

A Summary Report

*of the Intergovernmental Cooperation Authority (ICA)
and its Oversight Role with the City of Pittsburgh*

2004 to Present

Presented to:

The Leadership of the Commonwealth of Pennsylvania's General Assembly

April 30, 2009



Intergovernmental Cooperation Authority (ICA)

For Cities of the Second Class

April 30, 2009

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 fifth year of its oversight role 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 four years.

While the City's leadership has changed during the past five years, ICA has been a convening thread among City Administrators, Department Heads and Bureau Chiefs to bring about change in cost structure and a spirit of collaboration with the goal of improving public safety for all citizens, the largest budget areas of City government.

While much progress has been made since 2004, the City's long-term prospects remain somewhat unclear 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 are in the midst of a global recession, the ICA is working to determine its economic 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 the City's elected leadership, ICA's mission remains constant – to find 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 remains as to its sustainability. Further, 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 financial recovery of "America's Most Livable City."

Respectfully Submitted by,

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

In Remembrance

While we must address matters of law, business and government, it is appropriate to begin this report with an expression of deep sorrow and sympathy to the families, friends and colleagues of Officers Eric G. Kelly, Stephen J. Mayhle, and Paul J. Sciallo II.

These gentlemen, officers and protectors of the public sacrificed their lives in the cause of public safety. Along with the entire community, the ICA and its Board extends its condolences to the families and community in grief.

A Summary Report

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2004 to Present*

The purpose of this summary is to provide a status report on the City of Pittsburgh's financial progress from 2004 to date. The following chronology is reflective of the interaction and collaborative effort between the Intergovernmental Cooperation Authority and the City of Pittsburgh.

The state-appointed Intergovernmental Cooperation Authority's (hereinafter referred to as the "ICA") oversight role is charged by the General Assembly to ensure that 'cities of the second class' provide for the health, safety and welfare of their citizens, pay principal and interest owed on their debt obligations when due, meet financial obligations to their employees vendors and suppliers, and provide for proper financial planning procedures and budgeting practices, as mandated by Act 11 Of 2004.

This report will address the conditions discovered, the general actions taken or caused to be taken in order to bring about financial stability, provide examples of results achieved and offer an assessment of future needs regarding financial planning and budgetary practices, managerial accountability, consolidation or elimination of inefficient city programs, analysis of tax structure, collection of existing tax levies, and other essential elements outlined in the Legislative intent of the Act . The ICA, working concurrently and equally with the members of the Municipalities Financial Recovery Act team (hereinafter referred to as the "Act 47 team"), the City government through the Intergovernmental Cooperation Agreement executed in the fall of 2004, and other stakeholders, support the City of Pittsburgh's efforts to reach sustainable financial stability.

A major on-going task of the ICA is to assist the City in fostering financial stability through collaboration and maximization of use of current assets while improving skill sets of employees or identifying external support platforms.

It is also the ICA's view that the City of Pittsburgh must continue to address the many operating concerns that impact day-to-day life, while addressing at least six of the most important legacy issues that impact its fiscal and public safety well-being. The six most immediate legacy issues, which are addressed in this report, along with other operating constraints facing the City, are:

- Debt burden;
- Severely under-funded pension obligations
- Severely under-funded post-retirement health care accounts;
- Deferred infrastructure improvements and maintenance (including managerial infrastructure and public works, facilities, etc.);
- Retraining the managerial and operational workforce; and,
- Labor agreement processes.

Note: The data used in this report has been provided primarily by the City.

Background

In 2003, the Mayor of the City of Pittsburgh sought protection for the City under the provisions of Act 47 and asked that the city be placed in 'Distressed' status. The request was granted by the Commonwealth. The Commonwealth created the ICA under Act 11 in early 2004. At that time, based on the 'Distressed City' designation and information provided by the city administration, it was apparent the City needed to focus on stabilizing operations.

The majority of effort in 2004 and 2005, and well into 2006, was to find the facts, separate the estimates of financial values into credible ranges, and understand the extent to which operational and legacy problems impact the City. The ICA immediately recognized that the City was shackled by more than a decade-old, fragmented and unconnected, accounting systems and practices being used by the City. In the process, we repeatedly ran into instances where little or no information was available in which to perform a critical analysis of basic city operations, or the data was of little or no value.

