



# **City of Pittsburgh Municipalities Financial Recovery Act (Act 47)**

## **Public Meeting October 29, 2008**

**Presented by the  
Act 47 Coordinators**



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# Overview

- What is Act 47?
- Pittsburgh's Progress under Act 47
- What happens next?

# What is Act 47?



## Act 47 Statute

The Municipalities Financial Recovery Act (Act 47 of 1987) passed to:

- Foster fiscal integrity of municipalities so they can provide for health, safety & welfare of residents;
- Pay principal and interest on debt when due;
- Meet financial obligations to the municipality’s employees, vendors and suppliers
- Provide proper accounting, budgeting and taxing practices

*“The failure of a municipality to [meet these objectives] is hereby determined to affect adversely the health, safety and welfare not only of the citizens of the municipality but also of other citizens in this Commonwealth.”*

*- Act 47, Section 102*

## What Act 47 is not

- Act 47 is **not** a “State takeover”
  - Plan coordinator is a resource but doesn’t run municipal operations
  - Recovery Plan is drafted in consultation with City officials, employees, community groups and residents
  - Recovery Plan is adopted by City Council, signed by the Mayor and implemented by the City
  
- Act 47 is **not** a “State bailout”
  - Strategy is focused on helping the City build capacity and address imbalances between expenditures and revenues
  - Comprehensive recovery strategy to address all elements of government including its expenses and revenues

# Act 47 Recovery Plan

- Working with the City and the Commonwealth, the Coordinator develops a Recovery Plan that includes the following:
  - Projections of revenues and expenditures for three – five years
  - Recommendations to balance the budget and eliminate future deficits, if any
  - Strategies to address significant threats to the City’s future financial health and avoid future fiscal emergencies
- To achieve this, the Recovery Team reviews:
  - Tax and other revenue policies, including their implications for community and economic development
  - What services government provides and how, including a review of government’s structure, tools and labor-management agreements
  - Opportunities to improve services or increase efficiency through intergovernmental cooperation and new technology

## Working with, but different from, the ICA

- In addition to the Act 47 Recovery Team, the City also works with a second state oversight body, the Pittsburgh Intergovernmental Cooperation Authority (ICA) established by Act 11 of 2004.
  - ICA board appointed by Governor and Legislature; Act 47 appointed by Secretary of the Department of Community and Economic Development.
  - ICA also oversees related authorities (e.g. Water & Sewer, URA); Act 47 does not
  - The ICA reviews and approves the City’s annual budget every year; Act 47 updates the Recovery Plan passed by City Council and signed by the Mayor at intervals of several years
- Act 11 provides that the ICA and Act 47 processes work “equally and concurrently.” By mutual agreement, the ICA and the Act 47 Recovery Team work together to review City finances.

# Pittsburgh's Progress under Act 47





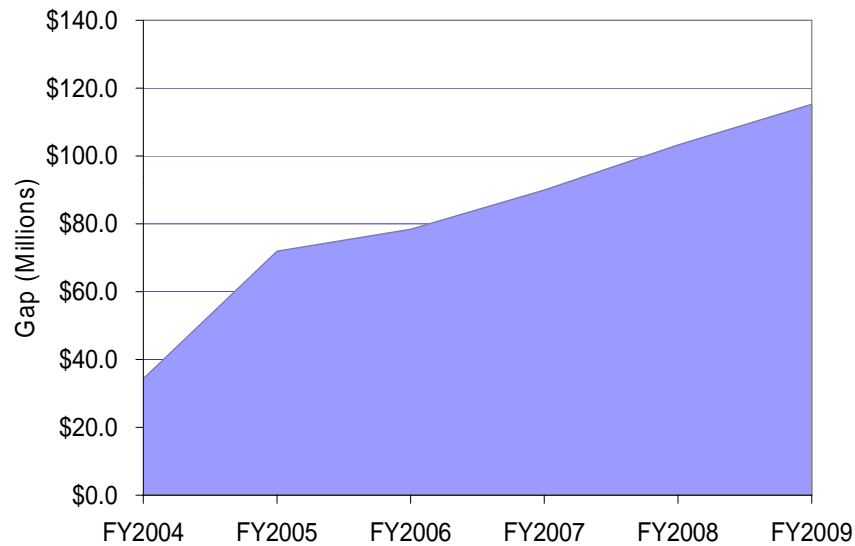
## 2003 Backdrop

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- 400+ employees laid off, including 100 police officers
- All recreation centers closed
- All public swimming pools closed
- City bonds rated “junk bonds” – only major city with “junk bond” rating
- Independent audit – City as “going concern” in doubt

