructure, including its bridges, roads, stair cases and municipal buildings. For example, over 60 percent of the City's asphalt streets have deteriorated to the lowest possible assessment grade. The City maintains about 870 linear miles of street and would need to resurface 87 to 109 miles of asphalt per year to maintain them, based on their 8 to 10-year life cycle. At an approximate cost of $250,000 per mile, the City would need to spend at least $22 million per year to support this repair cycle. The City is considering increasing the 2014 paving budget from $7.3 million to $9.1 million, but even the higher amount is only 41 percent of the $22 million figure.[1]

The Capital Program chapter discusses these challenges in more detail and presents the Amended Recovery Plan requirements.

In addition to the funding needs, proper infrastructure maintenance has an operational impact on the Department of Public Works. For example, the work required to resurface a street becomes more extensive as the road surface degrades. Plus, while there is continued interest in adding new infrastructure, the City needs to consider the increasing workload that would result for Public Works. Even a seemingly low-impact addition like a walking trail or bike lane increases the maintenance demands on Public Works, like snow plowing. The Bureau of Operations has established a maintenance management plan for preserving park facilities that effectively outlines the Bureau's workload and aligns resources accordingly. As a priority, the Department should have a comparable plan for maintaining the City's streets.

Initiatives

PW01.	Implement maintenance management plan for streets	
	Target outcome:	Improved infrastructure maintenance
	Five Year Financial Impact:	N/A
	Responsible party:	Bureau of Operations – Management of Street Operations

The Department shall develop and implement a strategic plan that clearly outlines the street maintenance work that must be completed, resources needed to accomplish this work, and a

[1] These calculations are provided to give a sense of magnitude for the City's street repair needs. In reality there are variations in the cost to resurface different streets, the frequency with which each street is resurfaced, etc.

work plan for effectively completing this work. An effective strategic plan should include a clearly stated goal, a list of initiatives to meet this goal, and an outline of the resources that will be deployed to complete the work. It should also include an estimated timeline for accomplishment, with frequent progress meetings and reports to ensure successful implementation. The Department should explore using Cartograph, the software used for the City's pavement management system, and following the model used for Park maintenance to facilitate and support the development of the street maintenance plan.

Parks and Recreation

Overview

The mission of the Department of Parks and Recreation is "to enrich and enhance the lives of City residents and visitors through the promotion of health and fitness classes and programs; educational, cultural, and environmentally sensitive experiences; as well as community development initiatives and major civic celebrations."

The Department is comprised of five units, with functions and services as described below.

- The **Aquatics Division** operates and maintains 18 outdoor swimming pools, one indoor year-round facility, and five spray parks (one under construction). The division provides programming throughout the year including Learn-to-Swim, aerobics, competitive swimming, and water safety instruction.

- The **Community Recreation Division** is comprised of 10 recreation facilities that provide a wide range of indoor and outdoor sports, educational and leisure programs. The division also provides recreation opportunities at the Schenley Park Ice Rink, the Schenley Oval Sports Complex, the Mellon Park Indoor Tennis Center and several skate parks.

- The City has 14 **Senior Community Centers** that provide nutrition, socialization, recreation, and information and referral services to the senior community. The division also provides opportunities for volunteerism.

- The **Community Enrichment Division** provides family-oriented activities such as Alphabet Trails and Tales, Roving Art Cart, and early childhood education initiatives in target communities. Visual arts throughout the City are promoted through the Arts Partners Program.

- The **Community Services Division** provides miscellaneous programming including the USDA's Summer Food Service Program, Seasonal Farmers' Market, and the senior food voucher program.

The Department's budgeted headcount was stable through 2013 with a nine-position reduction in 2014. This year's budget eliminates three Pool Laborers, a Store Manager and Clerk positions. The department has 33 positions funded through the Senior Program Trust Fund and 71 positions funded through the Allegheny Regional Asset District (RAD) Trust Fund, which is explained more below.

Department Headcount

	2009	2010	2011	2012	2013	2014
Budgeted	166	167	168	167	168	159
Filled	252	242	249	268	271	N/A

The Department reports more filled positions than budgeted because of the City's method for funding part-time, temporary and seasonal employees. The budget allocates dollars to the part-time positions instead of showing a full-time equivalent count. Because of its recreation facilities and programming, Parks uses more seasonal employees than other City departments.

Assessment

While the Department of Public Works maintains Pittsburgh's parks and recreation facilities, the condition of those facilities impacts the Parks Department's ability to provide service.

The City has improved some existing facilities and built new ones including installing new spray parks, renovating the Southside Market House, expanding the Mellon Park indoor tennis facility, and adding a second soccer field and track at Riverview Park. The City also consolidated a recreation center and a senior center into one large multipurpose facility, creating two facilities of this kind -- the Magee Recreation Center and the Southside Market House. Department staff is encouraged by the cost savings and program opportunities associated with consolidation and should continue exploring opportunities to implement this model further.

Department staff also noted that more work remains. There are closed swimming pools that have to be repurposed, the façade of the Warrington Recreation Center requires upgrading, and the Oliver Bath House needs an air handling system, roof repairs and new windows. Beyond these efforts to maintain existing structures, Department staff expressed interest in enlarging the Schenley Park Meeting Room to hold larger events and adding security systems to additional facilities to improve usage monitoring.

The Capital Improvement chapter provides more detail on the importance of maintaining City infrastructure and a strategy for doing so.

From an operating perspective, the Department runs several programs that are funded at least in part by fees or other charges to the people using the service. Excluding expenditures for employee fringe benefits, like health insurance and pension costs, the Department's expenses in FY2013 were $4.0 million and the total revenue generated from the fees mentioned above was less than half of the total expenses.

In addition to the fees, the City receives a portion of the proceeds from the Allegheny Regional Asset District (ARAD) tax, which is a 1 percent County sales tax. The ARAD governing board allocates a portion of the proceeds to organizations that own and maintain significant arts, cultural and recreation facilities. The City of Pittsburgh receives money to support its costs for maintaining and improving five parks – Emerald, Frick, Highland, Riverview and Schenley. In 2014 the City budgets $5.1 million in revenue from the ARAD tax in a separate fund designated for this purpose.[2]

Even with the ARAD tax revenues, parks and recreation services do not operate as break-even enterprises – they do not generate enough revenue to cover their own costs, nor should they necessarily be expected to do so. Parks programs are often intended to benefit City residents who do not have access to, or cannot afford, recreation services offered by the non-profit or private sector. Even with this public subsidy, the City should continue to monitor and adjust its fee levels as appropriate.

[2] Fifty percent of the ARAD tax proceeds fund grants to organizations like the City of the Pittsburgh that own "regional assets." The other 50 percent supports general fund operations in the County (25 percent) and the Allegheny County municipalities (25 percent), including Pittsburgh. The 2014 City budget has $12.6 million for this second form of ARAD tax revenue in the General Fund as "Act 77 - Tax Relief."

Initiatives

PR01.	**Regularly evaluate and update service charges**	
	Target outcome:	Appropriate cost recovery and rates for programs and space usage
	Five Year Financial Impact:	See below
	Responsible party:	Finance, City Council, Parks and Recreation Management Staff

The Department shall periodically review any fees and service charges that are not limited by Pennsylvania law to ensure they are achieving cost recovery goals and are appropriately competitive with the relevant market. The Department shall maintain a schedule by which all fees are periodically reviewed or establish automatic adjustments tied to inflation or other relevant factors. As a longer term objective, the City should develop a complete list of parks and recreation programs and services offered with information regarding the total cost and total revenue of each one, so any public subsidy is transparent.

The financial impact of this initiative is described in a parallel initiative in the Finance Chapter.

Intergovernmental Cooperation

The 2004 and 2009 Act 47 Recovery Plans listed dozens of initiatives to deepen City-County cooperation through shared service agreements and merging roles and functions, and to improve communication and alignment with activities in surrounding municipalities through the Congress of Neighboring Communities (CONNECT). While some progress has been made on issues such as the shared 911 call center and the initiation of the JD Edwards financial management system, there are still many areas of cooperation that have yet to be addressed. For example, the City should continue to pursue opportunities to provide services to neighboring communities on a full cost recovery basis, as it is currently providing refuse collection and fire services to the neighboring Borough of Wilkinsburg.

In April 2014, Mayor Peduto and County Executive Fitzgerald formed a City-County Coordination Task Force designed to identify areas of cooperation and coordination and create action plans to implement them. The Task Force, led by the Mayor's Chief of Staff, Kevin Acklin, and County Executive's Chief of Staff, Jennifer Liptak, includes working groups of key leadership staff focused on particular areas of interest. It will set the agenda for new City-County initiatives and serve as the driving force for implementing those initiatives. The Task Force has developed a list of initiatives to address over the next several years as described below.

- **Open Data and Performance Improvement -** The Mayor's office, the City's Department of Innovation and Performance, and the County Executive's Chief of Staff and County Manager have partnered on an initiative to release City and County government data to the public and better utilize data internally to make informed decisions about service delivery, staffing, and departmental structure. This initiative includes the launch of a federated (multi-institutional) open data portal that will feature a public-facing site with aggregate data published by the City, Allegheny County, and regional partners including nonprofit institutions, universities, and other municipalities. This service should allow regional data to be shared widely and interpreted by analysts within government, civic technologists outside of government, and average citizens. Data sets that could be released under this program range from 311 requests to building permits, Bureau of Building Inspection citations and budget data. The City has a goal to begin publishing data to the public by the third quarter of 2014 and to begin using this data internally by the second quarter of 2014.

- **Equal Opportunity and Minority and Women Owned Businesses (MWBE)** - Allegheny County provides joint certification with the City for minority and women contractors to sign up to become eligible to do business with the City and County under MWBE contracting provisions. The City and County are seeking ways to expand this certification to cover City and County authorities as well, including the Urban Redevelopment Authority, Housing Authority, Airport Authority, Port Authority, and others. Streamlining the certification process and expanding the coverage should reduce barriers to entry for minority and women contractors and expand the pool of eligible partners. It could also reduce overhead and administrative costs for the City over time. This initiative will also include a focused effort to increase the pool of certified MWBE contractors.

- **City of Pittsburgh Printing Services** - The City-County Coordination Task Force is working towards an agreement to combine the City's print shop with Allegheny County's print shop in order to reduce duplication of effort, control procurement costs and provide a higher level of service to internal constituents. The City's current two staff members in the print shop would move to the County's print shop and remain City employees. These positions would be vacated through attrition over time and not replaced in the City's budget. The County's print shop offers a broader suite of services, enjoys more modern equipment, and stocks a greater array of printing materials than the City's print shop. The efforts to combine printing services will commence in the second quarter of 2014.

- **Asphalt Plant** - The City is investigating the possibility of constructing an asphalt plant to provide a significant portion of the City's asphalt needs. The City is seeking a partnership with Allegheny County through an intergovernmental cooperation agreement through which the County would agree to purchase a percentage of the asphalt the City produces. The viability of this effort will depend upon the results of a cost/benefit analysis reviewing the cost of building and operating the plant over a multi-year period; a comparison of the costs of asphalt produced at the new plant versus asphalt produced elsewhere; and the level of production necessary to achieve a lower cost per ton than currently paid by the City.

- **City Sign Shop** - The City and Allegheny County are exploring potential partnerships through their respective sign shops to better coordinate production of signs, share services, and explore common design themes and branding. These efforts are underway already in City and County parks and could expand to other areas of operation in the future.

- **Maintenance and Security of City-County Building** - The City and Allegheny County are renegotiating security and maintenance agreements for the City-County Building, some of which have not been updated for decades, in order to better and more equitably share management of the building.

- **911 Records Management System** - The City is exploring the possibility of joining Allegheny County's 911 Records Management System (RMS), Tiburon. The City currently operates its own back-end RMS, which is badly in need of upgrades. Joining the existing County system could save the City money, eliminating the need to purchase and implement a new, stand-alone system. Partnering with the County would also add significant search capability, enabling public safety officials to cross check multi-municipal systems in one step and empowering them to find patterns, track suspects, and improve coordination with other public safety officials in the region.

Congress of Neighboring Communities (CONNECT) Initiatives

The Congress of Neighboring Communities was formed in 2009 among the City and its contiguous 35 communities. CONNECT's central goal is to create a way for local governments to discuss and resolve common issues. Examples of CONNECT's efforts to increase intergovernmental cooperation include:

- **Community Paramedics -** In 2013, CONNECT, Allegheny County EMS Council and the Center for Emergency Medicine of Western Pennsylvania, Inc. launched the CONNECT Community Paramedic Program with funding from UPMC and Highmark Blue Cross Blue Shield. This program provides in-home care to patients with non-emergency medical issues, reducing unnecessary hospital and emergency room visits. The pilot program is ongoing and cost savings and health benefits are expected to outweigh the program development and implementation costs. The two-year cost of the program thus far has been $600,000.

- **Sewer Regionalization -** CONNECT, 3 Rivers Wet Weather, the Pittsburgh Water and Sewer Authority (PWSA), Allegheny County and regional stakeholders have created a partnership to develop a plan for sewer regionalization, working towards the equitable distribution of the cost of regional sewage pipe operation and maintenance, most of which is now borne solely by the City and the CONNECT communities. The goal of the partnership is to eventually turn over operation and maintenance of these major conveyance lines to the Allegheny County Sanitary Authority (ALCOSAN) so they can better manage the system and reduce the burden on the City and CONNECT communities. This could reduce PWSA's operation and maintenance costs and allow the authority to focus on critical infrastructure needs for water lines and sewer laterals.

- **WPEAP Reverse Energy Auction -** The Western Pennsylvania Energy Aggregation Program (WPEAP) is a reverse energy auction that was started in 2010 as a partnership between Allegheny County and CONNECT. The program has grown significantly with the planned addition of at least eight CONNECT communities in 2014. According to City estimates, in 2012 the program saved the City $131,000 and the CONNECT communities combined over $192,000.

- **U.S. Department of Energy Sunshot Program -** CONNECT, in collaboration with PennFuture, won a U.S. Department of Energy grant designed to create uniform zoning codes and a streamlined permitting process for solar photovoltaic systems. The grant brought over $500,000 to the region and has lowered the cost of doing business for solar installers. A model ordinance was developed as part of the program that is being adopted currently by CONNECT communities.

- **Collaborative Crime Database -** CONNECT is working to develop a secure multi-municipal crime database that would increase the effectiveness of area police and detective forces, potentially save time and money and lead to more arrests in violent and drug-related crimes.

Assessment

The joint purchasing agreement between the City of Pittsburgh and Allegheny County has been a successful partnership, saving the City an estimated $500,000 to $1,000,000 a year in staff time and purchasing costs. The Mayor plans to continue this partnership and seek new opportunities for efficiencies in procurement, including:

- Working with City Council to streamline procurement ordinances to better fit the new JD Edwards ERP system workflows and tracking mechanisms;

- Working with City Council to allow the City to purchase from federal General Services Administration contracts, opening up an expanded list of suppliers and vendors;

- Revisiting the thresholds for competitive bids, RFPs, and invoices to streamline workflow and find greater efficiencies;

- Setting new policy for technology procurement to work in conjunction with the new Open Data law.

Further, the City intends to continue its joint effort with the Allegheny County and the Pittsburgh School District to collect delinquent real estate tax, capitalizing on the benefits that can result from the joint effort.

Initiatives

IC01.	**Continue involvement in City-County Coordination Task Force**	
	Target outcome:	Efficiency gains through shared services
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor's Office

The City shall continue its involvement with the City-County Coordination Task Force to identify and implement areas of cooperation and coordination between the City and County.

IC02.	**Continue participation in CONNECT**	
	Target outcome:	Efficiency gains through shared services
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor's Office

The City shall continue its membership and active participation in CONNECT and the implementation of the projects discussed in this Chapter.