The information gaps can be illustrated by payroll systems not connected to operating departments or to departments providing benefits to city employees. As a result, there was no rational way of accurately knowing, or realistically estimating, the true cost of labor or benefits associated with the various departments. What was stated could not be supported by the available data due to the lack of any financial management system or management practices; illustrations of this will follow.

In May 2004, in order to begin accumulating reliable data from which to draw conclusions and make recommendations, ICA commissioned various studies of workers' compensation costs, the size and scope of the debt burden facing the City, pension and post-retirement health care costs and the underlying value of the assets related to each in order to determine the extent of the problems in each of these areas.

Similar efforts to accumulate and analyze factual data continue today and form the fundamental foundation for understanding the data submitted by the City in their budgets and 5-year planning documents, as well as the foundation of understanding the culture and nature of the operations for the various departments and bureaus of local government.

The ICA also recognized the fact that public safety operations had the potential, and tended to have the greatest impact on quality of life, operational standards, personnel needs, and so forth, and therefore commissioned experts to begin an examination of police and fire operations. For example, the International Association of Chiefs of Police and ERASE made a number of recommendations in their respective reports that the City has begun to implement. These initial public safety studies have been augmented by other reports and assessments that have become necessary as the ICA and City understand the critical interrelationships of the various services.

The information produced by those independent consultants can be found on the ICA web site (www.pghica.org) and are incorporated in this report by reference. The information in those earlier studies also served as benchmarks from which the ICA would work in terms of understanding the data and framing the recommendations submitted to the General Assembly in October of 2004.

Some examples of what outside experts identified in 2004 include:

- unfunded pension liability of over \$600 million;
- unfunded post retirement health care liability in excess of \$250 million;
- a debt burden of non-callable debt in excess of \$900 million; and,
- a workers compensation program with liabilities exceeding tens of millions of dollars.

During this same period, the City Administration attempted to prepare a budget and five-year plan, as well as negotiate an Intergovernmental Cooperation Agreement with the City. After much debate and hard work by the City, the ICA and the Act 47 team, and after the ICA returned several proposed budgets for refinements, the City's 2005 budget and associated five-year plan was approved.

Those approvals of the 2005 operating budget and corresponding five-year plan, along with the required adopted co-op agreement between the city and ICA, allowed for the recommendations to the General Assembly.

The General Assembly took decisive action in late 2004 and provided the City with much needed support with actions such as creation of the payroll employment tax and the phase-out of the business privilege tax that over the years allowed 24 of the 27 largest corporations in the city to avoid payment of taxes. Other elements of the November 2004 Legislative package will be addressed later in the report,

The City, ICA and Act 47 have worked collaboratively to assess the impact of the Legislative package of 2004. The City engaged an outside expert whose findings were similar to those of the internal staff of the City, the ICA and Act 47 team. The consensus is that under normal economic conditions it is too early to make a determination of the overall impact of the legislation on revenue. The global economic crisis that commenced in late 2008, and continues today, makes the task almost impossible, but nonetheless urgent. Measurement tools such as the Comprehensive Annual Financial Reports (CAFR) have been in place for years. However, the antiquated financial reporting systems and practices used by the City have prevented the City from gaining more usefulness from the reports.

Since the advent of Act 11, and the support of the Act 47 team, the City also submits quarterly reports no later than 45 days after the close of the respective quarter. The City, Act 47 and ICA have worked to refine and streamline the reporting process. Quarterly reports contain financial and performance evaluation and are posted on the ICA website on or before the 45th day after a quarter's end. *(The Quarterly reports and CAFR are incorporated by reference and are available at the Controllers office.)*

During Mayor O'Connor's Administration, the City began to more aggressively implement Act 47 recommendations. Mayor Ravenstahl immediately took up the effort upon the death of Mayor O'Connor. It was during this time that the ICA hired an expert to develop a strategic roadmap for Fire and EMS. The Phase I Strategic Plan for Fire and EMS was initiated with an eye toward reducing costs while increasing efficiency and effectiveness of public safety and the safety of the men and women of these respective safety bureaus; the effort continued through 2007 and into 2008.

