

A Summary Report

of the Intergovernmental Cooperation Authority (ICA) and its Oversight Role with the City of Pittsburgh's Recovery Status

April 2010

Presented to:

The Leadership of the Commonwealth of Pennsylvania's General Assembly

April 30, 2010



Intergovernmental Cooperation Authority (ICA)

For Cities of the Second Class

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To the Leadership of the Commonwealth of Pennsylvania's General Assembly:

Pittsburgh's Intergovernmental Cooperation Authority (ICA) is a financial oversight body formed by an act of the legislature and signed into law by Governor Edward G. Rendell in 2004. ICA is in the sixth year of its oversight role, in conjunction with Act 47, to guide and assist the City of Pittsburgh's efforts to reach sustainable financial stability. The following report is a summary of the ICA's collaboration with the City of Pittsburgh on various initiatives during the past year.

ICA has continued to be a convening thread among City Administrators, Department Heads and Bureau Chiefs to help encourage change in how the City manages its resources. Our goal continues to focus on the City's ability to assert its fiscal priorities through redeployment of infrastructure assets, including the retraining, efficiency measures and mobilization of a central financial management system. The bottom line is to create a net effect of financial solvency and improving public safety for all citizens, the largest budget area of City government.

While much progress has been made since 2004, the City's long-term prospects remain somewhat tenuous in terms of its ability to sustain financial improvements and a balanced budget while addressing key legacy issues that stress the City's financial outlook.

As we continue on the path of global economic recovery, the ICA continues to evaluate the impact on various initiatives underway to reduce the City's cost structure and align its infrastructure with the current needs of the population. Regardless of economic conditions or status of the City's leadership initiatives, ICA's mission remains constant – to help find and recommend solutions to Pittsburgh's financial challenges.

The volunteer Board of Pittsburgh's ICA believes that the City of Pittsburgh's financial condition is on the right track to recovery; however, the question still remains as to its sustainability. Further, as stated in last year's report to the General Assembly, it is incumbent upon this oversight process to ensure the City has not only proven its ability to sustain financial progress, but also has a system of accountability that will improve and protect its financial status from any form of credit ratings decline or financial collapse. As always, our goal is to assure that the public interest is being served in the most effective manner possible.

As you will read in the following summary, the work of the ICA and City government is yet incomplete. We are honored to be part of the Commonwealth's system of fiscal accountability and stewardship. Importantly, we are grateful to the men and women of the City of Pittsburgh who have participated in the arduous process of the City of Pittsburgh's financial recovery.

Respectfully Submitted by ICA Board Members,

Barbara McNees	Chair
Sr. Grace Ann Giebel, RSM	Vice Chair
J. Matthew Simon, PhD	Secretary
Richard Stanizzo	Treasurer
Curtis Aiken	Audit Committee Chair



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Introduction

In accordance with the provisions of Act 11 of 2004 the following information is submitted to the Senate and House leadership, the Secretary of the Department of Community and Economic Development, the Secretary of the Budget, and the Members of the General Assembly in order to comply with the 120-day annual report requirement. We have also provided this report to the City of Pittsburgh's Mayor, City Controller, and members of City Council, and to the Act 47 Coordinator.

The current five member Board of the Intergovernmental Cooperation Authority for Cities of the Second Class is comprised of an appointee from the Governor, Sister Grace Ann Geibel, RSM PhD., who holds the Board positions of Vice Chair and Chair of the Personnel Committee; J Matthew Simon PhD., appointed by the Senate Democratic leadership, who holds the positions of Board Secretary and member of the ICA audit committee; Barbara McNees, appointed by the Senate Republican leadership, who holds the position of Chair of the Board, Curtis Aiken, appointed by the House Democratic leadership, who holds the position of chair of the ICA audit committee; and Richard Stanizzo, appointed by the House Republican leadership, who holds the position of Board Treasurer and member of the Personnel Committee. The Executive Director, appointed by the Board, is Henry Sciortino.

Some key provisions of the governing statute of the ICA require the Board to hold a public meeting at least once per calendar quarter, produce an annual report within 120 days of the end of the City fiscal year, submit an annual budget to the General Assembly, and monitor the fiscal performance and condition of the City. The City is required to provide the ICA with any and all information required by the ICA to meet the obligations outlined in Act 11 of 2004, submit a performance and financial report within 45 days of the end of each quarter and to submit a balanced annual operating and capital budget, and a balanced comprehensive five-year financial plan. The City balanced budget and comprehensive five-year plan shall be submitted to the ICA no later than 100 days before the end of the fiscal year of the City, which is December 31.