Economic and Community Development

Municipal economic and community development has always been an extended, market-driven process requiring support, commitment and cooperation among local and state government and the private development sector. The long term viability of the City of Pittsburgh and its surrounding region is absolutely dependent upon the successful implementation of strategies to strengthen City neighborhoods, including its housing stock, stabilize the region's population, improve the job market and increase tax revenue.

The Peduto Administration's stated goals for an economic development strategy are to rebuild the tax base, to create equitable opportunities for growth based on neighborhood needs and priorities, and to make the City of Pittsburgh a strong core economic engine of the entire region.

When investing public resources in development projects, the City has established housing as the top economic development priority with a goal of attracting 20,000 new residents by 2024. Achieving such an objective will require greater collaboration among the Mayor's office, the City's Planning Department, the Urban Redevelopment Authority (URA) and the Housing Authority of the City of Pittsburgh (HACP). In addition, incorporating high standards of design and economic and environmental sustainability are core to the Administration's goal of increasing the quality of development in the City.

Further, the City is emphasizing that projects should incorporate the needs of community-driven neighborhood development and closely align with community needs and priorities. Working alongside the City Planning Department, neighborhood groups will be encouraged to develop thoughtful community strategic plans. Investment will focus on neighborhoods that have been disinvested over the past few decades, including Homewood, Hazelwood, Beltzhoover, Larimer and the Hill District.

The URA was created in the 1940s and remains the central economic development agency in the City. Based upon lessons learned over nearly 70 years of redevelopment activity and neighborhood revitalization, combined with more than a decade of dramatically declining financial resources to implement and carry out such work, the City and URA are currently focusing their investment strategy around the five core initiatives described below.

Investing in the Edge

The URA's view is that when a large-scale investment is made in a location that is well-integrated into the surrounding neighborhood, significant "off-site" return on investment is achieved as well. Given the scarcity of traditional neighborhood revitalization funding sources, the City and URA emphasize "edge conditions." Based on a Market Value Analysis (MVA) prepared for the URA in 2008 (and updated in 2011 and 2013) by The Reinvestment Fund, the URA is using a collection of relevant data sets that delineate the relative strength of housing markets on a census block group level. The City's strategy is to target its limited resources to the "edges" where the City's weakest markets directly border its strongest ones, thus extending that strong edge.

One tool used by the City to target the "edge conditions" has been the creation of Transit Revitalization Investment Districts (TRIDs). In 2013, the East Liberty Transit Revitalization Investment District ("ELTRID") became the first TRID established in the state of Pennsylvania. The process to create this TRID began in 2008 when the City was awarded a TRID Planning grant from the Pennsylvania Department of Community and Economic Development. In the ELTRID, there are several current and planned commercial and housing developments. The former East Liberty YMCA will be converted into an Ace Hotel, and the new transit center itself will include 50,000 square feet of retail and 366 residential units.

Bakery Square 2.0, already under construction, will be a $97 million mixed-use development on the former site of the School District's Reizenstein School. Building on the current commercial and retail success of

Bakery Square, including tenants Google, Anthropologie, Marriott Spring Hill Suites, Panera Bread and UPMC and University of Pittsburgh offices, the Bakery Square 2.0 proposed mixed-use development consists of over 400,000 square feet of office space in two buildings, two 175 unit apartment buildings, 57 townhouse units, and an 812-space parking garage. Due to the expansion of Google and other tenants such as UPMC, the Veterans Administration and the University of Pittsburgh, space needs are being created faster than existing space can accommodate. The project will provide new, class A office space for Google and others. The City estimates that 1,250 jobs will be added as a result of this expansion.

In January 2014, the URA and the City initiated a Homewood TRID Planning Study in an effort to continue to bridge the Port Authority of Allegheny County's busway and that neighborhood. Included in the Homewood TRID Planning area are three housing development projects that should support the future TRID. The projects are a 41-unit senior housing development with 5,000 sq. ft. of retail, the Susquehanna Homes scattered site rental development consisting of 35 units, and the Finance Street for-sale housing development consisting of 6 units. Additionally, the Lexington Tech site is on the edge of the Homewood TRID area and may be the site of future mixed income housing bordering the busway in the North Point Breeze neighborhood.

In addition to the Edge Neighborhoods where there are TRID planning studies being created or implemented, there are other Edge Neighborhoods where the City and the URA are investing. For example, the City is investing in the South Hills neighborhoods of Beechview/Brookline/Carrick. Further, the URA invested in the IGA on Broadway Avenue in Beechview, will be investing in the future mixed-use redevelopment of 1600 and 1602 Broadway Avenue, and implemented the nationwide Neighborhood Stabilization Program (NSP) in the neighborhood of Beechview.

Seven foreclosed homes were purchased by the Pittsburgh Housing Development Corporation, rehabilitated, and resold to homeowners. Likewise, the URA has invested and will continue to invest in the Edge conditions along the Friendship/Garfield/Bloomfield/Lawrenceville neighborhoods. Sample current and future developments include the proposed construction of an affordable rental development in Bloomfield to house veterans called the Penn Mathilda Apartments, the construction of four NSP scattered site homes in Garfield, the rehabilitation of existing housing stock along Fairmount Street in Garfield, the proposed construction of mixed-income for-sale townhomes on Penn Avenue in Friendship, and the new construction of several mixed-use (retail and housing) developments in the Doughboy Square area of Lawrenceville.

Another Edge area is the intersection of the Central Business District, Uptown, and the Lower Hill. Over the next 6 – 8 years, 1200 units of housing and adjacent commercial and office development are planned on the former Civic Arena site. A few blocks further up Centre Avenue is the recently opened Hill District Shop and Save. One more block up the corridor is the intersection of Centre and Dinwiddie Streets. Dinwiddie Street houses the recent new construction and rehabilitation of 72 affordable rental housing units with 24 more units planned for the future. The bottom of Dinwiddie Street intersects with Fifth Avenue in Uptown near a vacant development site to be advertised for commercial or mixed use development.

Unlocking the Economic Potential of Pittsburgh's Riverfronts

Pittsburgh has 40 miles of riverfront inside its boundaries. Unfortunately, there are only a handful of locations where access to the rivers is not impeded by steep, cliff-like topography, highways, or active, interstate railways. Development opportunities are being evaluated at each of these locations where there is the potential to connect a neighborhood to a river. Most notable is the two-year long, federal Department of Transportation TIGER-funded Allegheny Green Boulevard Plan, and the preceding Allegheny Riverfront Visioning Plan, which highlighted the existing condition of low-value riverfront uses along the south shore of the Allegheny River, including commuter surface parking lots, school bus parking, low rent warehousing and distribution uses, and even vacant, obsolete former plants. As described above in the "Investing in the Edge" strategy, the City sees opportunity to unlock economic value both directly on the riverfront as well as off-site, in these newly connected, riverfront neighborhoods. Several recent and current riverfront development projects are summarized below:

- The 178-acre **Hazelwood-ALMONO** brownfield site project is moving ahead with the investment of $5.5 million in state funds and $80 million tax increment financing (TIF) approval from the local taxing bodies. The developer hired by the local foundation that owns the land, Regional Industrial Development Corporation (RIDC), plans to transform this land into a redevelopment that is linked to the existing Hazelwood neighborhood along the Monongahela River. At least 15 percent of the site will be dedicated to common open space. Another 10 percent of the site will be dedicated to urban open space as required per the specially planned district. Per the land use plan, the site will be divided into four Districts: the Riverview District, the Smart Site Central Green District, the Eco-Tech Park District, and the Hazelwood Flats Districts. The site closest to Downtown Pittsburgh, the Riverview District, is identified for the mixed-use development of offices, residential, and retail spaces. The Smart Site Central Green District will have commercial office and a green technology use. The Eco-Tech Park District will consist primarily of commercial office and industrial uses with some bordering residential development. The Hazelwood Flats District will consist primarily of residential development with some commercial office use. Over the next several years, the Riverview District will be the first to be developed.

- The revitalization of the City's **Strip District** is anticipated to be anchored by two major redevelopment projects: Lower Strip District and Three Crossings. The proposed Lower Strip District revitalization, to be undertaken by Buncher Corporation, encompasses approximately 55 acres. The development will be built in multiple phases. The first phase is expected to include street, utility and pedestrian infrastructure improvements (including plaza and green areas), adaptive reuse and renovation of the Produce Terminal (including retail, office and/or residential spaces), a new office building, and an approximate 75-unit residential building with integral parking. Three Crossings is expected to be a $121 million mixed-use development project sponsored by Oxford Development Company and Hammel's Express, Inc. The project is situated between 25th and 27th streets along the Allegheny River. This development will repurpose and transform approximately 11 acres of former industrial properties into a new mixed-use development consisting of a 299-unit multi-family development, 250 thousand square feet of urban flex office space, retail space, and a 700-space parking garage.

- Since the URA purchased the **South Side Works** (SSW) site in 1993, private investment has totaled $350 million, creating 3,500 jobs and over 400 housing units. SSW is a life style center riverfront development featuring a mix of office, research and development, housing, retail and recreational uses. The fifth and final parking garage will support the remaining eight acres of mixed-use redevelopment along the river. At full build-out, the City expects an additional 1,560 jobs and 262 units of housing to be created.

- The URA has secured a developer, the Smerd Group, and has entered into a two-year option for 5.94 acre vacant riverfront site in the **Chateau/ Manchester** neighborhood. The sale and future development is contingent upon improved access to the site including the conversion of Beaver Avenue to allow two-way traffic. Demand for real estate in the Chateau neighborhood is obstructed by existing one-way road access and the ability to improve access to this area could unleash the neighborhood's market potential. The goal of the URA is to open Beaver Avenue, which runs parallel to Route 65, as a two way street, and unlock the potential of riverfront redevelopment in order to benefit the Chateau/ Manchester neighborhoods.

- **Central Lawrenceville** is a neighborhood developing into a model of sustainable urban renewal. The URA received a TIGER II U.S. Housing and Urban Development/ Federal Transit Administration (HUD/FTA) planning grant to develop a roadmap to connect the residential community with the river, create new bike infrastructure, integrate stormwater management techniques, and assure future affordable housing. These goals are being accomplished through a variety of ongoing projects including the Shoppes at Doughboy, the Green Boulevard bike path, Squareview Apartments, 43rd Street Overlook, Hatfield+Homes and the NREC Expansion.

Active Rightsizing

The City has lost more than 50 percent of its peak population over the last 60 years. Some of the most distressed neighborhoods in the City have experienced as much as 75 percent population loss. There are more than 16,000 vacant lots and roughly 7,500 abandoned structures in the City. From experience and the data gleaned from the Market Value Analysis (MVA), in the near term, the Administration has concluded that it is unrealistic to attempt to rebuild these neighborhoods in terms of housing and commercial development. There is neither a market, nor sufficient public subsidy, available to do so. Thus, alternative strategies are being developed to invest in these communities and address the many challenges that exist when communities have an abundance of unused land. These alternative strategies include landbanking, community greening, greenway and open space development, and de-densification.

The City's definition of landbanking is "to actively move to acquire abandoned land and structures from delinquent owners through a scale enterprise of tax foreclosure and private purchase so that when there is a community vision plan to pursue, the City, URA, and/or community will have control over the land." The City estimates that a comprehensive landbanking strategy could yield an additional $5.5 million in net City tax revenue annually as properties gradually convert from abandoned to developed taxpaying status.

In March, 2014, City Council passed legislation to create the Pittsburgh Land Bank, and work is underway to draft policies and procedures, incorporate the Bank, and seat the board. The Land Bank could absorb thousands of blighted properties currently owned by the City and its authorities, taking the property maintenance costs and legal liabilities off the City's books and shifting responsibility to the Land Bank which will have the sole duty of maintaining these properties and eventually bringing them to a marketable state. While it is too early to accurately project how the Land Bank will impact the City's operating budget, there is potential for it to reduce delinquent real estate tax revenues collected in the General Fund.

Community Greening occurs when the community cultivates publically owned land for gardening and other green activities that enhance the livability of the community. Greenway and open space development includes acquiring land through the landbanking process to increase the City's active Greenway program on its many lush hillsides and river channels. The City's active rightsizing plan allows for vacant and abandoned land particularly on steeply sloped areas to be added to existing greenways. Additionally, de-densification is the process of de-densifying neighborhoods while adding to the green footprint.

The neighborhood of Larimer is an example where landbanking, community greening, greenway and open space development, and de-densification are all strategies for community stabilization. In 2013 the City and HACP applied for a $30 million grant to build 300 new housing units in Larimer. As part of an ambitious strategy to reclaim a neighborhood that experienced 75 percent population loss since the 60's, the community and City institutions agreed that the neighborhood would revitalize "green" utilizing the highest standard of sustainability objectives, and "de-densify" the neighborhood with aligned projects for the vacant lots. The strategy also includes increasing the level and standard of community park and recreational areas in the HUD Choice Neighborhood strategy.

If the City and the HACP are awarded an allocation of HUD's Choice Neighborhood funds in 2014, the City estimates that more than 300 housing units will come to Larimer in the next seven years. These 300 units will be mixed-income in nature, with households as low as 20 percent of the area median income and as high as unrestricted incomes of $200,000 or more. With or without a Choice Neighborhoods award, at least two phases of new housing construction will occur in Larimer over the next three years. The first phase will include 40 scattered site units of affordable rental housing to be built by KBK Enterprises along the Larimer Avenue and Meadow Street Corridors. The second phase will include 85 units of mixed-income rental housing to be built by McCormack Baron Salazar and Allies at Ross (a subsidiary of HACP) along the East Liberty Boulevard corridor and the Larimer Avenue corridor and on the balance of the former Liberty Park Apartments site.

If awarded the Choice Neighborhood funds, the 300 housing units will be accompanied by new green sustainability water and sewer infrastructure and large green open spaces. Additionally, job creation and the creation of recreational amenities will be a focus.

Conversely to the strategies identified above for a neighborhood with low housing values, in the high value area of Squirrel Hill the City had the opportunity to reclaim a large brownfield site that has been dormant for decades by building housing to increase the City's tax base. The Summerset at Frick Park development will include approximately 700 units of for-sale and rental housing and 30,000 square feet of commercial space built on a 238 acre brownfield site. Approximately 425 units have been built to date. Over 100 acres of the site will be dedicated to the City as an expansion of Frick Park. Over the next seven to ten years, the Phase III portion of the development site which abuts Swisshelm Park will be completed.

Central Business District

A strong, vibrant Central Business District is important to the City's fiscal health and to the entire Western Pennsylvania region. Private investment has been attracted through a combination of marketing Downtown's assets and partnering with existing institutions (Pittsburgh Downtown Partnership, The Cultural Trust, Point Park University, Pittsburgh History & Landmarks Foundation, etc.) and developers. Specialized tax abatement programs (the LERTA abatement), Tax Increment Financing, New Markets Tax Credits, and Pennsylvania Redevelopment Assistance Capital Program (RACP) grants have largely fueled the growth of new residential units, public open space and park enhancements, critical infrastructure (including parking and mass transit), new Class A corporate office space, historic rehabilitation, and tourism amenities (including hotels and cultural facilities).

Some of the current and future downtown development projects are as follows:

- **Smithfield Street Conversion -** Converting Smithfield Street into a grand boulevard and associated redevelopment efforts including the conversion of the former Saks Building into retail/parking with air rights reserved for future housing and Oxford's 350 Fifth Avenue Office Building conversion.

- **The Gardens at Market Square** - A $101 million project is under construction and will consist of 120,000 square feet of rentable office space, 23,000 square feet of rentable retail space, a limited service hotel consisting of 176 rooms, a parking garage consisting of 320 parking spaces, and public space improvements.