By 2006, the late Mayor O'Connor submitted a revised budget that ICA finally supported by recommending establishing the requirement of the addition of financial management contingencies to help rebuild the City's accounting and financial management systems through technology as a condition of passage of the revised budget. The ICA was able to collaborate with interim Mayor Ravenstahl who was officially elected to the post in November 2007.

Late in 2007, the new Mayor submitted a budget that was approved by ICA, with contingencies, including provisions for the financial management system and improvements for upgrading the City's public safety system.

The year 2007 also saw the special election for Mayor, and the election of a new city controller. The 2008 budget and corresponding five-year plan submitted by the Mayor in September of 2007 was modified by agreement of the Mayor and ICA to double the City's demolition budget to \$4 million and to further the effort in building a credible and integrated financial management system. The effort to demolish vacant and abandoned buildings in 88 neighborhoods of the City is a critical effort whose importance cannot be overstated in the war on urban neighborhood crime and blight.

The Mayor also agreed to continue the 'pay as you go' method of capital financing, and under the direction of the ICA transferred \$60 million into the capital budget of the City to attack the growing list of serious infrastructure needs. Further, although the ICA-commissioned strategic plan for Public Safety was not fully completed, the Mayor and Public Safety Director began implementing parts of the plan.

In order to attack the problems normally associated with labor and management, the ICA convened numerous meetings with members of the Fire and EMS unions, the command staff of both organizations, and joint meetings with union and command staff and city senior management in order to bridge the gaps and develop a unity of purpose for improving better delivery of public safety services.

The union and command staff leadership, as well as the Public Safety Director and Mayor acted in a unified manner that is commendable and serves as an example of dedication and professionalism.

The ICA plans to continue the labor/management meetings while the City continues to implement the elements of the strategic plan that fit within the financial constraints of the City budget.

Operating Fund Deficits and Balances

To date, in the Pittsburgh overview, operating fund balances have been more a function of short term changes that generated cash flow rather than relief from the massive overhang of legacy costs, although there is a serious effort to address the legacy costs. The positive operating fund balances have allowed the emphasis to shift from preventing financial implosion to a longer term, more tedious restructuring the overall system and delivery of services emanating from Pittsburgh government. While there is always an eye toward finding ways to stimulate revenue, the real target is cost control.

Cost control is the critical fiscal discipline akin to disease management as the antidote for effective managed care in our health care system. There can never be an end to exercising the discipline necessary to control as many factors as possible that impact the body; employee head count, dealing with soaring materials and fuel prices, inflation or deflation, the world wide recession and credit market melt down, past decisions and the constant assessment of risk versus reward among the variables.

It is also impossible to mention cost control without acknowledging the sacrifices made by employees and elected officials of the city, and Members of the General Assembly who had the courage to enact a new tax structure. Those sacrifices and efforts of all the stakeholders contribute to the effort to reach the stated goal of fostering the most cost effective delivery of public service that will set the stage for future economic growth of the region.

Although not necessarily on the talking point agenda, it is now more than ever viewed that Pittsburgh is the hub of the region and that efficient city government operations are the core to economic growth and vitality.

But there are more difficult days ahead. As the 'out-years' of the current five-year plan adopted in October of 2008 demonstrate, positive operating fund balances are projected to decline to a negative fund balance trend in the next decade. More material change and an even more concentrated focus on cost control will be necessary in order to prevent future budgets from slipping back into deficits.

Evidence of Effort

The City's fund balance has swung from an operating deficit of approximately (\$40) million at the end of 2003 to an operating fund balance of approximately \$89 million at the end of 2007, and \$40.8 million at the end of 2008.