# Bleak Future absent Corrective Action

Recovery Plan Coordinators projected that, without corrective action, the City would have increasing annual deficits for years to come, with a shortfall of nearly \$80 million at the end of 2006. The deficits were projected to grow to over \$115 million by 2009



Fiscal Year	2004	2005	2006	2007	2008	2009
Revenues (\$000)	365,975	365,126	376,666	384,913	392,624	403,474
Expenditures (\$000)	400,339	437,055	455,079	474,857	495,897	518,707
Surplus (Deficit)	(34,363)	(71,929)	(78,413)	(89,944)	(103,273)	(115,233)

## 2004 Recovery Plan: Initiative Overview

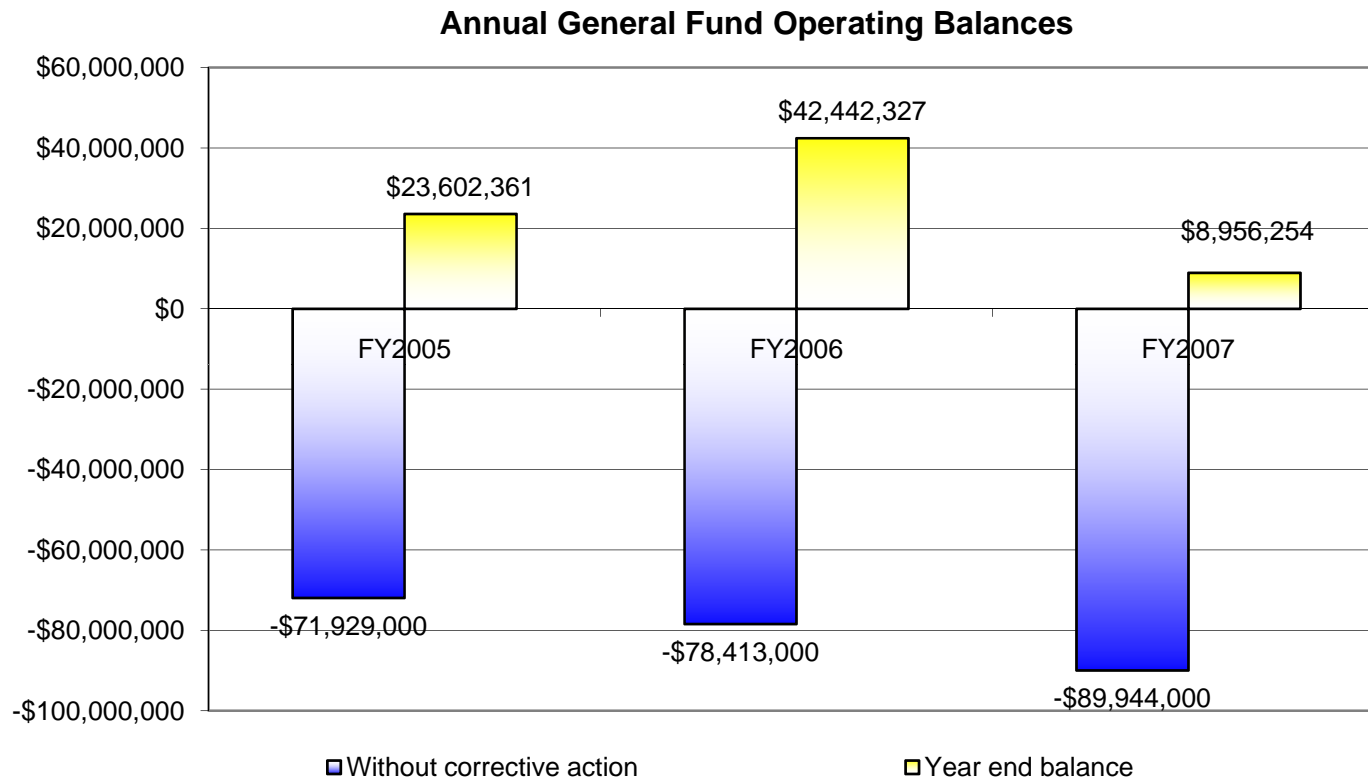
City Council approved the first Recovery Plan and Mayor Murphy signed it as Ordinance 10 of 2004. The Plan included over 200 initiatives with a variety of approaches to improving the City's financial health

- Right-sizing and reorganizing government
- Building City-county and other intergovernmental cooperation
- Taking advantage of opportunities for productivity and efficiency reforms (managed competition and outsourcing)
- Restructuring employee compensation and benefits
- Focusing on assets for community and economic development
- Gaining contributions from tax-exempt organizations
- Improving financial management processes