- **350 Oliver Avenue -** Millcraft Investments and McKnight Realty plan to redevelop the Former Saks Department Store into a retail and parking complex. The construction will allow residential uses to be built in the air rights parcel when the market can absorb those units.

- **350 Fifth Avenue** - Oxford Development Company plans to redevelopment its property at 350 Fifth Avenue into a Class A office/retail complex, with the current address of 441 Smithfield Street to be relaunched as 350 Fifth Avenue.

- **Downtown Preservation Project** - This project addresses key properties in the Fifth and Forbes Avenues corridor with historically sensitive renovations and provides funds to upgrade upper stories of currently underutilized downtown buildings. Nine building facades have been renovated on Wood Street with a $4 million RACP grant. At least two of these buildings have since acquired new tenants for their first floors or have changed hands in order to facilitate upper story renovations and occupancy.

- **Point Park University's Academic Village/ Playhouse** - Point Park University plans to relocate its Pittsburgh Playhouse from its current location in Oakland to downtown Pittsburgh. The new location will occupy a 40,000 square foot site between Forbes and Fourth Avenues. The current estimated cost of the project is $52 million. The new playhouse will house three prototypical performance spaces, a 400-seat proscenium/ thrust theater with a 40-foot wide stage and two studio theaters that will offer more intimate venues.

- **The Tower at PNC** - The URA assisted in the site assemblage for this 33-story, 800,000 square foot skyscaper that will be the largest LEED certified building in the world. This $400 million development is currently under construction.

- **The Downtown Upper Vacant Floor Program and Life Safety Program** - The URA provides financing programs to assist Downtown property owners to renovate vacant upper floors into residential housing.

- **Regional Enterprise Tower** - PMC property group will be renovating the historic ALCOA, all aluminum, office building into residential and office uses. The first 15 floors will remain office space and will continue to be used by non-profit and government entities remaining in the building's lower levels, with the top 15 floors being occupied by "workforce" housing. Downtown has seen many developments incorporate high rent condominiums, but this project serves a different niche in the market, the affordable downtown rental unit. The project is utilizing historic tax credits and is a $60 million dollar project.

- **Kimpton Hotel** - PMC Property group will be renovating with Historic Tax Credits the former Reed Smith building across from the Omni William Penn Hotel. The renovated building will accommodate a Kimpton hotel with 249 rooms, 10,000 square feet of meeting space plus a penthouse and 120 seat restaurant and bar. This is a $60 million project in the Central Business District that should enhance the burgeoning hotel market.

- **Former Lord & Taylor Building** - PNC Financial Services Group bought the vacant building for $3.85 million in June of 2012. It is currently being renovated to provide 120,000 square feet of office space. Interior modifications include installing high-efficiency lighting, low-flow plumbing fixtures, recycling the carpeting and using new paints and wall coverings to eliminate volatile organic compounds.

Investing in People and Places

While each of the previous four investment initiatives is geographically-targeted in some form, this fifth initiative is not. The URA can invest anywhere in the City where there is an entrepreneur who wants to take a risk with his equity and improve a business. URA will provide technical assistance and, on occasion, capital to invest in job creation. Anywhere in the City where a first-time homebuyer wants to purchase a home, or an existing homeowner wants to re-invest in improving his residence, URA offers affordable low-interest loans and/or grants.

The Center for Innovation and Entrepreneurship (CIE)

The URA's CIE administers a variety of loan and grant programs and partnerships with a mission to create new jobs and increase the City's tax base; increase the number and scale of new high-growth firms that create economic growth, innovation and quality jobs; increase the number of start-ups and early stage company expansions that are the backbone of a sustainable, growing economic base; provide access to capital for small businesses of all types, including investments in energy efficiency; provide access to capital for minority and women owned businesses; provide access to capital for commercial and mixed-use real estate development; and improve the economic vitality of neighborhood business districts.

From 2006 – 2013, CIE small business and commercial real estate loan and façade grant programs made 474 individual investments totaling $84 million that leveraged over $618 million in total project costs. According to the City, these investments created and retained almost 5,000 jobs in the City.

In addition to direct investment, the CIE leverages a variety of partnerships that support new business start-up and growth in the City. These partnerships include:

- **Urban Innovation 21 / Keystone Innovation Zone -** Direct technical assistance and access to grant and tax credit capital for innovation based businesses in Pittsburgh's Hill District, Uptown, Homewood, Oakland, Central Business District, and North Side neighborhoods. Since 2006, UI 21 has provided assistance to nearly 200 companies, leveraging over $6 million in direct capital to early stage companies.

- **Pittsburgh Manufacturing Assistance Program (PMAP) -** Partnership with Catalyst Connection to provide technical assistance grant awards to Pittsburgh manufacturers. Since 2006, PMAP has assisted nearly 30 Pittsburgh manufacturing companies.

- **Alpha Lab Gear** - Partnership with Innovation Works to accelerate hardware and robotics start-up companies that will accelerate nearly 20 Pittsburgh hardware and start up robotics companies.

- **Hustle Den** - Business start-up accelerator in East Liberty which will accelerate about 15 start ups annually.

- **Pittsburgh Life Science Accelerator** - Partnership with Idea Foundry and the University of Pittsburgh to accelerate start up life science companies – an effort that has assisted nearly 20 life science companies, leveraging nearly $2 million in follow-up funding for its companies.

- **Start Uptown** – A co-working space in Pittsburgh's Uptown neighborhood, Start Uptown has housed several dozen Pittsburgh early stage companies; notable companies include NoWait, The Resumator and Allpoint Systems.

- **Steel City Codefest** - City-wide app building event that brings together coders, designers, and innovation enthusiasts to create applications for local government, citizens, and community organizations over a 24-hour period. Partners include the City of Pittsburgh, Google, Maya Design, University of Pittsburgh, and Pittsburgh Dataworks.

- **Riverfront Ventures** - Venture capital fund funded in broad partnership and managed by Innovation Works with a mission to attract national venture capital to Pittsburgh-based fast growth companies; the fund projects to directly invest up to $35 million, raising a minimum of $2 to $1 leverage for at least 20 Pittsburgh companies.

- **Pittsburgh Tech Connect** - Partnership with Allegheny Conference, University of Pittsburgh and Carnegie Mellon University to broker and mentor direct business to business opportunities between Pittsburgh early stage companies and established companies. In the 2013-2014 program, 18 Pittsburgh start-ups are engaged.

- **Launchpgh.com -** Multi-platform, mobile web based portal for small business and start up resources—including technical assistance, education, and capital.

- **Venture In / Angel Resource Institute** - Partnership with the Pittsburgh Technology Council to provide Pittsburgh businesses with education and direct access to national venture capital investors.

URA's Housing Department

The Urban Redevelopment Authority has a Housing Department that serves as a gap lender for housing real estate developments across the City and assists existing and future homeowners in the City through consumer loan programs. From 2006 to 2012, housing development projects totaling $545 million were initiated, creating 4,024 housing units with $138 million in URA investment. The City estimates that these units will generate an assessed value of $170 million, or $2.9 million in annual City/School District taxes. Additionally, URA provided approximately $9.4 million in loans and grants to rehab 611 housing units and approximately $20.3 million in mortgage loans for the purchase of 422 housing units.

Programs in the Housing Department's Development section include the Rental Housing Development Improvement Program (RHDIP) and the Pittsburgh Housing Construction Fund (PHCF). RHDIP is a loan source of construction/ permanent "gap" financing for the new construction and/or rehabilitation of rental housing. Eligible borrowers are both for-profit and not-for-profit developers. PHCF is a source of construction loan and/or grant "gap" financing for the new construction and/or rehabilitation of for-sale housing. Eligible borrowers are both for-profit and not-for-profit developers.

Programs in the Housing Department's Consumer Program section include the Pittsburgh Home Rehabilitation Program (PHRP), the Home Improvement Loan Program (HILP), the Pittsburgh Party Wall Program (PPWP), and Second Mortgage Financing. PHRP provides a 0 percent fixed interest rate for up to 20 years for home improvements. With the new PHRP Plus, borrowers receive the added benefit of an Energy Efficiency Loan Program with a grant of up to $2,500. The HILP program also provides loan funds for home improvements. The interest rate is 5.99 percent with terms of 10, 15 and 20 years with no equity requirements. Home owners may borrow up to $15,000 for a single unit home, although the home can have up to four units. PPWP is grant funding to low income homeowners or landlords with low income tenants to reconstruct exposed party walls of residential row houses. Second deferred mortgage financing consists of interest free, deferred second mortgages available to help purchase a newly constructed or rehabilitated single family home through the Neighborhood Housing Program and the Housing Recovery Program-Developer. Second deferred mortgage financing is available only for the purchase of a URA-sponsored single family home.

In addition to providing loan and grant programs to developers and homeowners, the Housing Department also staffs the Pittsburgh Housing Development Corporation (PHDC), which is the URA's not-for-profit housing subsidiary. The PHDC partners with development groups that do not have the capacity to develop for-sale housing in their neighborhoods. If needed, the PHDC helps community groups identify the places that need to be targeted.

The Pittsburgh Urban Initiative

As traditional federal, state and local sources have been cut significantly, and in some cases completely eliminated, the City has sought new and non-traditional funding sources, such as TIGER, New Markets Tax Credits (NMTC), Transit Revitalization Investment Districts, and Federal EDA funds. It has also continued to pursue Tax Increment Financing to support infrastructure investment, where appropriate.

The URA, through an affiliate community development entity, Pittsburgh Urban Initiatives LLC (PUI), has raised $90 million in New Markets Tax Credits since 2011. New Markets Tax Credits is a federal program, run through the Department of the Treasury, that encourages private investment in job-creating projects that benefit low income persons. PUI investments include the East End Community House, Pittsburgh Riverhounds Stadium, Oak Hill Commons, Centre Heldman Plaza Shop 'n Save, Energy Innovation Center, and the Gardens at Market Square. These projects have produced total project costs of over $233 million and created 1,548 construction jobs and 2,106 permanent jobs. In 2014, PUI projects to complete financing for the Ace Hotel in East Liberty, East Liberty Transit Oriented Development, Wood Street Commons, the redevelopment of National Historic Landmark Oliver building and a New Markets Tax Credit Small Business Loan Fund.

The URA's investment in professional capacity and financial resources to raise New Markets Tax Credits is paramount to the City's ability to advance important economic development projects in the face of declining local, state and federal resources. NMTC investments leverage sustained return on investment in the form of new businesses and new jobs that pay new taxes to the City, Allegheny County, the Pittsburgh Board of Education and the Commonwealth of Pennsylvania. Finally, these investments improve the overall quality and vibrancy of the City's neighborhoods and business districts in the form of people working, living and playing.

URA's Economic Development Department

The URA has an Economic Development Department which facilitates large developments in the City. Staff of the Economic Development Department help fundraise federal, state, and local resources for large-scale developments. One mechanism that the Economic Development Department uses to enhance People and Places is to create Tax Increment Financing (TIF) Districts.

Since 2005, seven new TIF Districts have been established: Fifth & Market (3 PNC Plaza), Pittsburgh Technology Center (#2), Bakery Square, East Liberty Gateway (Target), the Gardens at Market Square, Summerset at Frick Park, and Hazelwood-ALMONO. From January 1, 2006 to December 31, 2013, TIF Districts realized an increase of over $400 million in assessed property value and now generate $4.5 million in new real estate taxes annually for the City and School District. They have also created a total of 23,000 jobs. In 2013, legislative efforts were taken to retire a TIF district four years early and additional parcels were removed from another TIF district because, in both cases, the associated debt instruments were paid off early.

The City believes that the five above-identified initiatives will help guide the City and the URA into the future. Continued investment by the City and URA in these initiatives is critical to the City's efforts to rebuild and revitalize its neighborhoods. For the next six to eight years, the 10 projects listed in the table below (and described in more detail above) are some of the most important areas of focus.

Development	Neighborhood(s)	Housing Units	Jobs Created	Tax Impact	Anticipated Cost
East Liberty Transit Oriented Development	East Liberty/Shadyside	360	114	$9.4 M	$131.0 M
Larimer Choice Neighborhood Initiative	Larimer and East Liberty	300	15	$7.0 M	$400.0 M
ALMONO Site	Hazelwood	1,563	4,774	$40.8 M	$1.0 B
Former Mellon Arena Site	Lower Hill District/CBD	1,188	2,948	$25.1 M	$450.0 M
Allegheny Riverfront	Strip District/ Lawrenceville	1,015	3,445	$172.9 M	$571.0 M
Summerset at Frick Park	Squirrel Hill/ Swisshelm Park	700	30	$6.0 M	$400.0 M
Central Business District Development	Central Business District/Uptown/Bluff	1,100	5,612	$74.6 M	$859.3 M
Southside Works	Southside Flats	662	3,845	$100.2 M	$265.0 M
Bakery Square 2.0	Shadyside/Larimer	407	1,277	$7.1 M	$147.0 M
Neighborhood Business District Revitalization	Various	Various	Various	Various	Various

Initiatives

ED01.	Continue collaboration to accomplish housing and neighborhood development goals	
	Target outcome:	Attract 20,000 new residents by 2024
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor's Office and the URA

The City shall continue to initiate collaboration among the Mayor's Office, the City's Planning Department, the URA and the Housing Authority of the City of Pittsburgh in order to accomplish their joint housing and neighborhood development and increased City population objectives.

ED02.	Continue collaboration with URA to complete ten largest projects	
	Target outcome:	Complete projects to realize new property tax revenue
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor's Office and the URA

The City shall continue to cooperate with the URA in completing the URA's ten largest projects as listed and discussed in this chapter. Continued investment by the City and URA in these projects is critical to the City's efforts to rebuild and revitalize its neighborhoods.

Revenues

The City of Pittsburgh uses a mix of tax revenues, service charges, intergovernmental support and smaller miscellaneous items to fund its activities. To maintain and improve the services the City provides to residents, visitors and businesses, the City needs its revenues to grow at a sufficient, sustainable rate. Overall the City's revenue picture has been positive since 2009, even as the national economy recovers slowly from the recent recession. The City needs that positive performance to continue at a stable level to balance its annual budgets and then will have to find additional revenue to fund the necessary investments in City infrastructure and make additional contributions to the employee pension fund. Based on the most recent data available,[1] this chapter discusses the City's recent revenue performance, describes the baseline Recovery Plan projections and closes with initiatives to increase revenue.

Overview

The City's revenues since 2010 are shown in the table below and organized by revenue type. The City's four largest revenue sources – real estate tax, earned income tax, payroll preparation tax and parking tax -- accounted for approximately two-thirds of its total revenue.