City of Pittsburgh Fund Balance – (Source: City of Pittsburgh Finance Department)	
<u>Year</u>	<u>Fund Balance</u>
12/31/03	\$(40.0) million
12/31/04	\$14.5 million
12/31/05	\$38.1million
12/31/06	\$80.6million
12/31/07	\$89.5million
12/31/08	\$40.8million*

**(net of \$45.3 million restricted for Debt and \$27.3 Million restricted for 'pay as you go' capital improvements. Gross \$113.4.Million*

The efforts necessary to generate positive fund balances is attributable to various efforts in Pittsburgh and Harrisburg that has allowed the City and the ICA to keep its focus on legacy issues from late 2008 and in the 2009 approved budget. For example, effort was made to assess the legacy issue of training and certification of city employees in the public safety bureaus and also in the controller's office. ICA approached the oversight process with the City of Pittsburgh by utilizing consultants to help identify and articulate steps the City could take in order to focus on training and certification when it:

1. Commissioned a review of the City's controller's office following a management change in that office for the first time in more than a quarter of a century.
2. Along with the City and Act 47, ramped up the effort to reconfigure the City's financial management system.
3. Offered a strategic plan on how to restructure the City's public safety infrastructure, including the Bureau of Building Inspection (BBI) and demolition efforts. Demolition efforts are targeted to reduce the "supply" of vacant houses that impact fire suppression costs, crime and blight costs, and an overall negative impact on neighborhood stability.
4. Hired an outside expert, a year prior, with the expectation of working toward a conclusion in 2009 to finalize a strategic plan and roadmap for all of the City of Pittsburgh's public safety services that will lead to higher levels of public service at the most efficient cost. The objective of the ICA is to provide funding and the mechanism for the city that would either not be available or would be impossible to navigate through the political process encumbering City government. The goal of the ICA is to identify strategic steps the City can take to redirect and redeploy its public safety personnel and resources that will provide for better service, but that will also drive down the overall cost of the delivery of those essential services.
5. Conducted numerous meetings to review elements of the proposed strategic plans for public safety that included with the city administration, management command staff and members of the respective unions for Fire and EMS.
6. Conducted similar meetings with senior Administration executives and the respective union for the Bureau of Building Inspection.

7. Worked with the Department of Community and Economic Development (DCED) to identify building code enforcement training programs in order to continue to professionalize the process of inspections and enforcement. These efforts are ongoing and are critical to sustainable and affordable quality of life.
8. Worked to influence the workforce culture and policy making of the leadership of the city to attack crime and blight in urban neighborhoods and to reinforce the strengths of the commercial and educational/cultural districts of the City.
9. Along with the City, ICA provided financial assistance for a Public Safety Summer Youth Program designed to employ teenagers and young adults in the various neighborhoods of the City, thus reinforcing efforts to provide social stability to the 88 neighborhoods of the City.
10. Generated matched-funding in order to assist the City in training and certifying building code and building inspection personnel. Under the leadership of the Public Safety Director, began the effort to relocate some of those trained and certified resources into the Police Zones in order to supplement the efforts of Pittsburgh Bureau of Police. A key goal of the ICA is not only to assist the City in the social stability of its neighborhoods, but allowing for their continued growth and development.
11. Established the protocol and mechanisms necessary to influence the future direction of public safety delivery in the city. This is, and will remain a key focus of the ICA since public safety costs represent the highest percentage of costs and have the greatest immediate impact on the quality of life throughout the City.
12. Monitor the City's efforts to address worker's compensation.

Collective Bargaining and the Labor Agreement Process

The following chart has been provided by the City and allows for a look into systemic and legacy issue of managing labor negotiations. More than 80 percent of the union agreements expire in 2009.* Note that the contract end dates may be influenced by state statute as in the case of Act 95 and Act 111 as they pertain to police and fire.

<u>Group</u>	<u>Name</u>	<u>Contract Dates</u>
Non Union	City non-union employees	n/a
Police	FOP Fort Pitt Lodge No. 1	01/01/05-12/31/09*
Fire Fighters	Pittsburgh IAFF Local No. 1	01/01/05-12/21/09*
Paramedics	FAPP	01/01/06-12/31/10
PCBC	Joint Collective Bargaining	01/01/07-12/31/11
Teamsters	Animal Control, City Refuse Rodent Control Local 249	12/31/03-12/31/09
Foreman	AFSCME AFL-CIO Local 2037	01/01/05-12/31/09
Recreation Teachers	SEIU Local 585	01/01/05-12/31/09
School Guards	SEIU Local 192-B	01/01/04-12/31/09
White Collar	AFSCME Local 2719	01/01/04-12/31/09

The number of collective bargaining agreements that expire at the same time is of concern. In fact, as a condition of approval of the 2008 operating budget the ICA requested that city funds be set aside to address collective bargaining matters. As the city builds sufficient expertise, the first inclination is to hire outside experts to negotiate on behalf of the City. The City should remember that the current situation is as much driven by past use of outside counsel as internal factors and therefore must be more involved in the process.