Material Deficiencies

The City did, in fact, submit its budget and comprehensive five-year plan in a timely manner as has been done in two previous fiscal years of 2008 and 2009. The 2010 operating budget and corresponding five-year plan submitted by the City on September 21, 2009, was deemed unacceptable by the ICA and returned to the City with comment on the systemic weaknesses contained within the originally submitted City budget per the prescribed time outlined in Act 11.

The material weakness contained within the submitted budget centered around the four sources of projected revenue entitled "sources of future revenue" that listed the secondary education privilege tax, the medical facilities privilege tax, unspecified revenue from PWSA and the Parking Authority.

The City chose to maintain its position that the submitted budgets were in balance. However, after returning the budget to the City for revision and resubmission, and following extensive independent review, concurrent review with Act 47 and the City Controller who submitted an independent opinion as required by Act 11, it was determined that the budget submitted by the City was not in balance, in that it contained projected revenue from non-existent sources, sources that were not legally enforceable, and sources that were not within the jurisdiction of the city to enact.

Based on those reviews and the facts surrounding the projected revenue sources, it was determined by the ICA that the 2010 operating budget and comprehensive five-year plan submitted by the City were not balanced and therefore were rejected by unanimous vote of the ICA Board at its public meeting of November 17, 2009.

In addition to the obvious, the failure by the City to submit a balanced budget for 2010 triggers a material event articulated in Act 11 of 2004 -- 53 PS 28209 (f). The failure to submit a balanced budget also violates the Revised Recovery Plan adopted by the city on June 30, 2009. The fact that the City Council adopted the Revised Recovery Plan by Ordinance, which was signed into law by the Mayor on June 30, 2009, makes the submission of an unbalanced budget and five-year plan more troubling. Note that the City resubmitted a revised 2010 budget and five-year plan without the unenforceable revenue sources. The ICA voted on December 15, 2009 to approve the spending plan for 2010. However, as of this writing, the City has not yet come into compliance with the Amended Recovery Plan in that it has failed to submit a local option revenue source that must be ordained by City Council.

In writing about the missed balanced budget it is important to note the counter-argument that the City has ended the last three fiscal years, including 2009, with a positive fund balance. The City deserves the acknowledgement that, in fact, there has been an accumulated positive fund balance and that it has been maintained over three fiscal year end reports. However, in the overall context of the City's fiscal condition, the inclusion of the legacy costs of debt, pensions, post retirement health care costs, and workers compensation and deferred maintenance, make a small operating fund balance a very misleading statistic. The importance of looking at a five-year trend out to 2015 that includes the legacy costs is if it will show a return to operating deficits.

The cold hard fact is that Pittsburgh officials will have to improve outcomes, reduce current operating expenditures, and identify sustainable new revenue sources that don't erode the foundation of other current revenues.

2009 Fiscal statistics: Quarterly reports required by the ICA

An analysis of the quarterly reports from 4th quarter 2008 submitted February 2009, through the 4th quarter report for the period ending December 31, 2009 submitted February 15, 2010 contain information concerning spending and revenue trends that provide some insight into the cyclical nature of the business of city government. The timeliness and overall credibility of the numbers continues to get a low rating by the ICA, but the effort and improving skill sets of the employees of the city providing the reports is rated as much better than in previous years. The requirement to install a new financial management system imposed by the ICA in 2006 is still a work in progress.

Please refer to the section of this report entitled Financial Management System for more details. Incorporated by reference:

1. Quarterly Performance and Financial Reports as posted on the City of Pittsburgh web site, and the web site of the ICA www.pghica.org
2. City of Pittsburgh Comprehensive Financial Report as submitted by the City Controller found on the City web site
3. Amended Act 47 Recovery Plan adopted June 30, 2009 found on the City web site
4. Act 11 of 2004 found on the ICA web site
5. ICA public meeting notices for 2009 found on the ICA web site
6. City of Pittsburgh audits found on the City website
7. IACP study of Police, conducted by the ICA. See ICA web site
8. ERASE study. Initial work on Bureau of Fire. See ICA web site
9. TriData strategic plan for Fire and EMS, and BBI. See ICA web site.