Historical Revenue by Source, 2010-2013

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2010-2013 Growth (%)
Real Estate Taxes	126,372,782	129,658,026	131,799,992	123,399,064	-2.4%
Other Taxes	2,039,252	1,690,712	1,209,584	919,314	-54.9%
Amusement Tax	11,228,945	13,548,673	11,897,082	13,014,865	15.9%
Earned Income Tax	69,857,197	71,868,430	70,285,000	82,046,531	17.4%
Deed Transfer Tax	14,254,704	18,297,657	14,767,101	21,328,770	49.6%
Parking Tax	44,738,782	47,365,204	47,830,012	49,436,846	10.5%
Institution and Service Privilege Tax	458,830	454,994	457,045	494,502	7.8%
Facility Usage Fee	3,248,295	3,843,177	3,762,355	3,887,353	19.7%
Payroll Preparation Tax	46,627,869	50,355,422	51,850,054	54,262,822	16.4%
Local Service Tax	13,961,232	13,772,837	13,577,720	13,740,699	-1.6%
Public Service Privilege	1,331,761	1,330,318	1,165,293	986,708	-25.9%
Act 77 - Tax Relief	12,007,635	12,388,758	12,663,312	12,560,819	4.6%
Tax Revenue Subtotal	346,127,285	364,574,211	361,264,550	376,078,294	8.7%
License, Permit and Charges	33,599,113	33,335,635	35,973,704	34,982,167	4.1%
Fines and Forfeits	7,103,852	9,499,939	9,318,345	8,850,130	24.6%
Intergovernmental	37,664,929	51,305,477	50,458,584	51,360,515	36.4%

[1] The historical revenues in this chapter are the unaudited results shown in the City's quarterly financial and performance reports

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2010-2013 Growth (%)
Interest Earnings	162,259	61,524	89,502	82,846	-48.9%
Non-Profit Payment for Services	242,268	3,502,520	4,999,609	1,948,577	704.3%
Miscellaneous	138,819	2,118,988	115,808	164,831	18.7%
Beginning Fund Balance/Transfers	0	1,905,686	0	0	N/A
Other Revenue Subtotal	78,911,240	101,729,769	100,955,553	97,389,066	23.4%
Total Revenues	**425,038,525**	**466,303,980**	**462,220,103**	**473,467,359**	**11.4%**

Overall the City's revenue picture has been positive since 2010. Total revenues grew from $425.0 million to $473.5 million, representing annual growth of 3.7 percent over that period. The City's revenue growth from 2010 to 2013 (11.4 percent) outpaced inflation as measured by the Consumer Price Index for U.S. cities[2] (6.3 percent).

The tax revenues, which account for approximately 80 percent of the total, grew by 2.8 percent. Earned income tax, parking tax, and payroll preparation tax, representing half of total tax revenues, had an annual growth rate of between three and five percent from 2010 to 2013. Earned income tax revenues were particularly strong in 2013 with the full implementation of Act 32 of 2008 that changes how the tax is levied and collected. Intergovernmental revenue jumped by $13.6 million in 2011, mostly due to a one-time increase in Commonwealth pension aid. When pension aid returned to usual levels in 2012, the City started to receive $10 million per year in local gaming revenue to keep intergovernmental revenues at that higher level.

While the Amended Recovery Plan projects that revenues like the payroll preparation tax and the parking tax will continue to grow at recent rates, the City's largest revenue is not performing as well. Real estate revenue dropped by $8.4 million in 2013 due in actions related to the recent Countywide reassessment, most notably the City reducing the tax rate from 10.8 mills to 7.56 mills in early 2013. The rate reduction, which was intended to prevent a windfall in revenue, had the opposite effect, dialing revenue levels back to what they were in 2005.

Other revenues performed well in 2013, but their volatility makes them difficult to rely upon going forward. Deed transfer tax is inherently volatile as revenue levels vary with the presence or absence of sales involving large commercial properties. At a glance the deed transfer tax grew by 49.6 percent from 2010 to 2013. But the year to year results – 28 percent increase in 2011, 19 percent decrease in 2012, 44 percent increase in 2013 -- reveal too much volatility to rely upon a continuation of 2013 revenue performance to fund services.

There is less year-to-year volatility in the City's amusement tax or facility usage fee revenues, but receipts from those sources are largely dependent upon the attendance at the City's professional and college sports venues, for-profit performing arts and movie theatres, which is mostly beyond the control of City government. The City also faces uncertainty whether it will receive higher contributions from tax exempt non-governmental institutions, though their support would help the City make overdue investments in its roads, bridges and other critical infrastructure.

The next section examines each of the major revenue sources in more detail.

[2] US Bureau of Labor Statistics, December National consumer price index for all items, non-seasonally adjusted.

Tax revenues

Real estate tax, earned income tax, payroll preparation tax and parking tax are the four largest revenue sources for the City of Pittsburgh. These four revenues represent approximately two-thirds of Pittsburgh's total revenues.

According to the baseline projection methodology, these four revenues are projected to grow by 0.6 percent in 2015 and two percent from 2016 to 2018, assuming no changes in tax rates. The lower growth rates compared to prior years is largely driven by lower real estate taxes projections, as explained below.

Four Largest Revenue Sources, 2010-2018 (in $millions)

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Real Estate Taxes	126.4	129.7	131.8	123.4	128.8	125.5	126.5	128.6	130.7
Earned Income Tax	69.9	71.9	70.3	82.0	83.4	85.0	87.2	89.9	92.6
Payroll Preparation Tax	46.6	50.4	51.9	54.3	55.5	57.7	60.0	62.4	64.9
Parking Tax	44.7	47.4	47.8	49.4	50.9	52.2	53.5	54.8	56.2
Total	**287.6**	**299.2**	**301.8**	**309.1**	**318.6**	**320.5**	**327.2**	**335.7**	**344.4**
Annual Growth		4.1%	0.8%	2.4%	3.0%	0.6%	2.1%	2.6%	2.6%

Real Estate Tax

The real estate tax is the City's largest source of revenue, accounting for more than a quarter of 2014 total budgeted revenues. The City of Pittsburgh levies a 7.56 mill real estate tax on the assessed value of land and buildings. The Pittsburgh School District levies an additional 9.84 mills, Allegheny County levies 4.73 mills and there is a 0.25 mill levy for the Carnegie Library for a total millage of 22.38.

Before 2013 the City's growth in current year real estate tax revenue was modest. Current year receipts grew by 1.5 percent in 2011 and 0.8 percent in 2012.

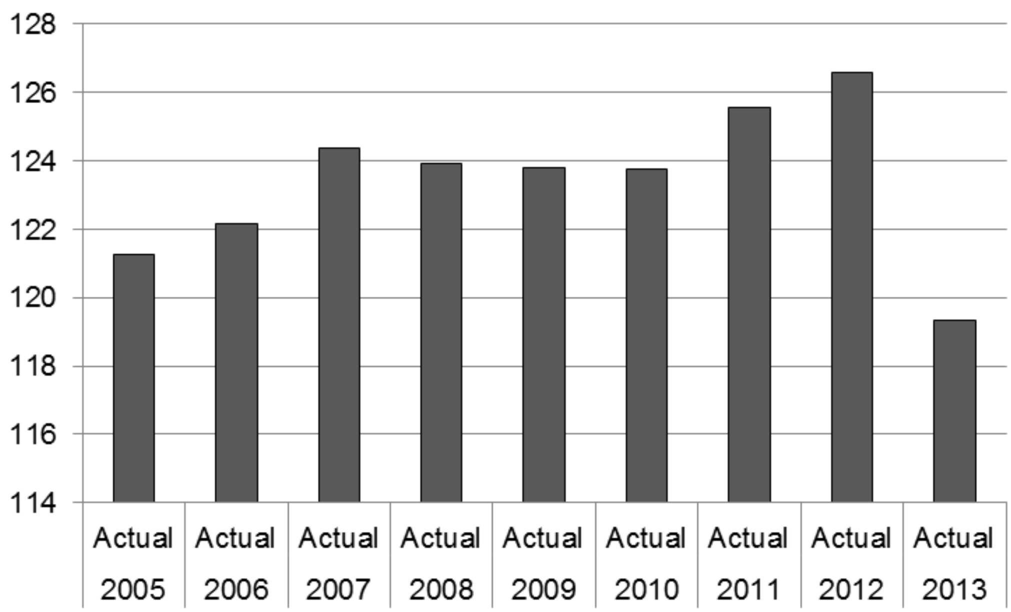
In 2013 the City used the new real estate values generated by Allegheny County's recent reassessment for the first time. Under the reassessment, the total value of taxable real estate in the City increased by 49 percent. If real estate values increase and tax rates do not change, then property owners will pay more on their tax bill. Under Pennsylvania law, communities in Allegheny County must recalculate (or "equalize") their property tax millage so that the combination of the higher real estate values and a lower tax rate yields the same revenue as in the prior year. The calculation should take into account increases in real estate values related to new construction or building improvements and changes related to assessment appeals. The equalized tax rate should not increase real estate tax revenues or decrease them above prior levels. Tax revenues should remain the same after reassessment.[3]

[3] Allegheny County municipalities can increase their equalized tax rate up to 5 percent in the first year after reassessment without court approval, but Pittsburgh did not use this provision.

In January 2013, City Council unanimously passed an ordinance[4] introduced by Mayor Ravenstahl reducing the tax rate from 10.8 to 7.56 mills. It also increased the Homestead exemption by 50 percent, increased the Senior Tax Relief Credit by 30 percent and actively helped property owners appeal their new, higher assessments. The combination of these efforts was intended to keep current year real estate tax revenues at the prior year's level.

Instead real estate tax revenues fell from $126.6 million in 2012 to 119.3 million in 2013, a 5.7 percent drop. In comparison, this amount is almost equal to the entire budgets of the Department of Parks and Recreation and Bureau of Building Inspection combined. The intentions behind the actions were understandable. The Administration and Council were trying to "err on the side of tax payers" to soften any reassessment-related increase in real estate tax bills as much as possible. But the unintended, actual impact was that receipts from the City's largest source of revenues were dialed back to what they were when the City first entered Commonwealth oversight. The chart below shows the City's current real estate tax revenue from 2005 to 2013.

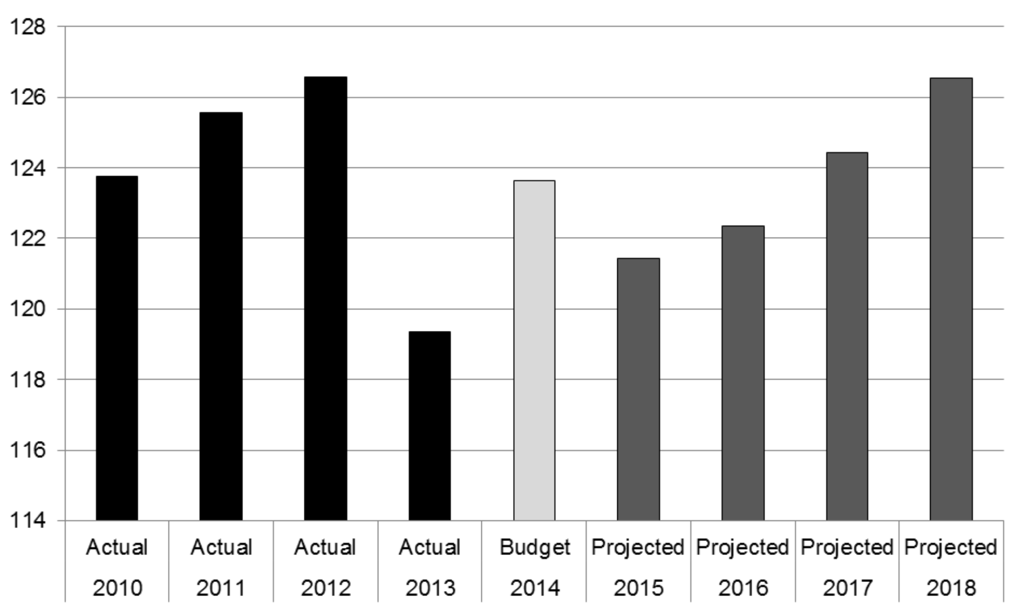
Current Year Real Estate Revenues, 2005 – 2013 ($ Millions)



The City's 2014 budget projects $123.6 million in current year real estate tax revenue, which would be 3.6 percent more than the City collected in 2013. Since the 2014 budget was finalized, City finance has re-evaluated the projections in that document and lowered its projections for 2015-2018. The Amended Recovery Plan baseline incorporates those lower projections. While the chart below shows the City's budget target for 2014, City Finance anticipates actual receipts may fall short of the budgeted $123.6 million this year.

[4] The Ordinance amended the Pittsburgh Code, Title Two, Fiscal; Article IX, Property Taxes; Chapter 263, Real Property Tax and Exemption; Section 263.01, Levy and Rate on Lands and Buildings. The Ordinance was passed on January 29, 2013 with an effective date of January 1, 2013.

Current Real Estate Taxes, 2010 – 2018 ($ Millions)



Current Year Real Estate Tax, 2010-2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Real Estate Tax Rate	10.8	10.8	10.8	7.56	7.56	7.56	7.56	7.56	7.56
Revenues ($ Millions)	123.7	125.6	126.6	119.3	123.6	121.4	122.3	124.4	126.5
Revenue Growth (%)	*N/A*	*1.5%*	*0.8%*	*-5.7%*	*3.6%*	*-1.8%*	*0.8%*	*1.7%*	*1.7%*

In 2013 the City received $4.1 million in prior year real estate tax revenue versus a budget target of $4.4 million. The 2014 budget target ($4.7 million) was predicated on the City collecting $4.4 million in 2013. City Finance has since adjusted its prior year real estate tax projections to account for the lower 2013 results and those projections are incorporated in the Amended Recovery Plan baseline.

Prior Year Real Estate Tax, 2010-2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Revenue ($000s)	2,628	4,100	5,226	4,061	4,673	4,094	4,110	4,151	4,193
Revenue Growth (%)		*56.0%*	*27.5%*	*-22.3%*	*15.1%*	*-12.4%*	*0.4%*	*1.0%*	*1.0%*

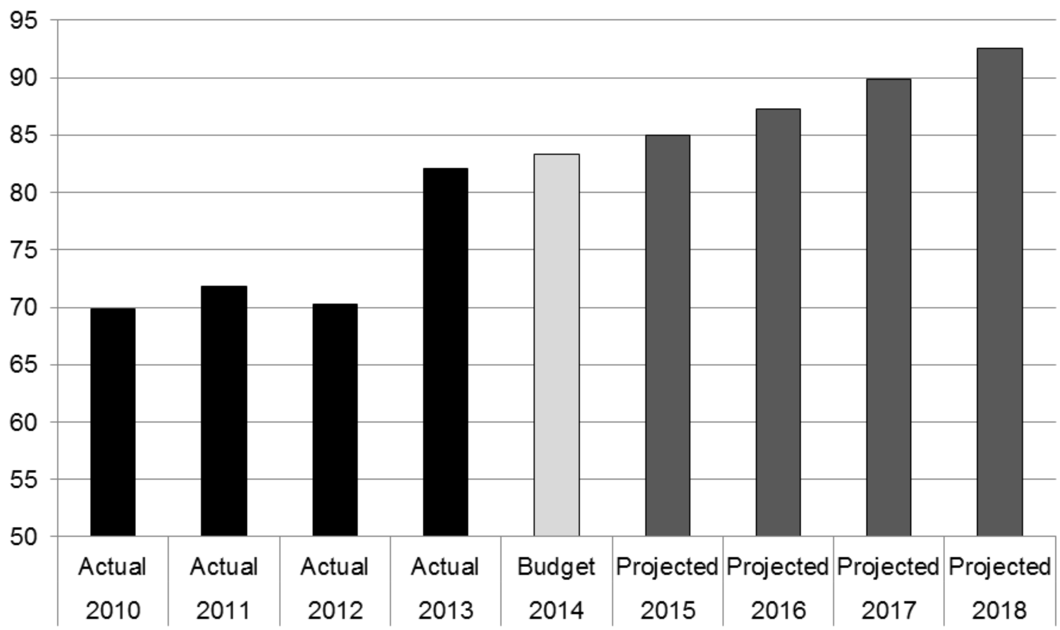
Earned Income Tax

The earned income tax (EIT) is Pittsburgh's second largest revenue source, representing 17.1 percent of total budgeted revenues in 2014.

From 2009 to 2011, the City's EIT receipts grew by 3.4 percent per year. After a small drop in 2012, EIT receipts jumped by 16.7 percent in 2013. The increase was due to the full implementation of Act 32 of 2008, which requires more uniform tax withholdings by employers and more timely tax collection and distribution by designated Tax Officers.[5] The EIT rate itself has not changed since 2010. Residents pay 1.25 percent to the City and another 1.75 percent to the Pittsburgh School District.

While the increased EIT receipts under Act 32 have helped the City, there is not enough information to project any further significant increases in EIT revenues, beyond the regular rate of growth that the City experienced before 2013. The Amended Recovery Plan projections match those in the City's 2014 budget.