Full time employees:

The next comparison of full time employees (FTE) reflects the efforts by the City to reduce its payroll while maintaining the ability to deliver services.

(The City of Pittsburgh Quarterly Financial & Performance Reports for 2008 and earlier is incorporated by reference. Please see the ICA website (www.pghica.org) under the documents heading-Performance reports.)

<u>Group</u>	<u>2004 FTE's</u>	<u>2008 FTE's</u>
Non -Union	495	575
Police	902	885
Fire Fighters	816	639
Paramedics	167	160
PJCBC	401	343
Teamsters	200	175
Foreman	56	49
Recreation Teachers	28	55
School Guards	166	124
White Collar	426	289

Effort to address Legacy Costs

ICA approved the 2009 operating and capital budget submitted by the Mayor on October 22, 2008 subject to specific conditions. Those conditions are:

- The transfer of \$45.3 million moved into a restricted account as referenced earlier in this report; **The real milestone was reached when City Council adopted the measure on April 14 , 2009**
- Continuation of designing and implementing a new financial management system through technology and consolidation;
- Restructuring of the City's public safety operations based on the recommendations of a third-party expert consultant hired by ICA;
- Additional five percent per year payment in the five-year budget plan (2009 through 2014) in order to reduce the unfunded liability of:
 - o Pension
 - o Post-retirement health care costs
 - o Workers' compensation costs
 - o Deferred maintenance/infrastructure costs
 - o Demolition.

The City's budget and five-year plan approved on October 22, 2008, included revenue estimates based on information provided by expert consultants hired by the City as well as expenditure projections from the City's internal staff. The ICA has since met with the City's finance team and its outside experts who confirmed the revenue forecast based on the City's 2009 budget projection process.

Also note that the City's consultant only measured the economic forecast relative to normal conditions taking place at the time of the assessment. In the ICA's opinion, that forecast could not fully measure the adverse impact of how the global financial crisis could impact the City of Pittsburgh. The quarterly reports produced by the City will be helpful in determining any trends and allow for an earlier warning than in years prior to initiating the quarterly reporting system.

There is considerable work to be done to accurately value the City's pension assets. The value of the City's pension assets declined by at least 25 percent as of this writing, increasing pressure on the burden of the City's legacy costs. While those additional legacy costs and funding ratio below 30% will adversely impact the later years of the current five-year plan, the City must put into effect a freeze on pension benefit increases and impose that freeze until funding levels reach the range of 75 to 80% funding before considering any changes to pension benefits.

There are also efforts in Harrisburg to address the matter on a statewide basis. The General Assembly and Governor are aware of the need to address this issue on a statewide basis. The ICA is working with the City and legislature on the matter and will analyze both top down and bottom up efforts.

Mid-year 2009 Budget Review

The ICA expects to revisit the current operating budget and associated five-year plan with City Administration in concert with the development of the Act 47 Revised Recovery Plan timetable, state legislation that may result, and the level of the current global recession.

We plan to further collaborate with the City's Administration as more information becomes available about the worldwide financial crisis.

The ICA intends to stay on course in helping the City to drive down legacy costs while increasing operating efficiencies. At the same time, all of the parties involved in this process will be attempting to develop a comprehensive understanding of actions and expectations that can be realistically achieved.

SUMMARY

While working within the statutory construction provided by Act 11 to remediate the financial situation while safeguarding the public, the Authority's role has evolved from pursuing immediate stop-gap measures to prevent any act of default into an effort to work with stakeholders to identify operational policy and best practice changes, consistent with the Approved Act 47 Recovery Plan and the Home Rule Charter. The efforts to date have been focused on assisting the City of Pittsburgh in managing itself in a more business-like manner and within its financial constraints.