Major Events of 2009

G – 20 Summit

It is important to recognize and applaud the combined efforts of the city, county, state and federal government along with the community efforts of business, labor, the non-profit sector, and the many volunteers.

Passage of the Act 47 Amended Recovery Plan by city council and signed into law by the mayor on June 30, 2009

Passage of Act 44 of 2009 by the General Assembly and signed into law by the Governor.

This Act requires Pittsburgh to fund its pension obligations at least a 50% funding ration within two years. While the much publicized efforts of the city to lease parking assets is outside the scope of this report, the ICA has formally notified the City that any such proposed transactions require the approval of the ICA based on, but not limited to 53 PS 2210 (c) and other statutory provisions contained within Act 11, Act 47 and other laws of the Commonwealth.

Financial Management System

As a condition of approval of the City Budget the ICA requires that a new financial management system is installed that has, at minimum, the ability to allow the payroll and human resource departments, the finance and city controller's office and all other departments to work as one seamless financial enterprise. Time and attendance modules and other business measurement modules must be an integral part of the system.

Since November 2009, the City has worked to identify and build such a system. The recognition by the City and County elected officials that a shared services effort in the development of system for the City and the upgrading of a financial system for the County would be in the best interest of the region. This effort is being led jointly and endorsed by the Mayor, the County Executive, the City Controller and the County Controller. All four administrators appeared at the March 17, 2010 ICA public meeting and endorsed the shared services effort to install a state-of-the-art financial management system that will benefit the region. This effort, partially funded by the Commonwealth, is a major undertaking and has the capacity to save the tax and rate payers of the region literally millions of dollars.

For example, while the ICA was directing the City to migrate to a new financial management system, the Pittsburgh Water and Sewer Authority sought to bid on a new financial management system. The City and ICA worked to have the vendor work with the City to include the PWSA financial management system upgrade at no additional cost to the City, saving the PWSA ratepayers at least \$1.3 million. The City will also have the capacity to add other city-related entities of up to \$400 million of operating budgets to the financial management system at no additional cost for the system. This functional consolidation is a significant step to improving outcomes and reducing costs, while getting the benefit of credible, timely information available and in a transparent manner.

The stated goal by the Mayor, City Controller, County Executive and County Controller is to have this new system in full testing mode by the end of 2010.

Special acknowledgment is in order to the Mayor Ravenstahl and City Controller Lamb, and to County Executive Onorato and County Controller Flaherty for their collaboration and dedication to this unprecedented effort and commitment to functional consolidation.

On-Going Operating Concerns

It remains necessary for the City to come into full compliance with the Amended Act 47 Plan. In addition, there are several critical areas that must be addressed yet in 2010 in order for the City to maintain operating stability, as well as to improve the fiscal condition of its operating and capital budget.

Public Safety:

Defined by the ICA to include Police, Fire, EMS, and Bureau of Building Inspection (BBI)

The City must follow the detailed plan developed by the ICA in collaboration with the City and Act 47 that targets and puts detailed emphasis on employee re-training, redeployment of personnel and assets, and an examination of business practices used by the various bureaus of public safety compared to benchmark cities that have similar characteristics.

A good example of re-training and redeployment of personnel and assets is the recommended assignment of BBI inspectors to police zones, especially in areas of high negative incidents where police citations coupled with BBI citations have the potential to impact behaviors and outcomes.

Further, the flexible road map developed through independent consultants and extensive coordination with the City, points to systemic weakness in the emergency response systems and delivery of day-to-day public safety services. Compared to the command style operation that helped the city manage the G-20 Summit, the normal more bureaucratic daily operations require reconfiguration and more centralized management.

The ability to deliver the best and most efficient public service possible, the tactical ability to position personnel and assets so as to facilitate and reduce response times down to acceptable levels, the control of costs such as personnel and overtime, and the coordination of command staff efforts across the spectrum of public safety are all within the reach of the City.

Some specifics that the City must begin to analyze within the roadmap framework described above include a thorough analysis of the service and financial impact of cross-training and certifying fire fighters and emergency medical services personnel. In that analysis, the City must also address the below average production by the Bureau of Building Inspection regarding demolition and fire inspection.