Earned Income Tax Revenue ($ Millions)



Earned Income Tax, 2010-2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
EIT Rate	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
EIT Revenue ($000s)	69,857	71,868	70,285	82,047	83,368	85,033	87,241	89,858	92,554
Revenue Growth (%)	*N/A*	*2.9%*	*-2.2%*	*16.7%*	*1.6%*	*2.0%*	*2.6%*	*3.0%*	*3.0%*

Payroll Preparation Tax

The payroll preparation tax accounts for 11.4 percent of Pittsburgh's 2014 budgeted revenues. This tax was first enacted in 2005 and is currently levied at the rate of 0.55 percent on the gross payroll of the employer and the distribution of net income from self-employed individuals, members of partnerships, associations, joint ventures or other for-profit entities who perform work or provide services within the City of Pittsburgh. Tax receipts are projected to grow by 4.0 percent per year, which is slightly lower than the compounded annual growth rate from 2010 to 2013 but higher than the 2.0 percent growth rate incorporated in the City's 2014 budget.

[5] Jordan Tax Services is the designated Tax Officer that collects earned income tax for the City of Pittsburgh.

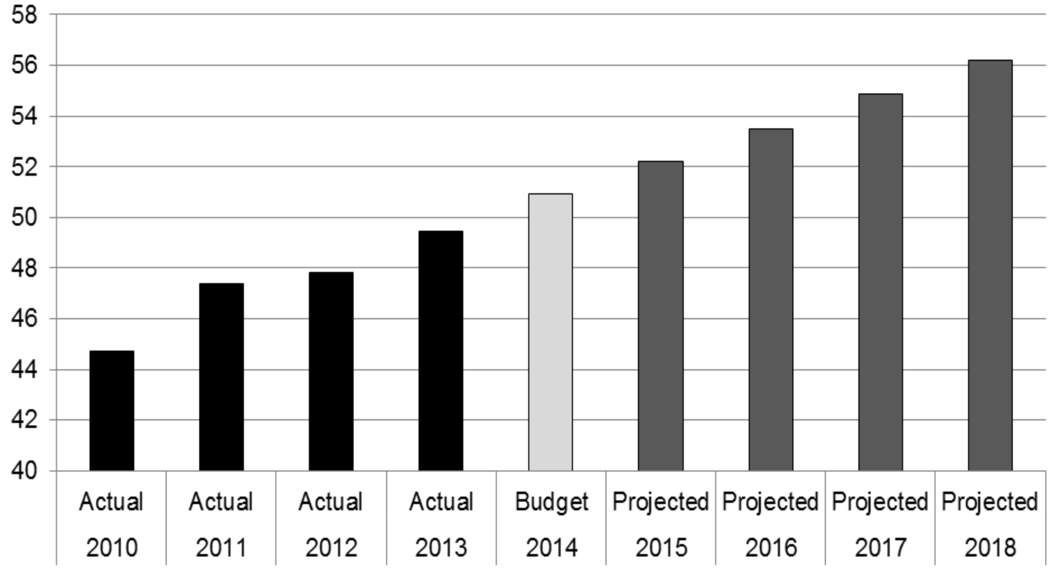
Payroll Preparation Tax, 2010-2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Revenues ($000s)	46,628	50,355	51,850	54,263	55,497	57,717	60,026	62,427	64,924
Revenue Growth (%)	*N/A*	*8.0%*	*3.0%*	*4.7%*	*2.3%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*

<u>Parking Tax</u>

The current rate for the parking tax is set at 37.5 percent by Act 44 of 2010 and is applied to patrons of any parking facility within City. Parking tax revenues are projected to grow by 2.5 percent per year from 2015 to 2018 absent any changes in the parking tax levy or the parking rates that people pay at garages in the City.

Parking Tax Revenues ($ Millions)



Parking Tax (in $000s), 2010-2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Parking Tax Revenues	44,739	47,365	47,830	49,437	50,928	52,201	53,506	54,843	56,215
Parking Tax Rate	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Revenue Growth	*N/A*	*5.9%*	*1.0%*	*3.4%*	*3.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*

The City has been dedicating $13.4 million of parking tax to the pension fund since 2010 as required by its ordinance. In 2018 the City will double that figure and commit $26.8 million of its parking tax revenue to the pension. The baseline projection incorporates that change.

Act 77 Tax Relief

Under Pennsylvania Act 77 of 1993, Allegheny County and its municipalities receive one-half of a 1 percent County sales tax to support general municipal services.[6] Twenty-five percent of the funds go to the County government and 25 percent go to municipal governments based on a formula weighted to help distressed communities. The revenue was intended to replace funds lost with the elimination of the personal property tax, the reduction of the amusement tax and the expansion of the City's real estate Senior Relief Program.

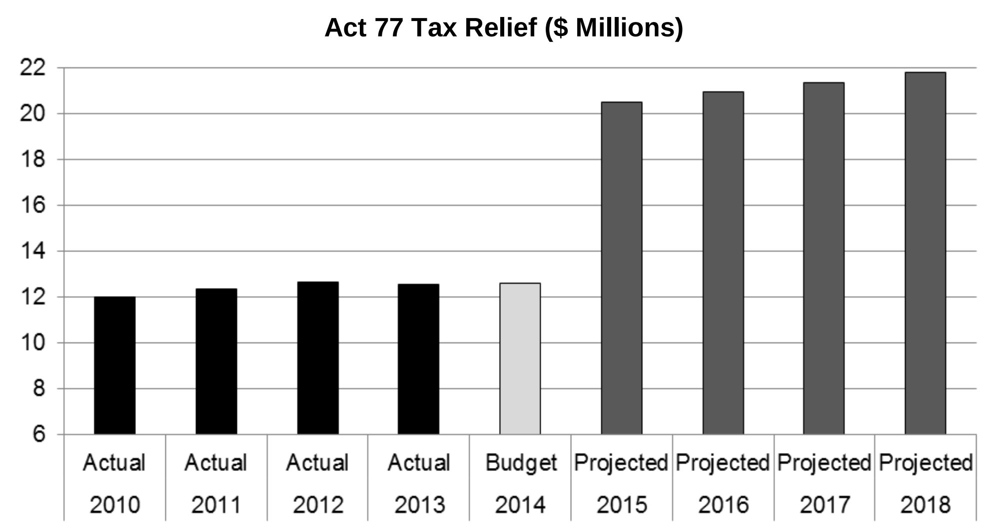
Act 77 tax relief revenue varies based on a formula related to total tax revenue and the per capital market value of real property in each County jurisdiction, and is set annually by the Commonwealth's Department of Community and Economic Development and the City's share has dropped from 53.3 percent from 1995-2007 to 45.3 percent in 2013.

Act 77 Tax Relief Revenue Distribution, 1995 to 2007 (in $millions)[7]

	1995-2007	2008	2009	2010	2011	2012	2013
1% County Sales Tax ($Ms)	1,836.4	161.8	157.5	162.0	167.3	174.9	177.0
Pittsburgh Distribution ($Ms)	244.5	20.3	19.2	19.5	19.9	20.2	20.1
Pittsburgh Distribution (%)	53.3%	50.1%	48.9%	48.2%	47.5%	46.1%	45.3%

The City's Act 77 Tax Relief revenues grew by an annual average of 1.5 percent from 2010 to 2013 and the City projects 2.0 percent growth in future years, absent one significant change in 2015. Until 2015, a portion of this revenue has been used to pay debt service on the economic development bond issued by the Urban Redevelopment Authority in 1995. When the debt is fully repaid in 2014, that portion of the Act 77 tax relief will instead go to the City's General Fund.

Note that the revenue is counted in the City's baseline and is needed to balance the City's budget. The revenue shall not be used to back new URA bonds or serve as security for any other issue; rather, it shall support the City's general fund activities.



[6] The other half percent is used to maintain major cultural and recreation facilities in Allegheny County, including five parks in the City of Pittsburgh. Please see the Parks and Recreation chapter for more information.

[7] Allegheny Regional Asset District. Sales and Use Tax Distribution.

Other tax revenues

The City also generates revenues from three other taxes that totaled $44.8 million in its 2014 budget, representing 9.3 percent of total budgeted revenues.

The local service tax (LST) is a weekly tax of $1 per employee working in the City earning greater than $12,000 per year. LST revenue remained flat in the past three years and is projected to grow modestly at 0.7 percent per year. Given the positive impact that Act 32 has had on the City's earned income tax collections, and the similarities between the LST and the EIT, the City should consider moving LST collection to the EIT collection officer, as other communities have done, so that one collector can monitor whether tax payers are contributing the right amounts for both taxes.

The other two taxes fluctuated significantly from 2010 to 2013. Amusement Tax is levied at the rate of 5 percent on the gross admissions of patrons of any type of event that offers entertainment or allows the patrons to engage in the entertainment. In 2012 the City's amusement tax revenue dropped by 13.9 percent because of lost attendance at Pittsburgh Penguins games during the NHL lockout. Then the revenue rebounded in 2013 in part because the Pittsburgh Pirates made the major league baseball playoffs.

Deed transfer tax is another tax that fluctuates from year to year since its revenue receipts depend largely on the presence or absence of sales involving large commercial properties. Given their volatility, both of these two tax revenues are projected to grow annually by 2.0 percent.

Local Service Tax, Amusement Tax and Deed Transfer Tax (in $000s), 2010 - 2018

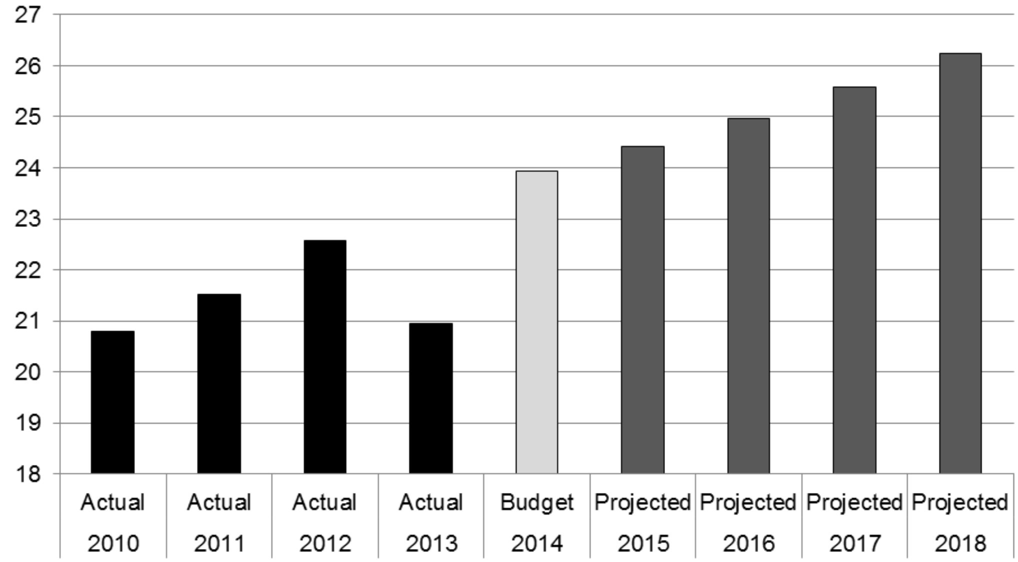
	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Local Service Tax	13,961	13,773	13,578	13,741	13,960	14,035	14,104	14,275	14,339
Amusement Tax	11,229	13,549	11,897	13,015	12,959	13,154	13,451	13,851	14,054
Deed Transfer Tax	14,255	18,298	14,767	21,329	17,832	18,099	18,371	18,830	19,301
Subtotal	**39,445**	**45,619**	**40,242**	**48,084**	**44,751**	**45,287**	**45,926**	**46,956**	**47,694**
Revenue Growth		*15.7%*	*-11.8%*	*19.5%*	*-6.9%*	*1.2%*	*1.4%*	*2.2%*	*1.6%*

Non-tax revenues

In 2012 the City launched a new Enterprise Resource Planning (ERP) system that changed how the City tracks revenues. The ERP system has a new accounting structure that combines several items into a category called Charges for Service and others into a category called License and Permits. During the transition period between accounting structures, the City budgeted some revenues in one category but recorded the actual money collected in another, creating apparent shortfalls and surpluses that are a byproduct of the accounting change and not changes in actual revenues. For this reason it is difficult to discern historical growth trends in these categories.

Six revenue lines hold 85 percent of total revenue from charges for service -- EMS (ambulance) revenues, cable franchise fees, payment for school board tax collection, Pittsburgh Water and Sewer Authority (PWSA) indirect cost reimbursements, and the Borough of Wilkinsburg payments for City trash and fire services. The graph below shows the total revenues from those sources from 2010 to 2018. The decrease in 2013 was driven by a $1.7 million drop in school board tax collection revenue. EMS revenues account for the biggest difference between actual 2013 collections ($10.1 million) and the 2014 budget target ($12.7 million), with the expected growth driven by an increase in rates. The Coordinator notes the potential shortfall in this area but incorporates the City's projections in the Amended Recovery Plan.

Revenue from Six Major Charges for Services ($ Millions)



Other individual lines in the Charges for Service category grow at different rates based on their unique attributes. Across all lines total revenue in this category grows by 2.1 percent.

<u>Fines and Forfeits</u>

This revenue consists mainly of restitution paid for traffic or parking violations. Parking court revenue accounts for 77.4 percent of the total budgeted for this category in 2014 and is projected to grow at 1.0 percent annually.

<u>Licenses and Permits</u>

This revenue reflects all license and permit receipts generated through acquisition of permits for repair, alterations, construction, and other trade licensures. Commercial building permits make up the largest revenue source within this category, followed by zoning fees, fire safety and liquor and malt beverage licenses. These four revenues together represent almost half of the total budgeted for this category in 2014. Total license and permit revenues are projected to grow at 1.7 percent annually.

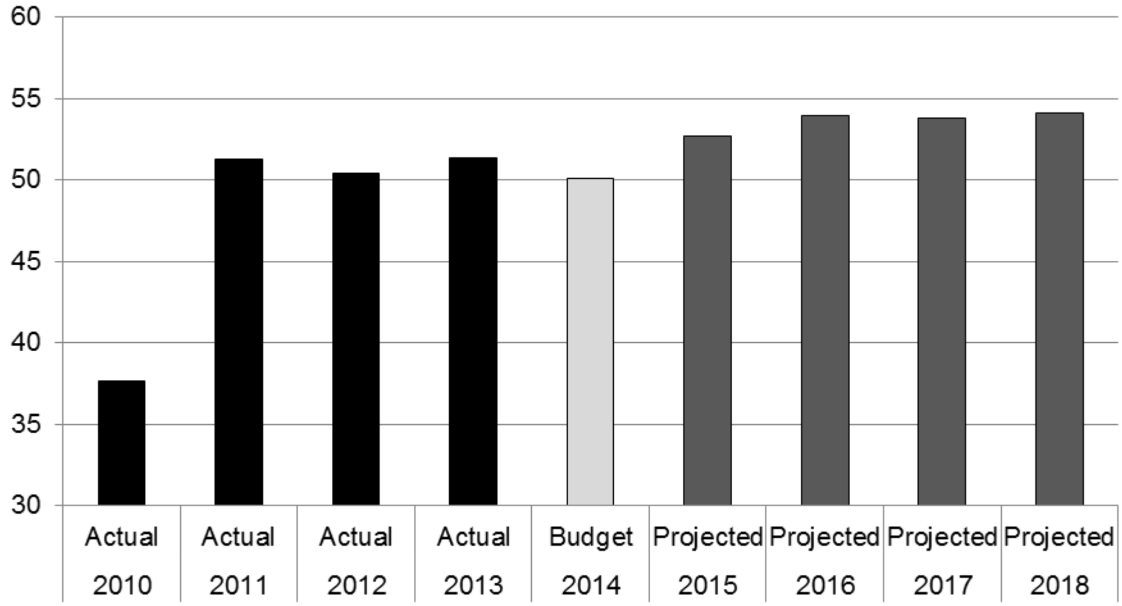
<u>Intergovernmental Revenues</u>

Intergovernmental revenues represent about ten percent of the City's budget. This revenue comes from local, state and federal grants awarded to the City, payments from local authorities, state pension aid and the local share of gaming revenues. The table below shows the recent historical performance and projections for the largest lines in this category. As noted earlier, a change in Commonwealth law generated a one-time increase in pension aid in 2011. Fortunately the reduction in pension aid back to historic levels in 2012 coincided with the arrival of $10 million generated from the 2.0 percent local share of slots revenue. Total intergovernmental revenues are projected to grow by 2.0 percent per year.