It is imperative to understand the conditions that were found in 2004, the barriers to improvement that were encountered and that exist today, the efforts to scale those barriers to manageable increments and the costs and time constraints associated with those incremental efforts. The absence of, or outright inability to integrate the scattered empirical data relating to basic functions such as human resource management, payroll systems, management of worker compensation data, integration with the City Controllers office, pose one of the greatest threats to the success of any effort to restore fiscal stability.

Improving the City's antiquated financial management system has been a priority during the past five years, and while arguably one of the most critical financial tools missing from the managerial framework, there are several hurdles to overcome before an actual system can be reconstituted. First, for example, it is necessary to identify the various departmental spreadsheets and information sources not currently integrated into any centralized system. Identification of personnel, skill levels, quality of information, and other pieces of priority information are scattered parts of the mosaic that require attention in order to thoroughly understand what is needed.

In addition to information gathering and understanding the managerial needs, it is imperative to understand the operational needs of departments such as the public safety bureaus. To build a financial management system without first intimately understanding the system's operational needs is attempting to do so in a vacuum.

An example of an effort that is necessary before launching into any managerial architecture can be seen in the following example. As an ICA precondition to approval of the 2006 and 2007 City budgets, the City, with financial support of the ICA and cooperation of the newly elected City Controller, engaged an outside expert to conduct a review and assessment of the Controller's Office.

This review, expected to be completed in the near future, will facilitate the development of the needed financial management system by identifying conditions that require immediate attention to the existing operations of the Controller's office. In addition to the Controller's Office Review Project, the parties (Act 47 team, the Mayor, City and County Controller, and County Executive) and the ICA have been working collaboratively to determine if integrating the financial management systems of both organizations is possible, and or cost effective.

Overall, there has been some progress in terms of determining and preparing for best practice applications for upgrading the City's financial management system.

Simultaneously, the working group – consisting of the City Administration, ICA, Act 47, Council, City Controller and employee representatives – has focused on public safety matters ranging from personnel to equipment needs and assessments.

The overall needs of the City's operations are almost overwhelming when viewing the matter in its totality; but, everyday efforts however, do show signs of progress. For example, as mandated by Act 11 the City presents, at minimum, a quarterly progress report within 45 days of the end of each fiscal quarter. Those reports have been transmitted to the General Assembly as they have been produced, and are incorporated by reference. The reports themselves have become a useful management tool, and have become much more focused on addressing the problems and implementing solutions as a result of the collaboration between the ICA, Act 47 team and the City finance staff.

With assistance from the Commonwealth, the improvements to the City's fund balance articulated in the quarterly reports have been achieved by reducing costs, improving efficiencies and implementing fiscal controls. While there have been fund balances reported, these balances do not take into account the heavy legacy burden of pension, debt post retirement health care, infrastructure, work force training and certification and building a financial management system capable of addressing the complexity of city government. There are also signs that positive fund balances may not be sustainable over time. The Authority will continue to look at "leading indicators" such as the rate of increase in health care costs for current and retired employees, to assess the impact on future budgets.

It is also important to remember that simultaneous to the ICA's efforts, the Act 47 Team worked with the City to adopt a Recovery Plan in 2004 that provided for additional financial discipline to City government. That adopted Recovery Plan is currently being reviewed by Act 47 for revision and is expected to be presented to the City by mid-2009.

The ICA plans to continue a multi-dimensional approach in its oversight efforts. The ICA will assist the City in its efforts to mitigate the factors that negatively impact current operations in the short term, and assist with putting into place elements that will take time to both assess and impact the longer term financial situation. Employees have worked to do their jobs. Changing the culture of these employees long accustomed to acting independently for various reasons such as to protect or isolate their operations from the others into an interdependent organization and mindset is at the core of the ICA strategy.

The current City Administration and ICA have been collaborating to address a number of efficiency, improvement and cost structure initiatives such as:

A. The City's unfunded pension liability.

In addition, ICA required the City to set aside an additional five percent of the – MMO – “minimum municipal obligations” each year for a minimum of five years in order to reduce the unfunded pension liability.

Currently, the City has an estimated \$300 million liability for post retirement health care. In addition to the regular post retirement health care funding efforts, ICA has asked the City of Pittsburgh to reserve an additional \$1 million per year as a way to establish a long term programs to address a systematic reduction of this long term liability.