The ICA believes there is a direct service and cost correlation between the quantity of structure fires, the necessary size of the Bureau of Fire, the impact of current fire prevention programs, fire inspection and demolition programs and rescue operations.

The Authority also recommends that the City explore and analyze a similar direct service improvement and cost reduction correlation that exists in the EMS Bureau, and should, in fact, comply with the provisions of the Amended Act 47 Recovery Plan and remove provisions for the current labor agreement that restricts the ability of the city to manage its employees in a way that provides greater protection and service to the public.

We are fully aware there may be short-term costs associated with the reconfiguration of these bureaus; however, the public will be better served and protected while future costs of operations have the potential to be lower if managed properly.

Public Works

During 2009, the ICA was contacted by City Council concerning the possible acquisition of a paving machine that was advertised as a tool that would lower the cost of paving city streets by as much as 40 percent. Without complete information and a satisfactory explanation the public works department did not pursue the Council initiative. The ICA recommends the City investigate the matter more fully, and requests the findings of such an investigation be made public.

The ICA also recommends a review by senior management of the performance of operations management in the Bureau of Public Works as a result of the problems emerging from the response to the snowstorms within this reporting period. The ICA budget originally submitted to the General Assembly but reduced by budget reductions contained funding for such a review.

Legacy Costs:

Debt

By adopting the 'pay-as-you-go' system, the City has attacked the debt issue, and in fact, has made some progress. The Members of the General Assembly should, however, recognize the limitation of the current method of funding capital projects and the danger of continued deferred maintenance.

Pensions

There are numerous proposals and concepts under consideration, as of this writing, that are suggested as possible solutions to improve the funding ratio of assets to liabilities. The ICA plans to review the various proposals, and will contact the leadership of the General Assembly in order to present an independent opinion. The ICA shall also require the City to submit changes to the approved operating budget and corresponding five-year plan prior to any action by the City.

Post Retirement Health Care Costs

The ICA considers it necessary and critical that any funding plan developed by the City address the unfunded liability and future projected rising costs of this category.

Workers Compensation

The City has made some improvement in this area, which can be viewed in the detail of the quarterly reports. Working jointly and concurrently with the Act 47 Coordinator and DCED, and collaboratively with the City, the ICA expects continued improvement.

Conclusions

The broad conclusion after analyzing the data and, in fact, living through 2009, is that the financial picture of the City is steady at the moment, but shows continued signs of trending back to deficits unless immediate and continued efforts are employed and some behaviors are modified.

We are encouraged that the City has begun to aggressively pursue the implementation of a new financial management system and an overall strategy to include PWSA and other such entities in order to drive down operating costs borne by the public. We, again, acknowledge not only the commitment of the City's leadership, but that of the County Executive and County Controller, as well. The shared services platform concept allows for significant improvement in service delivery for many organizations and is limited only by the levels of cooperation and foresight.

The fact that personnel and related costs are the single most expensive items in budget and five-year plan dictate that the City focus on management and communication. Until the City adopts the goal of reorganizing, retraining, cross training, consolidating where necessary, and employing a higher level of the use of technology in the various bureaus of Public Safety, as defined by the ICA and various independent studies, improving public safety, infrastructure, cost-effectiveness, and transparency will continue to be a significant and burdensome challenge.

The rich sports history of Pittsburgh provides analogous guidance in this matter. Fifty years ago, the Pittsburgh Pirates won the World Series with a stunning game 7 bottom of the 9th inning magical home run by Bill Mazeroski. A student of the 1960 Pirates would also point out that the outstanding defense and the record number of double plays, also with consistent singles and doubles through out the season, got that team to the World Series in the first place and carried that team to the point where the great 'Maz' home run became an exclamation point on a hard fought team effort for an entire season.

In that same year of 1960, golf legend Arnold Palmer showed the world the same kind of resolve and determination when he won the Masters. He has been widely quoted as attributing his success to playing one hole at a time, staying focused and staying out of trouble by avoiding the temptation to go for the magic shot or proverbial silver bullet.

Success must not be viewed a shot-term fund balance, but rather a longer term team effort and a strong defense against rising costs. Importantly, success and change must adopt a high level of communication with other elected leaders in government, and in business, labor, and the non-profit sector and with the good people who live and work in the City of Pittsburgh every day.

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