Major Intergovernmental Revenues (in $000s), 2010 - 2018

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
State Pension Aid	15,595	26,908	16,900	18,027	15,705	18,117	18,298	18,481	18,666
2% Slots Revenue	0	2,747	11,548	10,000	10,000	10,000	10,000	10,000	10,000
Economic Development Slots Revenue	5,100	5,100	5,100	5,100	5,100	5,100	5,100	4,500	4,500
Authority Payments	8,425	8,500	8,019	8,292	9,802	10,802	11,802	11,801	11,801
Total	**29,120**	**43,255**	**41,567**	**41,419**	**40,608**	**44,019**	**45,200**	**44,782**	**44,967**
Revenue Growth (%)		*48.5%*	*-3.9%*	*-0.4%*	*-2.0%*	*8.4%*	*2.7%*	*-0.9%*	*0.4%*

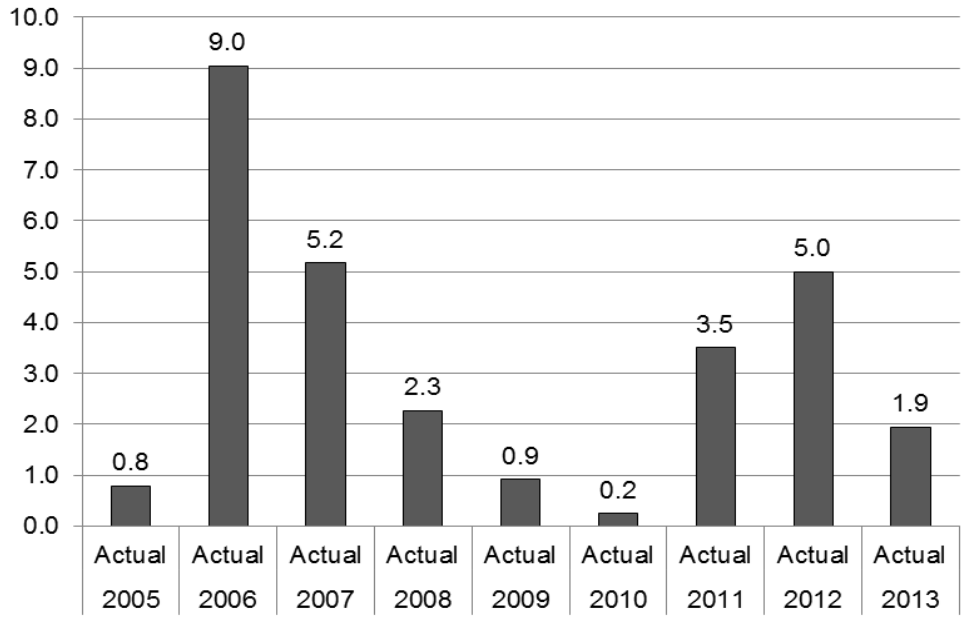
Intergovernmental Revenues ($ Millions)



Non-Profit Payment for Services

As part of the 2004 Recovery Plan, the Pittsburgh Public Service Fund was established to accept contributions from tax-exempt non-governmental institutions and distribute them to the City. Later the City negotiated agreements every two to three years with the Pittsburgh Foundation to establish an amount that these institutions would voluntarily contribute to the City. Under the last agreement that was approved in 2012, about 40 non-profits agreed to contribute $2.6 million in 2012 and another $2.6 million 2013.

Non-Profit Contributions ($ Millions)



For timing reasons, the City will receive a portion of the money from the 2012-2013 agreement in 2014. While the Peduto Administration is seeking new non-profit contributions, there is no agreement in place and future revenues are projected at approximately $830,000 per year absent a larger agreement.

Please see initiative CP03 in the Capital Improvement chapter for more discussion of this issue.

Amended Recovery Plan Baseline Projections

Act 47 requires the Recovery Coordinator to provide "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations and as impacted by the measures in the [Recovery Plan]." This Plan has a five year baseline projection of revenue and expenditures, just as was done in the 2004 Recovery Plan and the 2009 Amended Recovery Plan.

The Recovery Coordinator started with the City's 2014 budget as approved by the ICA and City Council and the projections for 2015 - 2018 provided in that document. The Coordinator carefully reviewed those projections and historical revenue performance, including the preliminary 2013 year-end results provided in the City's fourth quarter report. While the preliminary 2013 results are unaudited and subject to change, they provide a recent point of reference that was not available to the City when it constructed the 2014 budget in the summer of 2013.

Based on the Coordinator's review and discussions with officials in City Finance, City Council and the City Controller's Office, as well as representatives from the ICA and DCED, the Amended Recovery Plan's baseline revenue projection includes the following changes to the multi-year projections in the City's 2014 budget:

- Real estate tax revenue reduced by an average of $4.5 million per year starting in 2015 to reflect the 2013 shortfall in this category and early indications that 2014 revenues will not be significantly higher than 2013 levels.

- Payroll preparation tax revenue grows by 4.0 percent annually starting in 2015, instead of 1.5 - 1.9 percent, in recognition of recent revenue growth.

- Parking tax revenue grows by 2.5 percent annually starting in 2015, instead 1.5 percent, in recognition of recent revenue growth.

- State pension aid increased by $2.4 million in 2015 to reflect the actual revenues received in 2014.

- Interest earnings reduced by $1.3 million in 2017 and $2.3 million 2018 to reflect more realistic financial market assumptions.

- Market-based revenue opportunity (MBRO) proceeds reduced from $500,000 to $50,000 annually starting in 2015 to reflect the actual progress on this initiative from the 2004 and 2009 Recovery Plans.

- State grant revenues reduced by $1.0 million to reflect the end of Commonwealth support for regional events, like the 2009 G-20 Conference held in Pittsburgh. The City has budgeted, but not received, these revenues in most years since 2009.

The table below shows the Amended Recovery Plan's baseline revenue projection through 2018, inclusive of the changes noted above. Please note that this projection describes a status quo situation in which there are no changes in tax rates, collection processes or external factors, such as relevant federal and Commonwealth laws. **Appendix XX** presents these projections using the categories in the City's quarterly financial reports.

FY2014 – FY2018
Baseline Revenue Projections

	2014 Budget	2015 Projection	2016 Projection	2017 Projection	2018 Projection
Real Estate Taxes	128,770,493	125,532,000	126,459,000	128,580,000	130,737,000
Other Taxes	463,266	471,330	483,119	496,253	515,935
Amusement Tax	12,959,256	13,153,624	13,450,896	13,851,116	14,054,362
Earned Income Tax	83,368,123	85,032,775	87,240,736	89,857,958	92,553,697
Deed Transfer Tax	17,831,723	18,099,199	18,370,687	18,830,247	19,300,941
Parking Tax	50,927,589	52,200,779	53,505,798	54,843,443	56,214,529
Institution and Service Privilege Tax	498,135	505,578	513,133	520,801	528,583

	2014 Budget	2015 Projection	2016 Projection	2017 Projection	2018 Projection
Facility Usage Fee	3,743,509	3,818,272	3,894,532	3,972,316	4,050,657
Payroll Preparation Tax	55,497,046	57,716,928	60,025,605	62,426,629	64,923,694
Local Service Tax	13,960,222	14,034,635	14,104,453	14,274,738	14,338,961
Public Service Privilege	1,221,664	1,227,772	1,233,911	1,240,081	1,246,281
Act 77 - Tax Relief	12,637,156	20,539,899	20,950,697	21,369,711	21,797,105
Tax Revenue Subtotal	381,878,182	392,332,791	400,232,567	410,263,293	420,261,746
License and Permit	9,056,204	9,129,283	9,343,762	9,518,629	9,688,327
Charges for Services	28,331,214	28,388,050	29,064,528	30,043,664	30,832,094
Fines and Forfeits	9,384,701	9,440,737	9,545,728	9,652,403	9,760,818
Intergovernmental	50,091,801	52,690,511	54,002,698	53,826,495	54,135,148
Interest Earnings	109,598	111,790	115,144	119,749	125,737
Non-Profit Payment for Services	2,093,801	807,770	821,808	835,917	850,097
Miscellaneous	16,821	16,905	17,271	19,877	23,190
Beginning Fund Balance/Transfers	1,570,000	1,902,000	475,000	0	0
Other Revenue Subtotal	100,654,140	102,487,046	103,385,938	104,016,735	105,415,412
Total Revenues	**482,532,322**	**494,819,837**	**503,618,505**	**514,280,029**	**525,677,157**

Initiatives

RV01.	**Restore real estate tax revenue lost in 2013**	
	Target outcome:	Maintain financial stability
	Five Year Financial Impact:	$26.8 million
	Responsible party:	Finance

As described earlier in this chapter, revenues from current year real estate taxes dropped by $7.2 million (or 5.7 percent) compared to 2012 as a result of the recent County-wide reassessment, reduced City real estate tax rate, and increased homestead exemption. The City reduced its tax rate from 10.80 to 7.56 mills to avoid a windfall related to reassessment. While the intention was to adjust the tax rate so reassessment would not generate additional tax revenue, the result of the millage reduction, in combination with the expanded homestead exemption and valuation appeals, is that the 2013 real estate tax receipts were the City's lowest since 2004.

The chart below shows City Finance's projections for current year real estate tax revenue in the 2013 budget, before the tax rate reduction, versus Finance's projections earlier this year.

Current Year Real Estate Tax Projections – Before and After Rate Reduction ($ Million)

	2013	2014	2015	2016	2017
Before: 2013 Budget	$126.2	$127.1	$128.1	$129.0	$130.0
After: April 16, 2014	$119.3	$120.5	$121.4	$122.3	$123.3
Difference	***($6.8)***	***($6.6)***	***($6.6)***	***($6.7)***	***($6.7)***

Beginning in 2015 the City shall increase its millage rate to regain the revenue lost from reducing the rate in 2013 and other factors related to reassessment. That is, the City shall increase its millage rate so that current year real estate taxes generate $128.1 million in 2015 (the amount projected before the rate cut). The City shall include the calculation of the millage rate necessary to generate $128.1 million in 2015 in its budget submission to the ICA.

The exact amount of the millage increase is unknown at this time, though City Finance's projections shown above indicate a 5.5 percent increase would be necessary to boost revenues from the $121.4 million projected for 2015 to the $128.1 million target. If 2014 revenue performance is stronger than projected, then the tax increase would be less. If 2014 revenue performance is weaker than projected, then the tax increase would be more.

While this will undoubtedly result in a tax increase for some property owners, it will restore revenues to the level projected before the rate reduction, homestead exemption expansion and other related factors so that the net impact of the reassessment and related activities is revenue neutral.

Projected Financial Impact

2014	2015	2016	2017	2018
0	6,621,000	6,671,000	6,721,000	6,771,000

RV02.	**Increase parking rates at PPA facilities and transfer revenue to City**	
	Target outcome:	Maintain financial stability
	Five Year Financial Impact:	$6.4 million
	Responsible party:	Mayor's Office; Finance

City Council members have previously expressed interest in collecting more parking related revenue in the City's General Fund by increasing parking meter rates and then amending the City's intergovernmental cooperation agreement with the Pittsburgh Parking Authority (PPA) so the increased revenue comes to the City. This concept was part of City Council's late 2010 plan to boost the employee pension funding level by committing a portion of its parking tax revenue to the pension fund. The increased parking meter revenue would have offset some of the diverted parking tax revenue.

Similarly, the City could work with the PPA to increase the rates charged at PPA-controlled garages and surface lots. While the City cannot change the parking tax levy – it is fixed at 37.5 percent by Commonwealth law – the PPA could change the rates at these facilities and have a similar result, accounting for some revenue erosion if drivers use other non-PPA facilities instead.

Led by the Mayor, the City shall meet with the Pittsburgh Parking Authority management and board to discuss rate increases at PPA controlled facilities that generate additional parking tax revenue above the levels projected in this Amended Recovery Plan.

After conferring with the Administration, the Recovery Coordinator sets the following targets for increased parking tax revenues above the baseline projected in the Amended Recovery Plan.

Parking Tax Revenue Increase Targets

	2015	2016	2017	2018
Baseline	$52,213,000	$53,518,000	$54,856,000	$56,228,000
Revenue target ($)	$1,100,000	$1,500,000	$1,600,000	$2,200,000
Revenue target (%)	2%	3%	3%	4%

RV03.	**Adjust fees and service charge revenues**	
	Target outcome:	Maintain cost recovery
	Five Year Financial Impact:	$2.2 million
	Responsible party:	Finance

The City has several service charges that are intended to help recover some, if not all, of the cost for providing those services. Those costs rise incrementally over time along with the cost of materials and labor (i.e. total employee compensation costs). The City should adjust its fees to maintain cost recovery, or the incremental increases in costs will be covered by General Fund tax revenues that are needed to fund services where cost recovery is not expected (e.g. police patrol, fire suppression).

The Department of Finance shall periodically review any fees and service charges that are not limited by Pennsylvania law to ensure they are maintaining cost recovery, and then make any necessary adjustments. Given the large number of service charges, the Department should not try to review every fee annually, but rather establish a schedule for reviewing a subset of service charges each year.

The City recently adjusted its largest service charge, the EMS transport fees that are budgeted for $12.7 million in 2014. The City should also reinstitute another public safety related charge –

false alarm fees – to gain some cost recovery for events that divert resources away from where they are needed.

If the City adjusted some of its license and permit related revenues so that they grew by 2.5 percent per year and adjusted some of its charges for service revenues so that they grew by 3.0 percent per year, the City would gain $250,000 to $700,000 per year over the levels in the baseline projection. The City recently budgeted false alarm fees at $507,000 per year, though it did not collect any revenue.

The Amended Recovery Plan sets a more conservative target of $550,000 per year, including the false alarm fees, since the City will not be able to review and adjust every charge every year and will need time to set up the processes for billing and collecting false alarm fees.

Projected Financial Impact

2014	2015	2016	2017	2018
0	550,000	550,000	550,000	550,000

Appendix A: Baseline Projections

Act 133 of 2012 requires that an Act 47 recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." Act 133 requires the projections include an "itemization" of revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). In reference to the list in Act 133, the Recovery Coordinator provides this baseline projection of revenues and expenditures that covers all the items listed in Act 133 using the account names in the City's budget.