B. The City's debt burden and related legacy concerns.

Debt, pension, worker's compensation, infrastructure and post-retirement healthcare are continually under review for cost improvement opportunities. Reserves of \$45.3 million for accelerated debt payment, coupled with the Mayor's decision to continue pay for capital needs on a “pay as you go” program (\$27 million at the end of Fiscal year 2008), are just two examples of on-going initiatives.

C. Infrastructure changes that can positively impact current and future budgets.

Examples:

1. The ICA is encouraging the City to consider adding at least two (2) advanced life support units to EMS in order to attack costly overtime expense while addressing the growing emergency medical needs of the general public.

2. Collaboratively work with the County emergency dispatch center to more accurately code calls for basic or advanced support.
3. Focus on the business administration of billing insurance companies, individuals, and businesses for calls, false alarms, non-emergency calls to 911 (such as for general transport calls that require EMS personnel to take on private party responsibility). We estimate this effort could produce an estimated 85% savings of the total cost of the bureau of EMS.
4. Reduce the number of automatic false alarms from the business district by enforcing the laws and fines on the books regarding repeated false alarm calls. This is not only a financial burden, but puts the members of the public safety bureaus at undue and unnecessary risk.
5. Training and certification of employees, building depth and increasing the use of technology to capture information and conduct operations. The Authority recognizes that current employees of the City are working with a decentralized financial management system that puts the city at risk in a number of ways, including, but not limited to, incurring the high expense of relearning the history and operating significance of what a departing knowledge worker knows.

D. Aggressively pursue the development of an adequate financial management system.

E. Explore and evaluate the merits of liquidation or leasing of any assets.

F. Explore and evaluate the merits of transferring rescue operations from the Bureau of EMS to the Bureau of Fire.

G. Explore and evaluate the merits of merging the Bureaus of Fire and EMS.

H. Continue to evaluate the merits of the financial agreement between the City and the tax-exempt community.

I. Work with the General Assembly on matters that impact the fiscal condition of the City.

J. Continue to work with all stakeholders, including, but not limited to, members of the unionized and non-unionized work force, city elected officials, and other state and local agencies.

ICA FISCAL Summary

It is equally important to examine the cost of operating the oversight function and understand the organizational effort required to foster an effective business culture among those interacting with the Authority. The mindset of the Authority is to 'expect no gains' and 'anticipate all losses' while looking for ways to convert traditional cost centers into revenue neutral or better operating units.

We recognize that the City must balance the size of the government with its ability to deliver essential public services. Cutting personnel can go only so far in creating an appropriate level of service and efficiency; it is necessary to develop a more disciplined business approach than just simply cutting costs or one-time expenses. An example of that effort can be seen in the fiscal cost recovery effort of the Authority itself and how that effort rolls up into a gain by the City.

The ICA has been funded, thus far, through appropriations from the Commonwealth for fiscal years 03-04 through 07-08. These appropriations, to date, amount to \$3.28 million. The Authority has created an effort to demonstrate fiscal cost recovery through indirect savings and has helped to generate direct cash flow and future cash flows that will aid the City.

A concrete example: The gain for the City also stems from a review by the ICA of its expenses for asbestos inspections. The ICA worked with the Administration and match-funded a training program to take existing city employees and train them to perform asbestos inspections that were costing the city approximately \$1600 per inspection performed by an outside contractor.

By training current employees, much of the \$1600 per inspection fee is expected to be recaptured and reallocated to public safety related efforts that will become the cost saving multiplier in addition to recovery of the initial expense for inspections. Given the 500 residential structures slated to be demolished per year over a five-year period, the internalization of the cost recovery recycles \$4 million from what was a pure expense into a new funding source. The Authority will pursue other similar efforts in an attempt to scale the concept of finding self-supporting service efforts and is encouraging the City to re-examine its business practices across the board in that light.

Given enough time and proper resources including legislative support, the Authority believes it can help to reconfigure City operations in concert with the stakeholders that aim to reach our goal of shaving an additional 8 to 10 % from the current City budget while fostering a climate that is conducive to aiding growth of the regional economy.

The Authority will continue its efforts to update the Members of The General Assembly in future reports and meetings.

Respectfully Submitted by:

Barbara McNees	Chair
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