# Governor/Legislature Consensus Package

- In November 2004 the Governor and Legislature reached agreement on a consensus package that modified elements of the Recovery Plan, added other revenues and eliminated expenses
  - Created a new Emergency and Municipal Services Tax (now Local Services Tax) and payroll preparation tax
  - Eliminated the mercantile tax and business privilege tax (in 2010); reduced the parking tax
  - Multi-million dollar grants for regional security and other items; local share of gaming revenues plus State funds to offset City debt service
  - Eliminated existing expenses and some initiatives proposed in the Recovery Plan
- Taking all elements of this consensus package into account, including the expense reductions, the net result was similar to or better than the Recovery Plan proposals in FY2005, FY2006 and FY2007

# Progress under Act 47



- Based on these positive annual results, the FY2007 CAFR shows a \$89.5 cumulative general fund balance, not including \$60.0 million in fund balance transferred to a pay-as-you-go capital account

Source: 2005 - 2007 Comprehensive Annual Financial Reports, Act 47 Plan

## Act 47 Rescission Review

- December 2007: The City requests a review of its Act 47 status for possible rescission
- April 2008: the Mayor, Council, Controller, the ICA, Act 47 Coordinator, labor officials and residents provided testimony at a hearing conducted by Secretary Yablonsky
- July 2008: Secretary Yablonsky determined that the City will remain in Act 47 and directed the Coordinator to develop an amended Recovery Plan
- Like the 2004 Plan, this update will provide a baseline projection of City's revenues and expenditures without further changes and operational review of departments. It will also recommend strategies to address the City's legacy costs of debt, pensions, other post retirement benefits, worker's compensation and the creation of a long-term capital plan. The goal of the new Plan is to develop a roadmap for Pittsburgh to exit from Act 47 oversight.

**What happens next?**



# Recovery Plan Update Process

- Recovery team currently meeting with City elected officials, department leaders and all nine collective bargaining units; also working with the Intergovernmental Cooperation Authority (ICA) as we have throughout the recovery process
- Recovery team will use the FY2009 budget recently approved by the ICA to develop a baseline projection of the City's revenues and expenses
- State statute does not require a public meeting in advance of Plan revision. But we want to hear your ideas as we draft the updated Plan
- As with the original Plan, the Amended Plan will be presented to City Council and the Mayor for approval as a City ordinance



## City's Challenges: Core Services

The new Recovery Plan will update the 2004 review of the City's operating departments. Areas of focus include:

- **Public safety:** Police , Fire and EMS account for approximately 64 percent of the FY2009 budget. What improvements are possible to provide critical public safety services while controlling costs?
- **Right-sizing services:** The City's population has not increased, limiting revenue growth while costs rise. Therefore, the City must continually evaluate whether it is providing the right level of service to avoid unduly increasing the tax burden on the remaining population
- **Economic development:** A stronger tax base provides more and better jobs for the community. It also allows the City to increase revenue without increasing taxes. How can City operations be aligned to support this goal?

## City's Challenges: Tackling Legacy Costs

Along with updating our operational review, the Commonwealth wants the updated Recovery Plan to focus on “legacy costs,” areas where the City is spends a significant part of its current revenue on services provided in the past:

- **Debt service:** Before the City revised its FY2009 budget and five-year plan, it was scheduled to pay approximately \$85 million a year on general obligation and pension debt through FY2017
- **Pensions:** As of 2007, the City pensions are funded at only 50 percent (municipal), 33 percent (police) and 46 percent (fire)
- **Other post-retirement benefits:** The City would have to make an annual contribution of approximately \$25 million pay the total cost of these benefits, most notably retired employee health insurance, over 30 years

## City's Challenges: Other important issues

Other important issues we are reviewing include:

- **Structural imbalance:** Given annually rising operating costs and the lack of growth in the largest source of revenues (real estate taxes), how will the City keep a balanced budget?
- **Worker's compensation:** How will the City reduce its high annual worker's compensation costs?
- **Capital budget:** How will the City fund a capital plan that makes necessary investments to replace existing and build new infrastructure?
- **Intergovernmental cooperation:** What opportunities are there for the City to provide services more efficiently by working with Allegheny County, neighboring municipalities or other regional government bodies?

# Tonight's Public Meeting

- Please keep comments to 5 minutes to allow everyone an opportunity to speak
- For organizations, please identify one spokesperson to speak on your behalf; additional members may speak in available time at end
- Please provide written copy of comments, if available
- We will proceed with public comments in the order of the names on the sign up sheet and then others may comment
- Meeting will conclude no later than 10 pm