Baseline Revenue Projection

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Taxes					
Real Estate Taxes	128,770,493	125,532,000	126,459,000	128,580,000	130,737,000
Amusement Tax	12,960,680	13,155,069	13,452,374	13,852,638	14,055,906
Earned Income Tax	83,404,036	85,069,405	87,278,317	89,896,202	92,593,507
Deed Transfer Tax	17,831,723	18,099,199	18,370,687	18,830,247	19,300,941
Parking Tax	50,939,624	52,213,115	53,518,442	54,856,404	56,227,814
Facility Usage Fee	3,748,846	3,823,716	3,900,084	3,977,979	4,056,432
Payroll Preparation Tax	55,759,350	57,989,724	60,309,313	62,721,685	65,230,553
Local Service Tax	14,054,835	14,129,752	14,200,044	14,371,483	14,436,141
Public Service Privilege	1,221,664	1,227,772	1,233,911	1,240,081	1,246,281
Act 77 Tax Relief	12,637,156	20,539,899	20,950,697	21,369,711	21,797,105
Institution and Service Privilege Tax	500,074	507,546	515,130	522,828	530,641
Other Taxes	49,701	45,594	44,567	44,035	49,425
Total Taxes	**381,878,182**	**392,332,791**	**400,232,567**	**410,263,293**	**420,261,746**

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Licenses, Permits & Fees					
Liquor & Malt Beverage	422,385	424,497	432,987	441,647	450,480
Other License Revenue	1,439,577	1,461,171	1,505,006	1,550,156	1,596,661
Commercial Building	3,240,216	3,256,417	3,321,545	3,354,761	3,388,308
Residential Building	276,271	277,652	283,205	288,870	294,647
Street Excavations	863,176	867,492	893,517	920,322	938,729
Encroachments	35,771	36,278	37,003	37,743	38,498
Zoning Fees	1,027,273	1,032,409	1,053,058	1,063,588	1,074,224
Zoning Board of Adjustments	108,575	109,118	111,300	112,413	113,537
Picnic and Ballfield	310,075	316,277	325,765	335,538	345,604
Employee Parking Fees	149,915	185,214	188,919	192,697	196,551
Fire Safety	612,188	618,310	630,676	643,290	656,155
Other Permit Revenue	570,782	544,448	560,782	577,605	594,933
Total Licenses, Permits & Fees	**9,056,204**	**9,129,283**	**9,343,762**	**9,518,629**	**9,688,327**
Charges for Services					
Cable Bureau Revenue	5,281,897	5,282,689	5,335,516	5,388,871	5,442,760
Animal Care & Control Revenue	263,684	265,002	267,652	270,329	273,032
School Board Non-Resident Employee	4,222	4,285	4,542	5,678	5,792
Daily Parking Meters	437,394	443,955	470,592	588,240	629,417
Documents - Fire Records	3,187	3,235	3,332	4,165	4,415
Documents - Police Records	114,040	115,751	116,908	118,077	119,258
Lien Filing	72,211	12,625	13,382	16,728	17,899
Misc -Public Works	668,571	671,914	678,633	685,419	692,274
Municipal Pension Plan	77,061	78,217	80,563	100,704	103,725

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Fire Pension Plan	77,061	78,217	80,563	100,704	103,725
Police Pension Plan	86,127	87,419	90,041	112,552	115,928
Point State Park	272,000	272,000	277,440	282,989	288,649
Safety Inspections	56,720	57,571	59,298	74,122	78,570
Wilkinsburg - Trash	903,852	877,524	903,852	930,960	949,584
Wilkinsburg - Fire	1,600,848	1,619,396	1,600,848	1,648,352	1,681,319
Swimming Pools	313,929	315,499	318,654	321,840	325,059
Other Charges for Service Fees	428,872	497,683	531,035	581,120	605,359
Total Fees	***10,661,676***	***10,682,981***	***10,832,853***	***11,230,851***	***11,436,764***
Charges for Services - Leases					
Private Housing	4,000	4,060	4,344	4,518	4,654
Wharf Parking	343,993	349,153	359,627	370,416	381,529
Wharves	11,154	11,154	11,154	11,154	11,154
City Commercial Space	276,673	278,056	280,837	283,645	286,482
Total Leases	***635,820***	***642,423***	***655,963***	***669,734***	***683,818***
Charges for Services - Other					
Medical Services Revenue	12,748,317	13,226,379	13,623,170	14,031,865	14,452,821
PWSA-Indirect Costs	1,850,000	1,850,000	1,850,000	1,850,000	1,850,000
Refuse-Dumpsters	85,124	86,401	91,585	114,481	115,626
Other Contracted Services	9,498	0	0	0	0
Market Based Revenue Opportunities	500,000	50,000	50,000	50,000	50,000
School Board Tax Collection	1,556,519	1,556,519	1,649,910	1,732,406	1,853,674
Library Tax Collection	99,520	100,000	106,000	110,240	117,957

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Three Taxing Bodies	175,000	183,461	194,469	243,086	260,102
Miscellaneous	9,740	9,886	10,578	11,001	11,331
Total Other Charges	***17,033,718***	***17,062,646***	***17,575,712***	***18,143,080***	***18,711,512***
Total Charges for Services	**28,331,214**	**28,388,050**	**29,064,528**	**30,043,664**	**30,832,094**
Fines and Forfeits					
Traffic Court	1,632,094	1,640,254	1,656,657	1,673,224	1,689,956
Parking Court	7,267,138	7,303,474	7,376,508	7,450,274	7,524,776
Magistrate	201,582	211,661	224,361	237,822	252,092
State Police	282,964	284,379	287,223	290,095	292,996
Settlements and Judgments	923	969	979	989	999
Total Fines and Forfeits	**9,384,701**	**9,440,737**	**9,545,728**	**9,652,403**	**9,760,818**
Intergovernmental - Local					
Public Parking Authority	3,000,000	4,000,000	5,000,000	5,000,000	5,000,000
Water and Sewer Authority	5,300,000	5,300,000	5,300,000	5,300,000	5,300,000
Urban Redevelopment Authority	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Sports and Exhibition Authority	2,268	2,393	2,268	680	1,040
Total Local	***9,802,268***	***10,802,393***	***11,802,268***	***11,800,680***	***11,801,040***
Intergovernmental - State					
Summer Food Program	55,000	55,000	55,000	55,000	55,000
Commonwealth Legislative Appropriation	1,000,000	0	0	0	0
State Pension Aid	15,705,248	18,151,774	18,356,612	18,564,028	18,774,038
Commonwealth Recycling Grant	435,699	337,877	348,014	435,017	443,718

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Police/Fire/Retiree Reimbursement	1,497,247	1,501,407	1,546,449	1,623,772	1,656,247
Economic Development Slots Revenue	5,100,000	5,100,000	5,100,000	4,500,000	4,500,000
2% Local Share of Slots Revenue	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
State Utility Tax Distribution	476,096	478,476	488,046	497,807	507,763
Liquid Fuels Tax	4,630,000	4,630,000	4,630,000	4,630,000	4,630,000
Total State	***38,899,290***	***40,254,535***	***40,524,121***	***40,305,624***	***40,566,766***
Intergovernmental - Federal					
CDBG - City Planning	189,837	428,175	436,739	445,473	454,383
COPS Grant	1,000,406	1,005,408	1,035,570	1,066,637	1,098,637
Workforce Investment Act (Formerly JTPA)	200,000	200,000	204,000	208,080	214,322
Total Federal	***1,390,243***	***1,633,583***	***1,676,309***	***1,720,191***	***1,767,342***
Total Intergovernmental	**50,091,801**	**52,690,511**	**54,002,698**	**53,826,495**	**54,135,148**
Other Revenues					
Interest Earnings	109,598	111,790	115,144	119,749	125,737
Non-profit Payment Revenues	2,093,801	807,770	821,808	835,917	850,097
Miscellaneous Revenues	16,821	16,905	17,271	19,877	23,190
Total Other Revenues	**2,220,220**	**936,465**	**954,223**	**975,544**	**999,024**
Fund Balance used for SIP payouts[1]	**1,570,000**	**1,902,000**	**475,000**	**0**	**0**
TOTAL REVENUES	**482,532,322**	**494,819,837**	**503,618,505**	**514,280,029**	**525,677,157**

[1] In early 2014 the City allocated $7.1 million from its prior year fund balance to support the Severance Incentive Program. Based on employee participation levels, the City will only spend $3.9 million for SIP payouts spread over three years as shown here. The Coordinator assumes that the portion of the $7.1 million allocation that is not used for SIP payouts will return to the fund balance.

Baseline Expenditure Projections by Category

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Personnel Expenses					
Salaries	161,568,778	166,450,170	170,386,244	173,825,672	176,953,909
Premium Pay	31,694,689	31,912,659	32,548,239	33,499,480	34,102,674
Active Employees' Fringe Benefits	62,637,969	68,072,582	73,650,141	78,652,360	83,862,790
Employee Pension Benefits	52,862,797	64,136,522	66,266,928	68,880,835	79,951,912
OPEB Contribution	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Social Security	7,785,608	7,400,904	7,548,922	7,699,901	7,853,899
Unemployment Comp	372,762	380,217	387,822	395,578	403,490
Workers' Comp	20,879,860	21,277,457	21,683,006	22,096,666	22,518,600
Severance	2,170,000	2,514,000	1,099,240	636,725	649,459
Uniform and Allowances	1,570,004	1,248,004	1,248,004	1,248,004	1,248,004
Tuition Reimbursement	82,923	82,947	82,971	82,995	83,020
Education and Training	395,286	403,192	411,256	419,481	427,870
Travel	163,312	166,238	169,223	172,267	175,373
Other Employment Related	300,247	306,252	312,377	318,625	324,997
Vacant Position Elimination[2]	(718,000)	(991,000)	(1,027,000)	(1,065,000)	(1,105,000)
Total Personnel Expenses	**344,266,235**	**365,860,144**	**377,267,373**	**389,363,590**	**409,950,996**
Other Expenses					

[2] This is the savings related to the City's Severance Incentive Program. The savings come from positions that were vacated by SIP program participants by March 2014 and will subsequently be eliminated. The savings shown in aggregate here will be distributed across multiple categories (e.g. salary, active employee fringe benefits).

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Court Fees	128,587	131,159	133,782	136,458	139,187
Other Fees	1,549,893	1,580,891	1,612,509	1,644,759	1,677,654
Supplies	8,440,956	8,609,775	8,781,971	8,957,610	9,136,762
Utilities	12,676,818	12,930,354	13,188,961	13,452,741	13,721,795
Contractual Services	4,736,866	4,576,603	4,418,135	4,506,498	4,596,628
Maintenance and Repairs	3,786,776	3,862,512	3,939,762	4,018,557	4,098,928
Machinery and Equipment	1,426,709	1,454,023	1,481,884	1,510,301	1,539,287
Vehicles	1,531,016	1,561,636	1,592,869	1,624,726	1,657,221
Buildings	6,557,627	6,688,780	6,822,555	6,959,006	7,098,186
Property Cleaning and Maintenance	6,789,823	6,925,619	7,064,132	7,205,414	7,349,523
Miscellaneous	2,217,829	2,262,066	2,307,187	2,353,211	2,400,155
Debt Service	87,269,068	87,263,673	87,270,616	87,115,829	71,620,434
Total Other Expenses	**137,111,968**	**137,847,090**	**138,614,363**	**139,485,110**	**125,035,760**
TOTAL EXPENSES	**481,378,202**	**503,707,235**	**515,881,736**	**528,848,700**	**534,986,757**

Baseline Expenditures by Department/Bureau

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Mayor's Office	1,275,573	1,301,084	1,327,106	1,353,648	1,380,721
Controller	3,179,382	3,242,725	3,307,335	3,373,238	3,440,458
Council	1,559,374	1,590,561	1,622,373	1,654,820	1,687,917
City Clerk	899,951	917,950	936,309	955,035	974,136
Elected Officials subtotal	**6,914,280**	**7,052,321**	**7,193,123**	**7,336,741**	**7,483,232**
Office of Management and Budget	17,386,437	17,734,166	18,088,849	18,450,626	18,819,639
Finance (includes all debt service)	150,208,692	161,628,558	163,920,475	166,537,253	162,273,747
Financial Management subtotal	**167,595,129**	**179,362,724**	**182,009,324**	**184,987,879**	**181,093,386**
DPW – Operations	19,253,029	19,465,665	19,939,495	20,424,788	20,671,825
DPW – Administration	982,271	1,001,916	1,021,955	1,042,394	1,063,242
DPW - Transportation and Engineering	3,074,197	3,135,221	3,197,465	3,260,955	3,325,714
Infrastructure Costs subtotal	**23,309,497**	**23,602,803**	**24,158,915**	**24,728,136**	**25,060,780**
DPW - Environmental Services	11,701,659	11,934,165	12,171,322	12,413,222	12,659,960
Maintenance Costs subtotal	**11,701,659**	**11,934,165**	**12,171,322**	**12,413,222**	**12,659,960**
Bureau of Neighborhood Empowerment	461,678	470,912	713,330	722,936	732,735
Planning	2,208,382	2,252,550	2,297,601	2,343,553	2,390,424
Community and Economic Development subtotal	**2,670,060**	**2,723,461**	**3,010,930**	**3,066,489**	**3,123,159**
Parks and Recreation subtotal (Citiparks)	**3,921,064**	**3,999,472**	**4,079,448**	**4,161,023**	**4,244,230**
Innovation and Performance	13,883,804	14,160,070	14,441,861	14,729,287	15,022,463
Law	4,135,140	4,217,843	4,302,200	4,388,244	4,476,009

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Personnel (includes all fringe benefits)	96,378,008	101,972,619	106,493,153	111,647,746	117,498,096
Other Professional Services subtotal	**114,396,952**	**120,350,532**	**125,237,213**	**130,765,277**	**136,996,567**
Public Safety Administration	2,881,941	2,939,580	2,998,371	3,058,339	3,119,506
Emergency Medical Services	13,776,204	13,479,668	13,918,005	14,213,858	14,516,121
Fire	56,231,566	58,255,868	59,709,817	61,095,760	62,321,206
Police	72,346,870	74,519,941	75,815,312	77,348,181	78,600,341
Building Inspection	3,585,403	3,657,111	3,730,253	3,804,858	3,880,956
Animal Control	1,399,038	1,426,819	1,455,155	1,484,058	1,513,539
Public Safety subtotal	**150,221,022**	**154,278,987**	**157,626,914**	**161,005,055**	**163,951,668**
Commission on Human Relations	259,628	264,821	270,117	275,519	281,030
Office of Municipal Investigations	598,065	610,026	622,227	634,671	647,365
Citizens Police Review Board	508,847	518,924	529,202	539,686	550,380
Other Department subtotal	**1,366,540**	**1,393,771**	**1,421,546**	**1,449,877**	**1,478,775**
Vacant Position Elimination[3]	(718,000)	(991,000)	(1,027,000)	(1,065,000)	(1,105,000)
Savings subtotal	**(718,000)**	**(991,000)**	**(1,027,000)**	**(1,065,000)**	**(1,105,000)**
TOTAL EXPENSES	**481,378,202**	**503,707,235**	**515,881,736**	**528,848,700**	**534,986,757**

[3] This is the savings related to the City's Severance Incentive Program. The savings come from positions that were vacated by SIP program participants by March 2014 and will subsequently be eliminated. The savings shown in aggregate here will be distributed across multiple departments (e.g. Finance, Parks, BBI)

Appendix B: Projections with Amended Recovery Plan Initiatives Applied

Act 133 of 2012 requires that an Act 47 recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." Act 133 requires the projections include an "itemization" of revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). In reference to the list in Act 133, the Recovery Coordinator provides this baseline projection of revenues and expenditures that covers all the items listed in Act 133 using the account names in the City's budget.

Revenue Projections with Amended Recovery Plan Initiatives Applied

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Taxes					
Real Estate Taxes	128,770,493	132,153,000	133,130,000	135,301,000	137,508,000
Amusement Tax	12,960,680	13,155,069	13,452,374	13,852,638	14,055,906
Earned Income Tax	83,404,036	85,069,405	87,278,317	89,896,202	92,593,507
Deed Transfer Tax	17,831,723	18,099,199	18,370,687	18,830,247	19,300,941
Parking Tax	50,939,624	53,313,115	55,018,442	56,456,404	58,427,814
Facility Usage Fee	3,748,846	3,823,716	3,900,084	3,977,979	4,056,432
Payroll Preparation Tax	55,759,350	57,989,724	60,309,313	62,721,685	65,230,553
Local Service Tax	14,054,835	14,129,752	14,200,044	14,371,483	14,436,141
Public Service Privilege	1,221,664	1,227,772	1,233,911	1,240,081	1,246,281
Act 77 Tax Relief	12,637,156	20,539,899	20,950,697	21,369,711	21,797,105
Institution and Service Privilege Tax	500,074	507,546	515,130	522,828	530,641
Other Taxes	49,701	45,594	44,567	44,035	49,425
Total Taxes	**381,878,182**	**400,053,791**	**408,403,567**	**418,584,293**	**429,232,746**

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Licenses, Permits and Fees					
Liquor & Malt Beverage	422,385	424,497	432,987	441,647	450,480
Other License Revenue	1,439,577	1,461,171	1,505,006	1,550,156	1,596,661
Commercial Building	3,240,216	3,256,417	3,321,545	3,354,761	3,388,308
Residential Building	276,271	277,652	283,205	288,870	294,647
Street Excavations	863,176	867,492	893,517	920,322	938,729
Encroachments	35,771	36,278	37,003	37,743	38,498
Zoning Fees	1,027,273	1,032,409	1,053,058	1,063,588	1,074,224
Zoning Board of Adjustments	108,575	109,118	111,300	112,413	113,537
Picnic and Ballfield	310,075	316,277	325,765	335,538	345,604
Employee Parking Fees	149,915	185,214	188,919	192,697	196,551
Fire Safety	612,188	618,310	630,676	643,290	656,155
Other Permit Revenue	570,782	844,448	860,782	877,605	894,933
Total Licenses, Permits & Fees	**9,056,204**	**9,429,283**	**9,643,762**	**9,818,629**	**9,988,327**
Charges for Services - Fees					
Cable Bureau Revenue	5,281,897	5,282,689	5,335,516	5,388,871	5,442,760
Animal Care & Control Revenue	263,684	265,002	267,652	270,329	273,032
School Board Non-Resident Employee	4,222	4,285	4,542	5,678	5,792
Daily Parking Meters	437,394	443,955	470,592	588,240	629,417
Documents - Fire Records	3,187	3,235	3,332	4,165	4,415
Documents - Police Records	114,040	115,751	116,908	118,077	119,258
Lien Filing	72,211	12,625	13,382	16,728	17,899
Misc -Public Works	668,571	671,914	678,633	685,419	692,274
Municipal Pension Plan	77,061	78,217	80,563	100,704	103,725

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Fire Pension Plan	77,061	78,217	80,563	100,704	103,725
Police Pension Plan	86,127	87,419	90,041	112,552	115,928
Point State Park	272,000	272,000	277,440	282,989	288,649
Safety Inspections	56,720	57,571	59,298	74,122	78,570
Wilkinsburg - Trash	903,852	877,524	903,852	930,960	949,584
Wilkinsburg - Fire	1,600,848	1,619,396	1,600,848	1,648,352	1,681,319
Swimming Pools	313,929	315,499	318,654	321,840	325,059
Other Charges for Service Fees	428,872	747,683	781,035	831,120	855,359
Total Fees	***10,661,676***	***10,932,981***	***11,082,853***	***11,480,851***	***11,686,764***
Charges for Services - Leases					
Private Housing	4,000	4,060	4,344	4,518	4,654
Wharf Parking	343,993	349,153	359,627	370,416	381,529
Wharves	11,154	11,154	11,154	11,154	11,154
City Commercial Space	276,673	278,056	280,837	283,645	286,482
Total Leases	***635,820***	***642,423***	***655,963***	***669,734***	***683,818***
Charges for Services - Other					
Medical Services Revenue	12,748,317	13,226,379	13,623,170	14,031,865	14,452,821
PWSA-Indirect Costs	1,850,000	1,850,000	1,850,000	1,850,000	1,850,000
Refuse-Dumpsters	85,124	86,401	91,585	114,481	115,626
Other Contracted Services	9,498	0	0	0	0
Market Based Revenue Opportunities	500,000	50,000	50,000	50,000	50,000
School Board Tax Collection	1,556,519	1,556,519	1,649,910	1,732,406	1,853,674
Library Tax Collection	99,520	100,000	106,000	110,240	117,957

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Three Taxing Bodies	175,000	183,461	194,469	243,086	260,102
Miscellaneous	9,740	9,886	10,578	11,001	11,331
Total Other Charges	***17,033,718***	***17,062,646***	***17,575,712***	***18,143,080***	***18,711,512***
Total Charges for Services	**28,331,214**	**28,638,050**	**29,314,528**	**30,293,664**	**31,082,094**
Fines and Forfeits					
Traffic Court	1,632,094	1,640,254	1,656,657	1,673,224	1,689,956
Parking Court	7,267,138	7,303,474	7,376,508	7,450,274	7,524,776
Magistrate	201,582	211,661	224,361	237,822	252,092
State Police	282,964	284,379	287,223	290,095	292,996
Settlements and Judgments	923	969	979	989	999
Total Fines and Forfeits	9,384,701	9,440,737	9,545,728	9,652,403	9,760,818
Intergovernmental - Local					
Public Parking Authority	3,000,000	4,000,000	5,000,000	5,000,000	5,000,000
Water and Sewer Authority	5,300,000	5,300,000	5,300,000	5,300,000	5,300,000
Urban Redevelopment Authority	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Sports and Exhibition Authority	2,268	2,393	2,268	680	1,040
Total Local	***9,802,268***	***10,802,393***	***11,802,268***	***11,800,680***	***11,801,040***
Intergovernmental - State					
Summer Food Program	55,000	55,000	55,000	55,000	55,000
Commonwealth Legislative Appropriation	1,000,000	0	0	0	0
State Pension Aid	15,705,248	18,151,774	18,356,612	18,564,028	18,774,038
Commonwealth Recycling Grant	435,699	337,877	348,014	435,017	443,718
Police/Fire/Retiree Reimbursement	1,497,247	1,501,407	1,546,449	1,623,772	1,656,247

	2014 *Budgeted*	2015 *Projected*	2016 *Projected*	2017 *Projected*	2018 *Projected*
Economic Development Slots Revenue	5,100,000	5,100,000	5,100,000	4,500,000	4,500,000
2% Local Share of Slots Revenue	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
State Utility Tax Distribution	476,096	478,476	488,046	497,807	507,763
Liquid Fuels Tax	4,630,000	4,630,000	4,630,000	4,630,000	4,630,000
Total State	***38,899,290***	***40,254,535***	***40,524,121***	***40,305,624***	***40,566,766***
Intergovernmental - Federal					
CDBG - City Planning	189,837	428,175	436,739	445,473	454,383
COPS Grant	1,000,406	1,005,408	1,035,570	1,066,637	1,098,637
Workforce Investment Act (Formerly JTPA)	200,000	200,000	204,000	208,080	214,322
Total Federal	***1,390,243***	***1,633,583***	***1,676,309***	***1,720,191***	***1,767,342***
Total Intergovernmental	**50,091,801**	**52,690,511**	**54,002,698**	**53,826,495**	**54,135,148**
Other Revenues					
Interest Earnings	109,598	111,790	115,144	119,749	125,737
Non-profit Payment Revenues	2,093,801	807,770	821,808	835,917	850,097
Miscellaneous Revenues	16,821	16,905	17,271	19,877	23,190
Total Other Revenues	**2,220,220**	**936,465**	**954,223**	**975,544**	**999,024**
Beginning Fund Balance[1]	**1,570,000**	**1,902,000**	**475,000**	**0**	**0**
TOTAL REVENUES	**482,532,322**	**503,090,837**	**512,339,505**	**523,151,029**	**535,198,157**

[1] In early 2014 the City allocated $7.1 million from its prior year fund balance to support the Severance Incentive Program. Based on employee participation levels, the City will only spend $3.9 million for SIP payouts spread over three years as shown here. The Coordinator assumes that the portion of the $7.1 million allocation that is not used for SIP payouts will return to the fund balance.

Expenditure Projections with Amended Recovery Plan Initiatives Applied by Category

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Personnel Expenses					
Salaries	161,568,778	162,938,170	164,537,244	167,438,672	170,264,909
Premium Pay	31,694,689	31,912,659	32,548,239	33,499,480	34,102,674
Active Employees' Fringe Benefits	62,637,969	68,072,582	72,329,141	77,160,360	82,312,790
Employee Pension Benefits	52,862,797	64,258,522	67,199,928	70,863,835	86,554,912
OPEB Contribution	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Social Security	7,785,608	7,400,904	7,548,922	7,699,901	7,853,899
Unemployment Comp	372,762	380,217	387,822	395,578	403,490
Workers' Comp	20,879,860	21,277,457	21,683,006	22,096,666	22,518,600
Severance	2,170,000	2,514,000	1,099,240	636,725	649,459
Uniform and Allowances	1,570,004	1,248,004	1,248,004	1,248,004	1,248,004
Tuition Reimbursement	82,923	82,947	82,971	82,995	83,020
Education and Training	395,286	403,192	411,256	419,481	427,870
Travel	163,312	166,238	169,223	172,267	175,373
Other Employment Related	300,247	306,252	312,377	318,625	324,997
Vacant Position Elimination[2]	(718,000)	(2,264,000)	(2,339,000)	(2,418,000)	(2,500,000)
Total Personnel Expenses	**344,266,235**	**361,197,144**	**369,718,373**	**382,114,590**	**406,919,996**

[2] This is the savings related to the City's Severance Incentive Program and the subsequent elimination of other vacant positions. The savings shown in aggregate here will be distributed across multiple categories (e.g. salary, active employee fringe benefits).

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Other Expenses					
Court Fees	128,587	131,159	133,782	136,458	139,187
Other Fees	1,549,893	1,580,891	1,612,509	1,644,759	1,677,654
Supplies	8,440,956	8,609,775	8,781,971	8,957,610	9,136,762
Utilities	12,676,818	12,930,354	13,188,961	13,452,741	13,721,795
Contractual Services	4,736,866	4,576,603	4,418,135	4,506,498	4,596,628
Maintenance and Repairs	3,786,776	3,862,512	3,939,762	4,018,557	4,098,928
Machinery and Equipment	1,426,709	1,454,023	1,481,884	1,510,301	1,539,287
Vehicles	1,531,016	1,561,636	1,592,869	1,624,726	1,657,221
Buildings	6,557,627	6,688,780	6,822,555	6,959,006	7,098,186
Property Cleaning and Maintenance	6,789,823	6,925,619	7,064,132	7,205,414	7,349,523
Miscellaneous	2,217,829	2,262,066	2,307,187	2,353,211	2,400,155
Debt Service	87,269,068	88,425,673	89,593,616	90,640,829	76,348,434
Non-Personnel Savings Target[3]	(1,268,000)	(2,573,000)	(2,612,000)	(2,664,000)	(2,717,000)
Total Other Expenses	**135,843,968**	**136,436,090**	**138,325,363**	**140,346,110**	**127,046,760**
TOTAL EXPENSES	**480,110,202**	**497,633,235**	**508,043,736**	**522,460,700**	**533,966,757**

[3] Please see initiative FM02 in the Financial Management chapter. The savings can be achieved across several categories, other than debt service.

Expenditure Projections with Amended Recovery Plan Initiatives Applied by Department

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Mayor's Office	1,275,573	1,301,084	1,327,106	1,353,648	1,380,721
Controller	3,179,382	3,242,725	3,307,335	3,373,238	3,440,458
Council	1,559,374	1,590,561	1,622,373	1,654,820	1,687,917
City Clerk	899,951	917,950	936,309	955,035	974,136
Elected Officials subtotal	**6,914,280**	**7,052,321**	**7,193,123**	**7,336,741**	**7,483,232**
Office of Management and Budget	17,386,437	17,734,166	18,088,849	18,450,626	18,819,639
Finance (includes all debt service)	150,208,692	162,912,558	167,176,475	172,045,253	173,604,747
Financial Management subtotal	**167,595,129**	**180,646,724**	**185,265,324**	**190,495,879**	**192,424,386**
DPW - Operations	19,253,029	19,465,665	19,939,495	20,424,788	20,671,825
DPW - Administration	982,271	1,001,916	1,021,955	1,042,394	1,063,242
DPW - Transportation and Engineering	3,074,197	3,135,221	3,197,465	3,260,955	3,325,714
Infrastructure Costs subtotal	**23,309,497**	**23,602,803**	**24,158,915**	**24,728,136**	**25,060,780**
DPW - Environmental Services	11,701,659	11,934,165	12,171,322	12,413,222	12,659,960
Maintenance Costs subtotal	**11,701,659**	**11,934,165**	**12,171,322**	**12,413,222**	**12,659,960**
Bureau of Neighborhood Empowerment	461,678	470,912	480,330	489,936	499,735
Planning	2,208,382	2,252,550	2,297,601	2,343,553	2,390,424
Community and Economic Development subtotal	**2,670,060**	**2,723,461**	**2,777,930**	**2,833,489**	**2,890,159**
Parks and Recreation subtotal (Citiparks)	**3,921,064**	**3,999,472**	**4,079,448**	**4,161,023**	**4,244,230**
Innovation and Performance	13,883,804	14,160,070	14,441,861	14,729,287	15,022,463
Law	4,135,140	4,217,843	4,302,200	4,388,244	4,476,009
Personnel (includes all fringe benefits)	96,378,008	101,972,619	106,493,153	111,647,746	117,498,096
Other Professional Services subtotal	**114,396,952**	**120,350,532**	**125,237,213**	**130,765,277**	**136,996,567**

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Public Safety Administration	2,881,941	2,939,580	2,998,371	3,058,339	3,119,506
Emergency Medical Services	13,776,204	13,479,668	13,918,005	14,213,858	14,516,121
Fire	56,231,566	58,255,868	59,709,817	61,095,760	62,321,206
Police	72,346,870	74,519,941	75,815,312	77,348,181	78,600,341
Building Inspection	3,585,403	3,657,111	3,730,253	3,804,858	3,880,956
Animal Control	1,399,038	1,426,819	1,455,155	1,484,058	1,513,539
Public Safety subtotal	**150,221,022**	**154,278,987**	**157,626,914**	**161,005,055**	**163,951,668**
Commission on Human Relations	259,628	264,821	270,117	275,519	281,030
Office of Municipal Investigations	598,065	610,026	622,227	634,671	647,365
Citizens Police Review Board	508,847	518,924	529,202	539,686	550,380
Other Department subtotal	**1,366,540**	**1,393,771**	**1,421,546**	**1,449,877**	**1,478,775**
Personnel Savings Target[4]	0	(3,512,000)	(6,937,000)	(7,646,000)	(8,006,000)
Non-Personnel Savings Target[5]	(1,268,000)	(2,573,000)	(2,612,000)	(2,664,000)	(2,717,000)
Vacant Position Elimination[6]	(718,000)	(2,264,000)	(2,339,000)	(2,418,000)	(2,500,000)
Savings subtotal	**(1,986,000)**	**(8,349,000)**	**(11,888,000)**	**(12,728,000)**	**(13,223,000)**
TOTAL EXPENSES	**480,110,202**	**497,633,235**	**508,043,736**	**522,460,700**	**533,966,757**

[4] These are the estimated savings related to the maximum compensation allocations for WF01 in the Workforce and Collective Bargaining chapter. They will be distributed across all bargaining units and non-represented employees.

[5] Please see initiative FM02 in the Financial Management chapter. The savings can be achieved across several categories, other than debt service.

[6] This is the savings related to the City's Severance Incentive Program and the subsequent elimination of other vacant positions. The savings shown in aggregate here will be distributed across multiple departments (e.g. Finance, Fire, Police, BBI).

Act 47 Team

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